

Exhibit _____ (MRL-5)
Docket No. UE-010395
Witness: Merton R. Lott

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Avista Corporation's)
Petition for Recovery of Expenditures)
Related to Electric Deferral Mechanism)
_____)

DOCKET NO. UE-010395

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

EXHIBIT OF

MERTON R. LOTT

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

RE: AVISTA PETITION FOR 37% EMERGENCY SURCHARGE

August 24, 2001

WUTC DOCKET NO. UE-010395
EXHIBIT NO. 505
ADMIT W/D REJECT

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-3701

AVISTA CORPORATION

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

91-0462470
(I.R.S. Employer
Identification No.)

1411 East Mission Avenue, Spokane, Washington
(Address of principal executive offices)

99202-2600
(Zip Code)

Registrant's telephone number, including area code: 509-489-0500
Web site: <http://www.avistacorp.com>

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

At November 1, 2000, 47,162,680 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

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AVISTA CORPORATION

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Avista Corporation

For the Three Months Ended September 30

Thousands of Dollars

	2000	1999
OPERATING REVENUES.....	\$2,864,305	\$3,718,109
OPERATING EXPENSES:		
Resource costs.....	2,702,225	3,596,506
Operations and maintenance.....	30,033	41,502
Administrative and general.....	30,532	31,332
Depreciation and amortization.....	19,680	18,570
Taxes other than income taxes.....	13,936	12,002
Total operating expenses.....	2,796,406	3,699,912
INCOME FROM OPERATIONS.....	67,899	18,197
OTHER INCOME (EXPENSE):		
Interest expense.....	(19,808)	(15,855)
Net gain on subsidiary transactions.....	-	43,054
Other income-net.....	9,950	1,779
Total other income (expense)-net.....	(9,858)	28,978
INCOME BEFORE INCOME TAXES.....	58,041	47,175
INCOME TAXES.....	23,501	19,562
NET INCOME.....	34,540	27,613
DEDUCT-Preferred stock dividend requirements (Note 5).....	608	5,340
INCOME AVAILABLE FOR COMMON STOCK.....	\$ 33,932	\$22,273
Average common shares outstanding (thousands), Basic (Note 5).....	47,147	36,634
EARNINGS PER SHARE OF COMMON STOCK, BASIC (Note 5).....	\$ 0.72	\$ 0.61
EARNINGS PER SHARE OF COMMON STOCK, DILUTED (Note 5).....	\$ 0.72	\$ 0.52
Dividends paid per common share.....	\$ 0.12	\$ 0.12
NET INCOME.....	\$34,540	\$27,613
OTHER COMPREHENSIVE INCOME (LOSS):		
Foreign currency translation adjustment.....	(33)	13
Unrealized investment gains/(losses)-net of tax.....	(403)	(510)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS).....	(436)	(497)
COMPREHENSIVE INCOME.....	\$34,104	\$ 27,116

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Avista Corporation

For the Nine Months Ended September 30

Thousands of Dollars

	2000	1999
OPERATING REVENUES.....	\$5,599,693	\$6,366,047
OPERATING EXPENSES:		
Resource costs.....	5,248,183	5,981,449
Operations and maintenance.....	82,132	131,887
Administrative and general.....	90,279	90,551
Depreciation and amortization.....	57,662	56,901
Taxes other than income taxes.....	42,401	39,032
Exit costs - Avista Energy's Eastern energy business.....	7,865	-
Restructuring charges - Pentzer.....	1,940	-
Total operating expenses.....	5,530,462	6,299,820
INCOME FROM OPERATIONS.....	69,231	66,227
OTHER INCOME (EXPENSE):		
Interest expense.....	(49,774)	(47,593)
Net gain on subsidiary transactions.....	-	58,648
Other income-net.....	29,421	10,576
Total other income (expense)-net.....	(20,353)	21,631
INCOME BEFORE INCOME TAXES.....	48,878	87,858
INCOME TAXES.....	25,305	32,348
NET INCOME.....	23,573	55,510
DEDUCT-Preferred stock dividend requirements (Note 5).....	23,127	16,107
INCOME AVAILABLE FOR COMMON STOCK.....	\$ 446	\$39,403
Average common shares outstanding (thousands), Basic (Note 5).....	45,193	39,077
EARNINGS PER SHARE OF COMMON STOCK, BASIC (Note 5).....	\$ 0.01	\$ 1.01
EARNINGS PER SHARE OF COMMON STOCK, DILUTED (Note 5).....	\$ 0.01	\$ 0.98
Dividends paid per common share.....	\$ 0.36	\$ 0.36
NET INCOME.....	\$23,573	\$55,510
OTHER COMPREHENSIVE INCOME		
Foreign currency translation adjustment.....	24	371
Unrealized investment gains/(losses)-net of tax.....	-	(249)
TOTAL OTHER COMPREHENSIVE INCOME.....	24	122
COMPREHENSIVE INCOME.....	\$23,597	\$ 55,632

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED BALANCE SHEETS

Avista Corporation

Thousands of Dollars

	September 30. 2000	December 31. 1999
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$78,490	\$40,041
Temporary cash investments.....	-	7,490
Accounts and notes receivable-net.....	965,660	530,774
Energy commodity assets.....	2,202,768	585,913
Materials and supplies, fuel stock and natural gas stored.....	39,002	28,352
Prepayments and other.....	67,544	21,499
Total current assets.....	<u>3,353,464</u>	<u>1,214,069</u>
UTILITY PROPERTY:		
Utility plant in service-net.....	2,163,279	2,184,698
Construction work in progress.....	45,333	30,912
Total.....	<u>2,208,612</u>	<u>2,215,610</u>
Less: Accumulated depreciation and amortization.....	707,860	714,773
Net utility plant.....	<u>1,500,752</u>	<u>1,500,837</u>
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power-net.....	48,809	54,123
Non-utility properties and investments-net.....	193,965	137,213
Non-current energy commodity assets.....	852,109	491,799
Other-net.....	24,539	31,051
Total other property and investments.....	<u>1,119,422</u>	<u>714,186</u>
DEFERRED CHARGES:		
Regulatory assets for deferred income tax.....	158,988	166,456
Conservation programs.....	40,366	44,444
Unamortized debt expense.....	31,255	31,122
Other-net.....	80,439	42,380
Total deferred charges.....	<u>311,048</u>	<u>284,402</u>
TOTAL	<u><u>\$6,284,686</u></u>	<u><u>\$3,713,494</u></u>
LIABILITIES AND CAPITALIZATION:		
CURRENT LIABILITIES:		
Accounts payable.....	\$1,014,266	\$522,478
Energy commodity liabilities.....	2,184,607	594,065
Short-term borrowings.....	118,100	2,530
Taxes and interest accrued.....	7,864	35,123
Other.....	27,718	32,783
Total current liabilities.....	<u>3,352,555</u>	<u>1,186,979</u>
NON-CURRENT LIABILITIES AND DEFERRED CREDITS:		
Non-current liabilities.....	37,526	44,067
Deferred revenue.....	39,574	132,975
Non-current energy commodity liabilities.....	770,784	441,372
Deferred income taxes.....	400,482	377,049
Other deferred credits.....	134,421	11,041
Total non-current liabilities and deferred credits.....	<u>1,382,787</u>	<u>1,006,504</u>
CAPITALIZATION (See Consolidated Statements of Capitalization).....	<u>1,549,344</u>	<u>1,520,011</u>
COMMITMENTS AND CONTINGENCIES (Note 6)		
TOTAL	<u><u>\$6,284,686</u></u>	<u><u>\$3,713,494</u></u>

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF CAPITALIZATION

Avista Corporation

Thousands of Dollars

	September 30, 2000	December 31, 1999
LONG-TERM DEBT:		
First Mortgage Bonds:		
Secured Medium-Term Notes:		
Series A - 6.25% to 7.90% due 2002 through 2023.....	\$129,500	\$139,400
Series B - 6.24% to 7.89% due 2000 through 2010.....	104,000	124,000
Total first mortgage bonds.....	233,500	263,400
Pollution Control Bonds:		
Floating Rate, Colstrip 1999A, due 2032.....	66,700	66,700
Floating Rate, Colstrip 1999B, due 2034.....	17,000	17,000
6% Series due 2023.....	4,100	4,100
Total pollution control bonds.....	87,800	87,800
Unsecured Medium-Term Notes:		
Series A - 7.94% to 9.57% due 2001 through 2007.....	31,000	31,000
Series B - 6.75% to 8.23% due 2001 through 2023.....	96,000	96,000
Series C - 5.99% to 8.02% due 2007 through 2028.....	109,000	109,000
Series D - 8.625% due 2003.....	175,000	-
Total unsecured medium-term notes.....	411,000	236,000
Notes payable (due within one year) to be refinanced.....	-	118,500
Other.....	10,847	12,503
Total long-term debt.....	743,147	718,203
COMPANY-OBLIGATED MANDATORILY REDEEMABLE		
PREFERRED TRUST SECURITIES:		
7 7/8%, Series A, due 2037.....	60,000	60,000
Floating Rate, Series B, due 2037.....	50,000	50,000
Total company-obligated mandatorily redeemable preferred trust securities.....	110,000	110,000
PREFERRED STOCK-CUMULATIVE:		
10,000,000 shares authorized:		
Subject to mandatory redemption:		
\$6.95 Series K; 350,000 shares outstanding (\$100 stated value).....	35,000	35,000
Total subject to mandatory redemption.....	35,000	35,000
CONVERTIBLE PREFERRED STOCK:		
Not subject to mandatory redemption:		
\$12.40 Convertible Series L: 0 and 1,508,210 shares outstanding (\$182.80 stated value).....	-	263,309
Total convertible preferred stock.....	-	263,309
COMMON EQUITY:		
Common stock, no par value; 200,000,000 shares authorized;		
47,158,911 and 35,648,239 shares outstanding.....	609,690	318,731
Note receivable from employee stock ownership plan.....	(7,348)	(8,240)
Capital stock expense and other paid in capital.....	(12,063)	(4,347)
Other comprehensive income.....	(142)	(166)
Retained earnings.....	71,060	87,521
Total common equity.....	661,197	393,499
TOTAL CAPITALIZATION.....	\$1,549,344	\$1,520,011

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

Avista Corporation

For the Nine Months Ended September 30

Thousands of Dollars

	2000	1999
OPERATING ACTIVITIES:		
Net income.....	\$23,573	\$55,510
NON-CASH ITEMS INCLUDED IN NET INCOME:		
Depreciation and amortization.....	57,662	56,901
Provision for deferred income taxes.....	31,524	21,034
Allowance for equity funds used during construction.....	(861)	(647)
Power and natural gas cost deferrals and amortizations.....	(47,296)	(8,519)
Gain on sale of property and subsidiary investments-net.....	(16,861)	(58,418)
Energy commodity assets and liabilities.....	(52,306)	(6,717)
Other-net.....	8,399	494
(Increase) decrease in working capital components:		
Sale of customer accounts receivables-net.....	13,000	5,000
Receivables and prepaid expense.....	(506,377)	(182,927)
Materials & supplies, fuel stock and natural gas stored.....	(1,879)	(2,087)
Payables and other accrued liabilities.....	413,172	244,208
Other.....	20,153	(4,013)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.....	(58,097)	119,819
INVESTING ACTIVITIES:		
Construction expenditures (excluding AFUDC-equity funds).....	(66,374)	(60,193)
Other capital requirements.....	(67,051)	(22,583)
Change in other noncurrent balance sheet items-net.....	27,458	(15,425)
Proceeds from property sales and sale of subsidiary investments.....	90,063	145,285
Assets acquired and investments in subsidiaries.....	(2,416)	(40,735)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES.....	(18,320)	6,349
FINANCING ACTIVITIES:		
Increase (decrease) in short-term borrowings.....	(6,632)	97,151
Proceeds from issuance of long-term debt.....	175,000	84,933
Redemption and maturity of long-term debt.....	(29,900)	(98,610)
Redemption of preferred stock.....	(3)	(4,672)
Sale (repurchase) of common stock.....	2,467	(82,047)
Cash dividends paid.....	(22,024)	(30,316)
Other-net.....	(4,042)	(2,320)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES.....	114,866	(35,881)
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	38,449	90,287
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	40,041	72,836
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$78,490	\$163,123
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid (received) during the period:		
Interest.....	\$43,048	\$45,586
Income taxes.....	(11,943)	34,823
Noncash financing and investing activities:		
Series L Preferred Stock converted to common stock.....	271,286	-
Property purchased under capitalized leases.....	-	1,386

The Accompanying Notes are an Integral Part of These Statements.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS

Avista Corporation

For the Three Months Ended September 30

Thousands of Dollars

	2000	1999
OPERATING REVENUES:		
Avista Utilities.....	\$397,662	\$317,937
Energy Trading and Marketing.....	2,480,990	3,364,316
Information and Technology.....	2,902	1,475
Avista Ventures.....	9,272	37,444
Intersegment eliminations.....	(26,521)	(3,063)
Total operating revenues.....	<u>\$2,864,305</u>	<u>\$3,718,109</u>
RESOURCE COSTS:		
Avista Utilities:		
Power purchased.....	\$326,450	\$199,416
Natural gas purchased for resale.....	12,309	16,916
Fuel for generation.....	19,843	13,100
Other.....	(32,998)	13,776
Energy Trading and Marketing:		
Cost of sales.....	2,403,142	3,356,361
Intersegment eliminations.....	(26,521)	(3,063)
Total resource costs (excluding non-energy businesses).....	<u>\$2,702,225</u>	<u>\$3,596,506</u>
GROSS MARGINS:		
Avista Utilities.....	\$72,058	\$74,729
Energy Trading and Marketing.....	77,848	7,955
Total gross margins (excluding non-energy businesses).....	<u>\$149,906</u>	<u>\$82,684</u>
OPERATIONS AND MAINTENANCE EXPENSES:		
Avista Utilities.....	\$14,507	\$15,275
Energy Trading and Marketing.....	260	151
Information and Technology.....	7,418	1,604
Avista Ventures.....	7,848	24,472
Total operations and maintenance expenses.....	<u>\$30,033</u>	<u>\$41,502</u>
ADMINISTRATIVE AND GENERAL EXPENSES:		
Avista Utilities.....	\$15,475	\$15,134
Energy Trading and Marketing.....	10,409	6,933
Information and Technology.....	4,317	2,056
Avista Ventures.....	331	7,209
Total administrative and general expenses.....	<u>\$30,532</u>	<u>\$31,332</u>
DEPRECIATION AND AMORTIZATION EXPENSES:		
Avista Utilities.....	\$16,163	\$15,515
Energy Trading and Marketing.....	822	779
Information and Technology.....	1,717	752
Avista Ventures.....	978	1,524
Total depreciation and amortization expenses.....	<u>\$19,680</u>	<u>\$18,570</u>
INCOME (LOSS) FROM OPERATIONS (PRE-TAX):		
Avista Utilities.....	\$13,600	\$17,284
Energy Trading and Marketing.....	64,972	91
Information and Technology.....	(10,613)	(2,962)
Avista Ventures.....	(60)	3,784
Total income from operations.....	<u>\$67,899</u>	<u>\$18,197</u>

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS

Avista Corporation

For the Three Months Ended September 30

Thousands of Dollars

	<u>2000</u>	<u>1999</u>
INCOME (LOSS) AVAILABLE FOR COMMON STOCK:		
Avista Utilities.....	\$(969)	\$(4,609)
Energy Trading and Marketing.....	42,049	597
Information and Technology.....	(6,767)	(1,908)
Avista Ventures.....	(381)	28,193
Total income available for common stock (Note 5).....	<u>\$33,932</u>	<u>\$22,273</u>
ASSETS: (1999 amounts at December 31)		
Avista Utilities.....	\$1,978,135	\$1,976,716
Energy Trading and Marketing.....	4,117,257	1,595,470
Information and Technology.....	71,815	26,379
Avista Ventures.....	117,479	114,929
Total assets.....	<u>\$6,284,686</u>	<u>\$3,713,494</u>
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):		
Avista Utilities.....	\$30,909	\$20,405
Energy Trading and Marketing.....	42,104	(1,795)
Information and Technology.....	10,094	3,749
Avista Ventures.....	158	7,533
Total capital expenditures.....	<u>\$83,265</u>	<u>\$29,892</u>

The Accompanying Notes are an Integral Part of These Statements.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS

Avista Corporation

For the Nine Months Ended September 30

Thousands of Dollars

	2000	1999
OPERATING REVENUES:		
Avista Utilities.....	\$1,014,987	\$805,814
Energy Trading and Marketing.....	4,630,646	5,443,706
Information and Technology.....	7,420	3,067
Avista Ventures.....	25,046	117,506
Intersegment eliminations.....	(78,406)	(4,046)
Total operating revenues.....	<u>\$5,599,693</u>	<u>\$6,366,047</u>
RESOURCE COSTS:		
Avista Utilities:		
Power purchased.....	\$715,152	\$396,135
Natural gas purchased for resale.....	71,114	73,022
Fuel for generation.....	43,621	30,871
Other.....	35,539	34,687
Energy Trading and Marketing:		
Cost of sales.....	4,461,163	5,450,780
Intersegment eliminations.....	(78,406)	(4,046)
Total resource costs (excluding non-energy businesses).....	<u>\$5,248,183</u>	<u>\$5,981,449</u>
GROSS MARGINS:		
Avista Utilities.....	\$149,561	\$271,099
Energy Trading and Marketing.....	169,483	(7,074)
Total gross margins (excluding non-energy businesses).....	<u>\$319,044</u>	<u>\$264,025</u>
OPERATIONS AND MAINTENANCE EXPENSES:		
Avista Utilities.....	\$46,427	\$41,363
Energy Trading and Marketing.....	778	251
Information and Technology.....	14,661	4,383
Avista Ventures.....	20,266	85,890
Total operations and maintenance expenses.....	<u>\$82,132</u>	<u>\$131,887</u>
ADMINISTRATIVE AND GENERAL EXPENSES:		
Avista Utilities.....	\$45,891	\$45,573
Energy Trading and Marketing.....	23,752	20,045
Information and Technology.....	16,542	4,118
Avista Ventures.....	4,094	20,815
Total administrative and general expenses.....	<u>\$90,279</u>	<u>\$90,551</u>
DEPRECIATION AND AMORTIZATION EXPENSES:		
Avista Utilities.....	\$48,919	\$46,703
Energy Trading and Marketing.....	1,955	2,304
Information and Technology.....	3,856	1,325
Avista Ventures.....	2,932	6,569
Total depreciation and amortization expenses.....	<u>\$57,662</u>	<u>\$56,901</u>
INCOME (LOSS) FROM OPERATIONS (PRE-TAX):		
Avista Utilities.....	\$(30,817)	\$100,202
Energy Trading and Marketing.....	132,647	(29,674)
Information and Technology.....	(27,802)	(6,807)
Avista Ventures.....	(4,797)	2,506
Total income from operations.....	<u>\$69,231</u>	<u>\$66,227</u>

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS

Avista Corporation

For the Nine Months Ended September 30

Thousands of Dollars

	<u>2000</u>	<u>1999</u>
INCOME (LOSS) AVAILABLE FOR COMMON STOCK:		
Avista Utilities.....	\$(65,707)	\$25,431
Energy Trading and Marketing.....	85,812	(17,416)
Information and Technology.....	(18,679)	(4,487)
Avista Ventures.....	(980)	35,875
Total income available for common stock (Note 5).....	<u>\$446</u>	<u>\$39,403</u>
ASSETS: (1999 amounts at December 31)		
Avista Utilities.....	\$1,978,135	\$1,976,716
Energy Trading and Marketing.....	4,117,257	1,595,470
Information and Technology.....	71,815	26,379
Avista Ventures.....	117,479	114,929
Total assets.....	<u>\$6,284,686</u>	<u>\$3,713,494</u>
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):		
Avista Utilities.....	\$72,555	\$59,522
Energy Trading and Marketing.....	42,218	3,816
Information and Technology.....	24,116	8,873
Avista Ventures.....	853	9,726
Total capital expenditures.....	<u>\$139,742</u>	<u>\$81,937</u>

The Accompanying Notes are an Integral Part of These Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying financial statements of Avista Corporation (Avista Corp. or the Company) for the interim periods ended September 30, 2000 and 1999 are unaudited but, in the opinion of management, reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results of operations for those interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements do not contain the detail or footnote disclosure concerning accounting policies and other matters which would be included in full fiscal year financial statements; therefore, they should be read in conjunction with the Company's audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (1999 Form 10-K).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reclassifications

Certain prior year amounts have been reclassified to conform to current statement format. These reclassifications were made for comparative purposes and have not affected previously reported total net income or common shareholders' equity.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 2000, the FASB issued SFAS No. 138, which amends certain provisions of SFAS 133 to clarify four areas causing difficulties in implementation. The amendment included expanding the normal purchase and sale exemption for supply contracts, permitting the offsetting of certain intercompany foreign currency derivatives and thus reducing the number of third party derivatives, permitting hedge accounting for foreign-currency denominated assets and liabilities, and redefining interest rate risk to reduce sources of ineffectiveness. The Company appointed a team to implement SFAS 133. The Company will adopt SFAS 133 and the corresponding amendments under SFAS 138 on January 1, 2001. The Company is currently implementing accounting policies and procedures to determine the impact of SFAS 133 on its consolidated results of operations and financial position. The impact of adoption of SFAS 133 on the Company's results of operations is dependent upon the fair values of the Company's derivatives and related financial information at the date of adoption. This statement should have no impact on consolidated cash flows.

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," to provide guidance on the recognition, presentation and disclosure of revenues in financial statements. The Company is in the process of determining the impact of this bulletin, particularly as it applies to the subsidiary companies as they continue to grow their businesses.

NOTE 2. RESTRUCTURING CHARGES

In November 1999, Avista Energy, Inc. (Avista Energy) began to redirect its focus away from national energy trading toward a more regionally-based energy marketing and trading effort in the West. The downsizing plan called for the shutting down of all of the operations in Houston and Boston and eliminating approximately 80 positions. The Houston operations were closed during the first quarter of 2000, and the Boston operations were closed during the second quarter of 2000. In the fourth quarter of 1999, Avista Energy recorded a charge of \$5.9 million, after taxes, for expenses related to employee terminations, such as contract terminations and retention payments. During the first quarter of 2000, the entire \$5.9 million reserve was paid out for employee termination expenses, leaving no accrued balance at March 31, 2000. Avista Energy sold its Eastern power book during the first quarter of 2000 for a \$1.0 million after-tax loss, but did not find a buyer for its natural gas or coal contracts in the East. The remaining Eastern natural gas contracts, primarily for transportation and storage, are being managed out of the Spokane office. The only remaining activity related to coal contracts is scheduling, which will continue until the end of 2000 when the last of the contracts expire. In addition to the restructuring charges previously reserved and paid, other transition costs in the amount of \$3.1 million and \$1.8 million, both after taxes, for the first and second quarters of 2000, respectively, were incurred related to closing the Houston and Boston offices and discontinuing operations in the East. Minimal transition costs were recorded in the third quarter, with little expected for the remainder of 2000.

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In the 1999 Form 10-K, it was announced that Pentzer Corporation (Pentzer) would also be redirecting its focus. In the first quarter of 2000, Pentzer recorded a charge of \$1.2 million, after taxes, for expenses related to employee terminations. All of this accrual was paid out as of June 30, 2000.

NOTE 3. ENERGY COMMODITY TRADING

Avista Utilities

During the second quarter of 2000, Avista Utilities held options and forward contracts for wholesale trading purposes. The fair value of these assets and liabilities outstanding at June 30, 2000 was \$1.4 million and \$28.9 million, respectively. The fair value of these liabilities outstanding at September 30, 2000 was \$4.7 million (there were no outstanding assets at that time). The average fair value of these assets and liabilities held during the six months between March 31, 2000 and September 30, 2000 was \$0.2 million and \$2.9 million, respectively. The net loss from the change in the fair value position of Avista Utilities' options and forward contracts from March 31, 2000 to September 30, 2000 was \$3.1 million and is included in the Consolidated Statements of Income in resource costs. The fair value at December 31, 1999 and March 31, 2000 of options held by Avista Utilities for trading purposes was immaterial.

Avista Energy

Contract Amounts and Terms Under Avista Energy's derivative instruments, Avista Energy either (i) as "fixed price payor," is obligated to pay a fixed price or amount and is entitled to receive the commodity or a fixed amount or (ii) as "fixed price receiver," is entitled to receive a fixed price or amount and is obligated to deliver the commodity or pay a fixed amount or (iii) as "index price payor," is obligated to pay an indexed price or amount and is entitled to receive the commodity or a variable amount or (iv) as "index price receiver," is entitled to receive an indexed price or amount and is obligated to deliver the commodity or pay a variable amount. The contract or notional amounts and terms of Avista Energy's derivative commodity investments outstanding at September 30, 2000 are set forth below (volumes in thousands of mmbTUs and MWhs):

	<u>Fixed Price Payor</u>	<u>Fixed Price Receiver</u>	<u>Maximum Terms in Years</u>
Energy commodities (volumes)			
Natural gas	103,412	88,398	3
Electric	141,695	131,320	20
Coal (tons)	1,243	1,243	-
	<u>Index Price Payor</u>	<u>Index Price Receiver</u>	<u>Maximum Terms in Years</u>
Energy commodities (volumes)			
Natural gas	711,976	754,125	5
Electric	535	34	4

Contract or notional amounts reflect the volume of transactions, but do not necessarily represent the dollar amounts exchanged by the parties to the derivative commodity instruments. Accordingly, contract or notional amounts do not accurately measure Avista Energy's exposure to market or credit risks. The maximum terms in years detailed above are not indicative of likely future cash flows as these positions may be offset in the markets at any time.

Fair Value The fair value of Avista Energy's derivative commodity instruments outstanding at September 30, 2000, and the average fair value of those instruments held during the nine months ended September 30, 2000 are set forth below (dollars in thousands):

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	Fair Value as of September 30, 2000				Average Fair Value for the nine months ended September 30, 2000			
	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities
Natural gas	\$ 133,331	\$ 74,886	\$ 127,826	\$ 70,379	\$ 126,401	\$ 46,001	\$ 123,786	\$ 40,774
Electric	2,067,850	777,223	2,055,902	700,405	1,813,038	666,713	1,819,450	605,081
Coal	1,587	-	879	-	5,174	429	4,496	57
Total	\$2,202,768	\$852,109	\$2,184,607	\$770,784	\$1,944,613	\$713,143	\$1,947,732	\$645,912

The weighted average term of Avista Energy's natural gas and related derivative commodity instruments as of September 30, 2000 was approximately three months. The weighted average term of Avista Energy's electric derivative commodity instruments at September 30, 2000 was approximately two months. The weighted average term of Avista Energy's coal derivative commodity instruments at September 30, 2000 was approximately three months. The change in the fair value position of Avista Energy's energy commodity portfolio, net of the reserves for credit and market risk, from December 31, 1999 to September 30, 2000 was \$59.2 million and is included in the Consolidated Statements of Income in operating revenues.

NOTE 4. FINANCINGS

Reference is made to the information relating to financings and borrowings as discussed under the caption "Liquidity and Capital Resources" in Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations".

NOTE 5. EARNINGS PER SHARE

On February 16, 2000, all outstanding shares of Series L Preferred Stock were converted into 11,410,047 shares of common stock. The weighted-average number of shares of common stock outstanding during the nine months ended September 30, 2000 related to the converted shares was 2,532,031. The costs of converting the Series L Preferred Stock into common stock totaled \$21.3 million during the first quarter of 2000, with \$18.1 million representing the optional conversion premium and \$3.2 million attributable to the regular dividend on the stock. However, the weighted-average number of converted shares and the conversion costs were not included in the calculation of diluted earnings per share for the nine months ended September 30, 2000 because their effects were antidilutive.

The computation of basic and diluted earnings per common share is as follows (in thousands, except per share amounts):

	3rd Quarter		Nine Months Ended September 30	
	2000	1999	2000	1999
Net income	\$34,540	\$27,613	\$23,573	\$55,510
Less: Preferred stock dividends	608	5,340	23,127	16,107
Income available for common stock-basic	33,932	22,273	446	39,403
Convertible Preferred Stock, Series L, dividend requirements	-	4,732	-	14,282
Income available for common stock-diluted	<u>\$33,932</u>	<u>\$27,005</u>	<u>\$ 446</u>	<u>\$53,685</u>
Weighted-average number of common shares outstanding-basic	47,147	36,634	45,193	39,077
Conversion of Convertible Preferred Stock, Series L	-	15,298	-	15,369
Restricted stock	99	122	99	113
Stock options	115	1	364	-
Weighted-average number of common shares outstanding-diluted	<u>47,361</u>	<u>52,055</u>	<u>45,656</u>	<u>54,559</u>
Earnings per common share				
Basic	\$0.72	\$0.61	\$0.01	\$1.01
Diluted	\$0.72	\$0.52	\$0.01	\$0.98

NOTE 6. COMMITMENTS AND CONTINGENCIES

Securities Litigation

On July 27, 2000, John Bain filed a lawsuit in the U.S. District Court for the Eastern District of Washington against the Company and Thomas M. Matthews, the Chairman of the Board, President and Chief Executive Officer of the Company, and Jon E. Eliassen, a Senior Vice President and the Chief Financial Officer of the Company. On August 2, 2000, Wei Cao and William Dalton filed separate lawsuits in the same Court against the Company and Mr. Matthews. On August 7, 2000, Martin Capetz filed a lawsuit in the same Court against the Company, Mr. Matthews and Mr. Eliassen. Each complaint is brought on behalf of a purported class of persons who purchased Company common stock during periods commencing as early as April 7, 2000 and ending June 21, 2000. The plaintiffs assert violations of Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 thereunder, arising out of various alleged misstatements and omissions in the Company's Annual Report on Form 10-K for the year 1999 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 and in specified press releases issued by the Company, and, further, claim that plaintiffs and the respective purported classes suffered damages as a result thereof. Such alleged misstatements and omissions are claimed to relate to the Company's trading activities in wholesale energy markets, the Company's risk management policies and procedures with respect thereto and the Company's trading losses in the second quarter of 2000. The plaintiffs request, among other things, compensatory damages in unspecified amounts and other relief as the Court may deem proper. The Company denies liability and intends to defend these lawsuits vigorously. On November 9, 2000, the court entered an order consolidating the cases, appointing the lead stockholder-plaintiff, and appointing lead stockholders-plaintiffs' counsel to prosecute the litigation.

Commodity Futures Trading Commission Investigation

Avista Energy and one or more of its former employees are the subject of an investigation by the Commodity Futures Trading Commission (CFTC) into futures trading, including certain electricity futures contracts, in July of 1998. As part of its investigation, the CFTC is examining the placement of orders on July 27, 1998 to purchase August 1998 Palo Verde and California-Oregon Border (COB) futures contracts traded on the New York Mercantile Exchange and whether the trading in question amounted to a manipulation of the price of those contracts. As of the date of the filing of this Quarterly Report, the CFTC has not yet determined whether or not to charge any traders or Avista Energy (as the traders' employer) with violations of law.

Other Matters

The Company believes, based on the information presently known, that the ultimate liability for the following matters discussed in this note, individually or in the aggregate, taking into account established accruals for estimated liabilities, will not be material to the consolidated financial position of the Company, but could be material to results of operations or cash flows for a particular quarter or annual period. No assurance can be given, however, as to the ultimate outcome with respect to any particular lawsuit.

Power Costs Deferrals

On August 9, 2000, the Washington Utilities and Transportation Committee (WUTC) approved the Company's request for deferred accounting treatment for certain power costs related to the recent increase in short-term wholesale market prices. Deferred accounting treatment is effective for power costs beginning July 1, 2000 and ending June 30, 2001. The specific power costs deferred include the changes in power costs to the Company from those included in the Company's base retail rates, related to three power cost components: the net effect of changes in short-term wholesale market prices on short-term wholesale purchases and sales; the effect on power costs from changes in the level of hydroelectric generation; and the net effect on power costs from changes in the level of thermal generation (including changes in fuel prices). The deferrals each month are calculated as the difference between the actual costs to the Company associated with these three power cost components, and the level of costs included in the Company's base retail rates. The power costs deferred are related solely to the operation of the Company's system resources to serve its system retail and wholesale load obligations. Deferrals do not include losses associated with wholesale trading activity. During the third quarter of 2000, the Company deferred \$30.8 million in power costs pursuant to the WUTC accounting order. Regulatory approval of the recovery of these deferred costs will be addressed in a future regulatory proceeding, in which the Company is required to support the reasonableness and prudence of the costs, and that the Company's resources were optimized to the benefit of its retail customers.

Spokane Gas Plant

The Spokane Natural Gas Plant site (which was operated as a coal gasification plant for approximately 60 years until 1948) was acquired by the Company through a merger in 1958. The Company no longer owns the property. Initial core samples taken from the site indicate environmental contamination at the site. On January 15, 1999, the Company received notice from the State of Washington's Department of Ecology (DOE) that it had been designated as a potentially liable party (PLP) with respect to any hazardous substances located on this site, stemming from the Company's past ownership of the former Gas Plant. In its notice, the DOE stated that it intended to complete an on-going remedial investigation of this site, complete a feasibility study to determine the most effective means of halting or controlling future releases of substances from the site, and implement appropriate remedial measures.

The Company responded to the DOE acknowledging its listing as a PLP, but requested that additional parties also be listed as PLPs. In the spring of 1999, the DOE named two other parties as additional PLPs. The Company completed additional characterization of the site for the remedial investigation (RI).

The DOE issued a Draft Agreed Order to the Company on January 17, 2000, and solicited public comment. The Agreed Order was signed by the DOE, the Company and Burlington Northern Railroad (another PLP) on March 13, 2000. The work to be performed under the Agreed Order includes three major technical parts: completion of the RI; performance of a focused Feasibility Study (FS); and implementation of an interim groundwater monitoring plan. During the second quarter, the Company received comments from the DOE on its initial RI, then submitted another draft of the RI, which has been accepted as final by the DOE. The Company also received comments from the DOE pertaining to the FS, which outlines cleanup alternatives. Another FS, which responded to the DOE comments, was submitted to the DOE on October 13. The Company expects final comments by the end of November.

Eastern Pacific Energy

On October 9, 1998, Eastern Pacific Energy (Eastern Pacific), an energy aggregator participating in the restructured retail energy market in California, filed suit against the Company and its affiliates, Avista Advantage and Avista Energy, in the United States District Court for the Central District of California. Eastern Pacific alleges, among other things, a breach of an oral or implied joint venture agreement whereby the Company agreed to supply not less than 300 megawatts of power to Eastern Pacific's California customers and that Avista Advantage agreed to provide energy-related products and services. The complaint seeks an unspecified amount of damages and also seeks to recover any future profits earned from sales of the aforementioned amount of power to California consumers.

On December 4, 1998, Avista Advantage, Avista Energy and the Company jointly filed a motion to dismiss the complaint for failure to state a claim upon which relief can be granted. On May 4, 1999, the Court granted the Company's and its affiliates' motion to dismiss the case and granted the plaintiff the opportunity to file and serve an Amended Complaint, which it did. The Company and its affiliates renewed their motion to dismiss and on October 22, 1999, the Court again granted the motion to dismiss, this time with prejudice. Plaintiff has appealed this adverse determination to the Ninth Circuit Court of Appeals. If the Court approves an agreement reached among the parties, this case, including the appeal, will be dismissed with prejudice without the Company or its affiliates paying damages or other monetary relief to plaintiff.

Sale of Creative Solutions Group

On April 7, 2000, Creative Solutions Group, Inc. and Form House Holdings, Inc. filed a complaint against Pentzer Corporation in the United States District Court for the District of Massachusetts, alleging misrepresentations and breach of representations and warranties made under a stock purchase agreement. Pursuant to this agreement, Pentzer sold the capital stock of a group of companies on March 31, 1999. Plaintiffs allege that Pentzer breached various representations and warranties concerning financial statements, cost of goods sold and inventory, contending that reliance on such representations and warranties caused them to pay more for the group of companies than they were worth. In total, plaintiffs allege damages in the approximate amount of \$27 million. Pentzer has retained legal counsel and intends to vigorously defend against this action. Pentzer has pending before the Court a request that the matter be sent to arbitration.

NOTE 7. DISPOSITIONS

On May 5, 2000, the owners of the Centralia Power Plant sold the plant to TransAlta, a Canadian company. The Company has recorded an after-tax gain totaling \$7.8 million from the sale of its 17.5% ownership interest in the plant. The balance of the total after-tax gain of \$34.7 million from the sale of Centralia was deferred and will be returned to Avista Utilities' customers through rates over established periods of time. Idaho customers will receive \$7.0 million of the after-tax gain, which translates into a rate reduction of 1.8% over an eight-year period. Washington customers will receive the remaining \$19.9 million through credits to their electric bills over a two-month period.

Avista Utilities has purchased energy from TransAlta to replace the output from Centralia for the period from July 1, 2000 through December 31, 2003. Avista Utilities will receive approximately 200 megawatts per hour beginning each July and continuing through March of the following year during the term of the contract. The Company is assessing its options for a longer-term replacement of the power through its Request for Proposal (RFP) process discussed in Part II. Item 5. Other Information.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Avista Corporation (Avista Corp. or the Company) operates as an energy, information and technology company with a regional utility operation and subsidiary operations located throughout North America. The utility portion of the Company, doing business as Avista Utilities, is subject to state and federal price regulation. The national businesses are conducted under Avista Capital, which is the parent company to the Company's subsidiaries.

Avista Utilities provides electric transmission and electric and natural gas distribution services to retail customers. It is also responsible for the generation and production of electric energy. Through the second quarter of 2000, Avista Utilities was also engaged in electric wholesale marketing and electric commodity trading, primarily for the purpose of optimizing system resources, as described in the following paragraph. Wholesale marketing includes sales and purchases under long-term contracts with terms longer than one year. Electric commodity trading includes short-term sales and purchases, such as next hour, next day and monthly blocks of energy. Wholesale marketing and trading activities have been primarily with other utilities and power marketers in the Western Systems Coordinating Council (WSCC). As explained more fully under "Results of Operations – Overall Operations," by June 30, 2000, Avista Utilities had ceased all trading activities except to the extent necessary to optimize system resources to meet retail customer loads and wholesale obligations.

Avista Utilities estimates future retail and firm wholesale loads based on contract terms, historic data and forward estimates of factors such as customer usage and weather. In addition, Avista Utilities projects resource availability to meet loads based on estimates of streamflows, unit availability, historic and forward market information and experience. The Company is required to both buy and sell energy on a quarterly, monthly, daily and hourly basis to optimize its resources and match actual resources to actual energy requirements. There may be significant price and volume variances when actual results are compared to estimates.

During the second and third quarters of the year 2000, significant price volatility, driven in part by availability of resources and demand for energy throughout the WSCC, materially impacted the cost of meeting the Company's system load requirements. While the Company plans for resources to meet current and expected retail and wholesale load obligations, price volatility and load volatility may materially impact the power costs to the Company in the future.

The Energy Trading and Marketing line of business is comprised of Avista Energy, Inc. (Avista Energy), Avista Power, Inc. (Avista Power) and Avista-STEAG, LLC (Avista-STEAG). Avista Energy is an electricity and natural gas marketing and trading business, also operating primarily in the WSCC. Avista Power was formed to develop and own generation assets. Avista-STEAG is a joint venture between Avista Capital and STEAG AG, a German independent power producer, to develop electric generating assets.

The Information and Technology line of business is comprised of Avista Advantage, Inc. (Avista Advantage), Avista Laboratories, Inc. (Avista Labs) and Avista Communications, Inc. (Avista Communications). Avista Advantage is a business-to-business e-commerce enabled portal that provides a variety of energy-related products and services to commercial and industrial customers on a national basis. Its primary product lines include consolidated billing, resource accounting, energy analysis, load profiling, and maintenance and repair billing services. Avista Labs is in the process of developing modular Proton Exchange Membrane (PEM) fuel cells for power generation at the site of the consumer or industrial user. Avista Communications is a Competitive Local Exchange Carrier (CLEC) providing local dial tone, data transport, internet services, voice messaging and other telecommunications services to underserved communities in the Western United States. In April 2000, Avista Communications and Avista Fiber, Inc. merged operations, with Avista Communications now additionally responsible for designing, building and managing metropolitan area fiber optic networks.

The Avista Ventures line of business includes Avista Ventures, Inc. (Avista Ventures), Pentzer Corporation (Pentzer), Avista Development, Inc. (Avista Development) and Avista Services, Inc. (Avista Services). Avista Ventures was formed late in the first quarter of 2000 to align Avista Corp.'s investment and acquisition activities in the strategic growth areas of energy, information and technology. Avista Ventures is responsible for developing a pipeline of future opportunities for growth and innovation. Avista Ventures is the parent company to Pentzer and Avista Development. Pentzer was the parent company to the majority of the Company's other subsidiary businesses until 1999, when it sold two groups of its portfolio companies. Pentzer's business strategy was such that its income resulted from both transactional and non-transactional earnings. Transactional gains have been generated by one-time events or specific transactions, such as the sale of an investment or companies from Pentzer's portfolio of

investments. Non-transactional earnings have been generated by the ongoing operations of the individual portfolio companies. Avista Development holds other community investments, including real estate, tax credit housing and other assets. Avista Services is the marketing arm of Avista Utilities that offers products and services to existing utility customers, including energy consulting, mail order merchandising and sales of items such as surge protectors and generators.

Regulatory, economic and technological changes have brought about the accelerating transformation of the utility and energy industries, creating new opportunities to expand the Company's businesses and serve new markets. In pursuing such opportunities, the Company's strategy is to focus on continuing its growth as a leading provider of information and energy technology services.

These changes have also had a significant effect on energy markets. Historically, the price of power in wholesale markets has been affected primarily by production costs and by other factors including streamflows, the availability of hydro and thermal generation and transmission capacity, weather and the resulting retail loads, and the price of coal, natural gas and oil for thermal generating units. Any combination of these factors that resulted in a shortage of energy generally caused the market price of power to move upward. Now, however, market prices appear to be affected by other factors as well. These factors include the gradual elimination of excess generating capacity in the Pacific Northwest and the WSCC, which results in higher prices for short-term energy, as well as increasing instances of transmission congestion in the region in periods of high demand. Other factors may result from the restructuring of the electric utility business at the state and federal levels and the deregulation of wholesale energy markets. These factors may include, for example, the increased ownership of generating facilities by entities which are not traditional "public utilities" as a result of utility divestitures, as well as the rapid growth of the wholesale market for capacity and energy on a short-term basis and increased trading in derivative commodity instruments.

Based on historical trends, Avista Utilities' business plan had forecast on-peak power prices of approximately \$19 per megawatthour for May and June. On-peak power costs in the market averaged \$60 per megawatthour in May and over \$180 per megawatthour in June, with hourly spikes as high as \$1,300 per megawatthour. Prices remain at unprecedented levels in the Pacific Northwest, without any apparent direct relationship to actual costs of generation. On-peak power costs in the market averaged between \$122 and \$222 per megawatthour during the third quarter, with peaks between \$205 and \$476 per megawatthour. Federal and state officials, including the FERC and the California Public Utilities Commission, commenced reviews to determine the cause of the market changes. See "Regulatory Proceedings Affecting the Wholesale Electricity Market" in Item 5.

The Company's growth strategy exposes it to risks, including risks associated with rapid expansion, challenges in recruiting and retaining qualified personnel, risks associated with acquisitions and joint ventures and increasing competition. In addition, the energy trading and marketing business exposes the Company to the financial, liquidity and credit risks associated with commodity trading activities.

The Company expects to post slightly above breakeven earnings per share on a diluted basis for the fourth quarter of 2000. These expectations reflect the Company's continued investment in the Information and Technology subsidiaries, the effects of additional power costs and the potential benefits to Avista Energy of expected continued price volatility in western power markets. The Company's cash flows have been affected because of the higher power and natural gas costs, as well as cash collateral required for counterparties and trading at Avista Energy. The Company anticipates, based on information currently available, that it will be able to satisfy all cash requirements through the remainder of 2000. These projections are subject to a variety of risks and uncertainties that could cause actual results to differ from this estimate, including those described above and listed under "Safe Harbor for Forward Looking Statements." See "Liquidity and Capital Resources" for additional information.

RESULTS OF OPERATIONS

Overall Operations

Three months ended September 30, 2000 compared to three months ended September 30, 1999

The third quarter 2000 income available for common stock was \$33.9 million compared to earnings of \$22.3 million in the third quarter of 1999. The Energy Trading and Marketing operations recorded net income of \$42.0 million in the third quarter of 2000 compared to \$0.6 million in 1999. Avista Energy benefited from a well-positioned portfolio

in the rapidly changing Pacific Northwest and western energy markets. The positive earnings from Avista Energy were partially offset by losses from the other lines of business. Avista Utilities recorded a loss of \$1.0 million during the third quarter of 2000 compared to a loss of \$4.6 million in 1999. Third quarter purchased power expenses at Avista Utilities were partially mitigated by an accounting order issued by the Washington Utilities and Transportation Commission (WUTC) that allows the Company to defer excess power costs incurred through June 30, 2001 to serve retail and long-term wholesale customer loads. During the third quarter of 2000, Avista Utilities deferred \$30.8 million of power costs in Washington, the recovery of which will be addressed in a future regulatory proceeding. The loss in the third quarter of 1999 was primarily due to the increased preferred dividend requirement related to the Convertible Series L Preferred Stock. The Information and Technology line of business recorded a loss of \$6.8 million in 2000 compared to a loss of \$1.9 million in the third quarter of 1999 as these businesses continued to grow their operations. The Avista Ventures line of business recorded a third quarter loss of \$0.4 million in 2000 compared to net income of \$28.2 million in 1999. Pentzer sold a group of portfolio companies in the third quarter of 1999 that resulted in a \$27.6 million after-tax transactional gain.

The basic and diluted earnings per share for the third quarter of 2000 were \$0.72, compared to a contribution of \$0.61 per basic share and \$0.52 per diluted share in 1999. Energy Trading and Marketing operations contributed \$0.89 per basic share in the third quarter of 2000 compared to \$0.01 in 1999. Avista Utilities recorded a loss of \$0.02 per basic share in the third quarter of 2000 compared to a loss of \$0.12 in 1999. Information and Technology operations had a loss of \$0.14 per basic share in the third quarter of 2000 compared to a loss of \$0.05 in 1999. The Avista Ventures line of business recorded a loss of \$0.01 per basic share compared to a contribution of \$0.77 in 1999.

On August 9, 2000, the WUTC approved the Company's request for deferred accounting treatment for certain power costs related to the recent increase in short-term wholesale market prices. Deferred accounting treatment is effective for power costs beginning July 1, 2000 and ending June 30, 2001. The specific power costs deferred include the changes in power costs to the Company from those included in the Company's base retail rates, related to three power cost components: the net effect of changes in short-term wholesale market prices on short-term wholesale purchases and sales; the effect on power costs from changes in the level of hydroelectric generation; and the net effect on power costs from changes in the level of thermal generation (including changes in fuel prices). The deferrals each month are calculated as the difference between the actual costs to the Company associated with these three power cost components, and the level of costs included in the Company's base retail rates. The power costs deferred are related solely to the operation of the Company's system resources to serve its system retail and wholesale load obligations. Deferrals do not include losses associated with wholesale trading activity. During the third quarter of 2000, the Company deferred \$30.8 million in power costs pursuant to the WUTC accounting order. Regulatory approval of the recovery of these deferred costs will be addressed in a future regulatory proceeding, in which the Company is required to support the reasonableness and prudence of the costs, and that the Company's resources were optimized to the benefit of its retail customers.

In October 1999, the Company filed with the WUTC a request for a general electric rate increase of \$26.2 million, or 10.4%, subsequently revised to \$18.2 million, and a general natural gas rate increase of \$4.9 million, or 6.5%. On September 29, 2000, the WUTC ordered a \$3.4 million, or 1.4%, reduction in electric rates and a \$1.7 million, or 2.1%, increase in natural gas rates. The WUTC also ordered that the Company's annual rate of return on investment for both electricity and natural gas be reduced from its current rate of return of 10.7% to 9.03%. The Company had requested a 9.9% rate of return. On October 9, 2000, the Company filed a Petition for Reconsideration before the WUTC requesting that the commission reconsider certain portions of its order. On November 8, 2000, the Commission slightly modified the original order by reducing the electric reduction from \$3.4 million to \$2.9 million and increasing the natural gas increase from \$1.7 million to \$1.8 million. The Company plans to make additional filings with the WUTC related to higher power supply costs and an electricity power cost adjustment and tracker mechanism.

The Company is taking extensive measures to address the power cost issues, minimize risk and mitigate its financial hardship. Avista Utilities has eliminated its short-term wholesale trading activities except to the extent necessary to optimize system resources to meet retail customer loads and long-term wholesale obligations. Avista Utilities is also assessing alternatives to meet future energy needs. The Company is currently evaluating power proposals that it received in September 2000 through its Request for Proposal (RFP) process.

The Company hired Williams Energy Marketing & Trading Company in July 2000 to advise Avista Utilities on risk management, risk analysis and resource optimization issues for all system requirements.

Nine months ended September 30, 2000 compared to nine months ended September 30, 1999

The income available for common stock for the first nine months of 2000 was \$0.4 million compared to earnings of \$39.4 million in 1999. The Energy Trading and Marketing line of business recorded earnings of \$85.8 million in the first nine months of 2000 compared to a loss of \$17.4 million in 1999. Avista Energy benefited from a well-positioned portfolio in the Pacific Northwest and western energy markets. The positive earnings from Avista Energy were partially offset by losses from the other lines of business. The conversion of the outstanding Series L Preferred Stock back into common stock in February 2000 resulted in a one-time charge of \$21.3 million to preferred stock dividend requirements. Excluding the effect of this transaction, the Company's earnings would have been \$21.7 million. Avista Utilities' operations lost \$42.6 million in the first nine months of 2000 compared to net income of \$41.5 million in 1999 (results for both periods are before preferred dividend requirements). The loss was primarily the result of the significantly higher purchased power costs for Avista Utilities that were compounded by a short position related to wholesale trading activity during the second quarter of 2000. (See paragraphs below for additional information about the higher energy prices and short position.) In addition, losses from the Information and Technology line of business were \$18.7 million in 2000 compared to a loss of \$4.5 million in 1999 as these businesses continued to grow their operations. The loss attributable to common stock from the Avista Ventures line of business was \$1.0 million in 2000, compared to earnings of \$35.9 million in 1999. The 1999 earnings included a transactional gain totaling \$37.7 million, net of taxes, recorded by Pentzer as a result of the sale of two groups of portfolio companies.

The basic and diluted loss per share for the first nine months of 2000 was \$0.01, compared to a contribution of \$1.01 per basic share and \$0.98 per diluted share in 1999. Excluding any effects related to the Series L Preferred Stock, earnings per share would have been \$0.45 for the nine months ended September 30, 2000. Energy Trading and Marketing operations contributed \$1.89 per basic share in the first nine months of 2000 compared to a loss of \$0.45 in 1999. Avista Utilities recorded a loss of \$1.45 per basic share in the first nine months of 2000 compared to a contribution of \$0.65 in 1999, which includes preferred stock dividend requirements in both periods. Information and Technology operations had a loss of \$0.41 per basic share in the first nine months of 2000 compared to a loss of \$0.11 in 1999. The Avista Ventures line of business had a loss of \$0.02 per basic share in the first nine months of 2000 compared to a contribution of \$0.92 in 1999.

Avista Utilities' pre-tax loss from operations was \$30.8 million in the first nine months of 2000, or a decrease of \$131.0 million from 1999. The loss resulted primarily from significantly higher electric energy prices in wholesale markets, compounded by a short position related to wholesale trading activity. The year-to-date results for 2000 include a \$7.8 million after-tax gain recorded by the Company as a result of the sale of its interest in the Centralia Power Plant. The balance of the total after-tax gain of \$34.7 million from the sale of Centralia was deferred and will be returned to Avista Utilities' customers through rates.

Unprecedented sustained peaks in electric energy prices throughout the WSCC in May and June, compounded by a wholesale short position discussed below, contributed to the significant losses recorded by Avista Utilities in the second quarter. The increased prices caused a reduction in gross margin of approximately \$121.5 million in the first nine months of 2000 from 1999.

During the second and third quarters, Avista Utilities purchased energy in order to meet system obligations to serve retail and long-term wholesale customers. These purchases provided power in addition to power available from the Company's own generating resources. Due to the spikes in wholesale market prices described above, the cost of these purchases was significantly higher than the amounts currently being recovered from customers. On August 9, 2000, the WUTC approved the Company's request for deferred accounting treatment for certain power costs related to the recent increase in short-term wholesale market prices. Deferred accounting treatment is effective for power costs beginning July 1, 2000 and ending June 30, 2001. During the third quarter of 2000, the Company deferred \$30.8 million in power costs in Washington.

Based on the Company's views of streamflows, historic market prices and energy availability in the second quarter of 2000, the Company entered into contracts and sold call options for fixed-price power for delivery through the remainder of the year, without making matching purchases at the same time, and also made certain short-term sales at fixed prices which were offset by purchases at prices indexed to the market price at the time of delivery. Certain of these wholesale trading positions were outside normal operating guidelines. Avista Utilities was therefore required to buy additional power not only to meet its obligations to its retail and long-term wholesale customers, as described above, but also to cover its wholesale trading positions. The process was impeded by the rapid escalation of market prices and lack of liquidity in the power markets. These purchases were made at fixed prices significantly

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higher than the related selling prices and at index, which settled at unprecedented levels in June. The pricing of these purchases caused substantially all of Avista Utilities' loss for the second quarter. By June 30, 2000, Avista Utilities had ceased all trading activities except to the extent necessary to optimize system resources to meet retail customer loads and long-term wholesale obligations.

Avista Utilities' short position was compounded by the May 5 sale of its interest in the Centralia plant, which reduced its system capacity by 201 megawatts. Avista Utilities entered into a three-and-one-half-year contract to purchase 200 megawatts from TransAlta beginning in July 2000. Based on historical trends and the Company's views on power prices and availability of power for May and June, Avista Utilities did not seek to replace the Centralia generation for the months of May and June with firm commitments.

Avista Utilities

Three months ended September 30, 2000 compared to three months ended September 30, 1999

Avista Utilities' pre-tax income from operations was \$13.6 million in the third quarter of 2000, compared to \$17.3 million in 1999. Third quarter purchased power expenses at Avista Utilities were partially mitigated by an accounting order issued by the WUTC that allows the Company to defer, for later recovery, a portion of the excess power costs incurred through June 30, 2001 to serve its system retail and wholesale load requirements. During the third quarter of 2000, Avista Utilities deferred \$30.8 million of power costs pursuant to this order, in addition to a \$6.0 million deferral pursuant to the existing Power Cost Adjustment (PCA) in Idaho. Avista Utilities' operating revenues and expenses increased \$79.7 million and \$83.4 million, respectively, in the third quarter of 2000 over 1999.

Retail electric revenues increased \$6.6 million in the third quarter of 2000 over 1999 primarily due to increased prices and greater sales volumes due to customer growth. Wholesale electric revenues increased \$72.7 million, or 38%, while sales volumes decreased 42% during the third quarter of 2000, reflecting average sales prices 139% higher in 2000. Wholesale sales volumes decreased due to the cessation of all trading activities except to the extent necessary to optimize system resources to meet retail customer loads and long-term wholesale obligations. Natural gas revenues decreased \$3.4 million in the third quarter of 2000 from 1999 due to decreased levels of non-retail sales.

Purchased power volumes were 34% lower in the third quarter of 2000 than last year due to decreased wholesale sales, but purchased power prices averaged 148% higher, resulting in a \$127.0 million, or 64%, increase in purchased power expense in 2000. The \$30.8 million deferral of power costs pursuant to the WUTC accounting order partially offset purchased power costs in the third quarter of 2000. Streamflows in the third quarter of 2000 were 73% of normal compared to 120% in the third quarter of 1999. Fuel for generation expense increased \$6.7 million due to increased generation at the thermal plants. Purchased natural gas costs decreased \$4.6 million in the third quarter of 2000, primarily as a result of lower non-retail therm sales. Other resource costs decreased \$46.8 million from 1999 primarily due to \$38.8 million of net mark-to-market adjustments and a \$7.5 million increase in the Idaho Power Cost Adjustment (PCA) deferral over 1999.

Nine months ended September 30, 2000 compared to nine months ended September 30, 1999

Avista Utilities' pre-tax loss from operations was \$30.8 million in the first nine months of 2000, or a decrease of \$131.0 million from 1999. The loss was primarily the result of the increase in purchased power costs during the second quarter, as described above. The year-to-date utility results also include the \$7.8 million gain from the sale of Centralia mentioned above. Avista Utilities' operating revenues and expenses increased \$209.2 million and \$340.2 million, respectively, in the first nine months of 2000 over 1999.

Retail electric revenues increased \$15.5 million in the first nine months of 2000 over 1999 due to increased prices and greater sales volumes due to customer growth. Wholesale electric revenues increased \$190.2 million, or 51%, while sales volumes decreased 13% during the first nine months of 2000 over 1999, reflecting average sales prices 73% higher in 2000. Wholesale sales volumes decreased due to the cessation of all trading activities except to the extent necessary to meet retail customer loads and wholesale obligations. Natural gas revenues decreased \$2.8 million in the first nine months of 2000 from 1999. Retail natural gas revenues increased \$11.9 million, but were offset by a \$14.4 million decrease in non-retail sales.

Purchased power volumes were 11% lower for the first nine months of 2000 than last year primarily due to decreased wholesale sales, but purchased power prices averaged 102% higher, resulting in a \$319.0 million, or 81%, increase in purchased power expense in the first nine months of 2000 over 1999. The \$30.8 million deferral of power costs pursuant to the WUTC accounting order partially offset purchased power costs in 2000. Streamflows in the first nine months of 2000 were 90% of normal compared to 110% in 1999. Fuel for generation expense increased \$12.8 million due to increased generation at the thermal plants. Purchased natural gas costs decreased \$1.9 million in the first nine months of 2000, primarily due to the decreased volumes sold.

Operations and maintenance expenses increased \$5.1 million, or 12%, due to a variety of items, including increased distribution expenses, higher fees associated with the increased amount of customer accounts receivables sold, increased accruals for uncollectible accounts and other expenses related to customer accounting services.

Energy Trading and Marketing

Energy Trading and Marketing includes the results of Avista Energy, Avista Power and Avista-STEAG. Avista Energy maintains a trading portfolio that it marks to fair market value on a daily basis (mark-to-market accounting), which causes earnings variability. For additional information about market risk and credit risk, see Business Risk - Energy Trading Business beginning on page 27.

Three months ended September 30, 2000 compared to three months ended September 30, 1999

Energy Trading and Marketing's income available for common stock for the third quarter of 2000 was \$42.0 million, compared to \$0.6 million in 1999. Avista Energy's operations were positively affected by warmer than normal weather and a well-positioned portfolio in volatile western electric markets.

Energy Trading and Marketing's revenues and operating expenses decreased \$883.3 million and \$948.2 million, respectively, in the third quarter of 2000 from 1999. The decrease in revenues is primarily the result of decreased volumes of transactions due to Avista Energy's closing its Eastern operations and refocusing its business to the West, partially offset by the impact of increased prices. The decrease in expenses is primarily the result of Avista Energy's closing its Eastern operations and refocusing its business to the western energy markets.

Nine months ended September 30, 2000 compared to nine months ended September 30, 1999

Energy Trading and Marketing's income available for common stock for the first nine months of 2000 was \$85.8 million, compared to a loss of \$17.4 million in 1999. Avista Energy's operations in the first nine months of 2000 were positively affected by warmer than normal weather and a well-positioned portfolio in volatile western electric markets. Avista Energy's operations were negatively impacted by losses from the liquidation of its Eastern electric book and associated operating costs to close its Eastern operations in Houston and Boston. The Houston and Boston offices were closed during the first and second quarters of 2000, and the Eastern electric book was sold at a \$1.0 million after-tax loss.

Energy Trading and Marketing's revenues decreased \$813.1 million and operating expenses decreased \$975.4 million in the first nine months of 2000 from 1999. The year-to-date decrease in revenues is primarily the result of lower sales volumes, partially offset by increased prices. The year-to-date decrease in expenses is primarily the result of Avista Energy's closing its Eastern operations and refocusing its business to the West.

Energy Trading and Marketing's balance sheet increased \$2.5 billion from December 1999 to September 2000. Avista Energy's energy commodity assets and liabilities increased primarily as a result of significant price increases for both natural gas and power during this period. Trade receivables and payables increased due to higher market prices on current positions.

Information and Technology

The Information and Technology line of business includes the results of Avista Advantage, Avista Labs and Avista Communications. Avista Corp. has committed to invest in the development of these information and energy technology businesses.

Three months ended September 30, 2000 compared to three months ended September 30, 1999

Information and Technology's loss attributable to common stock for the third quarter of 2000 was \$6.8 million, compared to a loss of \$1.9 million in 1999. Operating revenues and expenses for this line of business increased \$1.4 million and \$9.1 million, respectively, during the third quarter of 2000 over 1999, primarily due to growth in each of the individual businesses.

Nine months ended September 30, 2000 compared to nine months ended September 30, 1999

Information and Technology's loss attributable to common stock for the first nine months of 2000 was \$18.7 million, compared to a loss of \$4.5 million in 1999. Operating revenues and expenses for this line of business increased \$4.4 million and \$25.3 million, respectively, during the first nine months of 2000 over 1999, primarily due to growth in each of the individual businesses.

Avista Ventures

The Avista Ventures line of business includes the results of Avista Ventures, Pentzer, Avista Development and Avista Services.

Three months ended September 30, 2000 compared to three months ended September 30, 1999

The loss attributable to common stock from this line of business was \$0.4 million in the third quarter of 2000, compared to earnings of \$28.2 million in 1999. The 1999 results included a transactional gain of \$27.6 million, net of taxes, from Pentzer's sale of a group of portfolio companies in the third quarter of 1999.

Operating revenues and expenses from this line of business decreased \$28.2 million and \$24.3 million, respectively, during the third quarter of 2000 from 1999. The Store Fixtures Group of portfolio companies was sold by Pentzer during the third quarter of 1999, so revenues and expenses from these companies were still included in the 1999 amounts.

Nine months ended September 30, 2000 compared to nine months ended September 30, 1999

The loss attributable to common stock from this line of business was \$1.0 million in the first nine months of 2000, compared to earnings of \$35.9 million in 1999. The 2000 loss includes a \$1.2 million after-tax charge recorded by Pentzer in the first quarter for expenses related to employee terminations resulting from a redirection of Pentzer's business focus. The 1999 earnings included transactional gains totaling \$37.7 million, net of taxes, recorded by Pentzer as a result of the sale of its Creative Solutions Group and Store Fixtures Group of portfolio companies, partially offset by a loss on the sale of equipment.

Operating revenues and expenses from this line of business decreased \$92.5 million and \$85.2 million, respectively, during the first nine months of 2000, as compared to 1999, primarily as a result of the sales of portfolio companies by Pentzer. The Creative Solutions Group of companies was sold at the end of the first quarter of 1999 and the Store Fixtures Group of companies was sold during the third quarter of 1999. Revenues and expenses from these companies were included only in the 1999 amounts.

LIQUIDITY AND CAPITAL RESOURCES

Overall Operations

Operating Activities Operating activities in the first nine months of 2000 used net cash of \$58.1 million, compared to providing net cash of \$119.8 million for the same period in 1999. Net income for the first nine months of 2000 was \$23.6 million compared to \$55.5 million in 1999. Power and natural gas cost deferrals and amortizations increased by \$38.8 million over 1999 primarily due to the accounting order approved by the WUTC, and the effect of increased power and natural gas costs on the Idaho PCA and natural gas trackers already in place in various states. Increased power prices resulted in significant changes in the mark-to-market balances of energy commodity assets and liabilities at both Avista Utilities and Avista Energy during the first nine months of 2000, with a total non-cash impact on net income of \$52.3 million. Other working capital components, primarily receivables and payables and other accrued liabilities, continued to change substantially in the 2000 period, primarily due to Avista Energy's operations, as a result of increased costs for power.

Investing Activities Investing activities used net cash of \$18.3 million in the first nine months of 2000 compared to providing net cash of \$6.3 million in the same period in 1999. In 2000, Avista Utilities sold the Centralia Power Plant, resulting in proceeds of approximately \$89.2 million. In 1999, Pentzer sold the Creative Solutions and Store Fixtures groups of companies and Avista Energy acquired Vitol.

Financing Activities Net cash provided by financing activities totaled \$114.9 million in the first nine months of 2000 compared to a \$35.9 million net use of cash in 1999. Short-term borrowings decreased \$6.6 million and \$29.9 million of long-term debt matured in the first nine months of 2000, while \$175.0 million of long-term debt was issued. In the first nine months of 1999, short-term borrowings increased \$97.2 million and \$84.9 million of long-term debt was issued, while \$98.6 million of long-term debt matured or was redeemed. Also, \$82.0 million of common stock was repurchased in 1999.

In August 1998, an exchange offer was made whereby shareholders were provided the opportunity to exchange their shares of common stock for depositary shares, also known as RECONS (Return-Enhanced Convertible Securities). Each RECONS represented a one-tenth ownership interest in one share of mandatorily convertible Series L Preferred Stock. Each RECONS paid an annual dividend of \$1.24 for a period of about three years and after three years would automatically convert back to common stock, unless the Company exercised its option to convert the Series L Preferred Stock prior to the end of the three-year period. On February 16, 2000, the Company exercised its option to convert all the remaining outstanding shares of Series L Preferred Stock back into common stock. The RECONS were also converted into common stock on the same conversion date, and each of the RECONS was converted into the following: 0.7205 shares of common stock, representing the optional conversion price; plus 0.0361 shares of common stock, representing the optional conversion premium; plus the right to receive \$0.21 in cash, representing an amount equivalent to accumulated and unpaid dividends up until, but excluding, the conversion date. Cash payments were made in lieu of fractional shares.

In March 2000, the Company began issuing new shares of common stock to the Employee Investment Plan rather than having the Plan purchase shares of common stock on the open market. Through September 30, 2000, 78,645 new shares of common stock were issued to the Plan.

In August 2000, the Company issued \$175.0 million of Unsecured Medium-Term Notes, Series D at a rate of 8.625% due in 2003.

Capital expenditures are financed on an interim basis with notes payable (due within one year). On June 26, 2000, the Company renegotiated its committed lines of credit with various banks. The two lines of credit total \$230 million, and both expire on June 26, 2001. As part of the renewals, the Company pledged its shares of common stock in Avista Capital as security for these agreements. In addition, the Company had a \$60 million three-month line of credit that expired on October 25, 2000 and was not replaced. The Company also has a \$50 million regional commercial paper program that is backed by the committed lines of credit and may currently borrow up to \$15 million through other borrowing arrangements with banks. As of September 30, 2000, \$90.0 million was outstanding under the committed line of credit, \$21.1 million was outstanding under the commercial paper program and \$7.0 million was outstanding under other short-term borrowing arrangements.

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The Company's total common equity increased \$267.7 million during the first nine months of 2000 to \$661.2 million, primarily due to the conversion of all remaining Series L Preferred Stock back to common stock. The Company's consolidated capital structure (including short-term borrowings) at September 30, 2000, was 51% debt, 9% preferred securities and 40% common equity, compared to 47% debt, 27% preferred securities and 26% common equity at December 31, 1999. Had the convertible preferred stock been converted back to common stock, the Company's consolidated capital structure at December 31, 1999, would have been 47% debt, 10% preferred securities and 43% common equity. Short-term borrowings at Avista Corp. that were formerly classified as "Notes Payable (due within one year) to be refinanced" on the Consolidated Statements of Capitalization were reclassified to "Short-term borrowings" on the Balance Sheet beginning in June 2000 as a result of the credit agreements' duration of only one year.

The Company funds capital expenditures with a combination of internally-generated cash and external financing. The level of cash generated internally and the amount that is available for capital expenditures fluctuates annually. External financings and cash provided by operating activities remain the Company's primary source of funds for operating needs, dividends and capital expenditures.

As part of its ongoing cash management practices and operations, Avista Corp. may, at any time, have short-term notes receivable and payable with Avista Capital. In turn, Avista Capital may also have short-term notes receivable and payable with its subsidiaries. As of September 30, 2000, Avista Corp. had short-term notes receivable of \$89.2 million from Avista Capital.

Energy Trading and Marketing Operations

Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, had a credit agreement with two commercial banks in the aggregate amount of \$110 million, which expired September 30, 2000. Avista Energy is currently working with the banks to extend the agreement through January 28, 2001. Final approval has been received from one bank, but not from the other, although it is expected. This credit agreement may be terminated by the banks at any time and all extensions of credit under the agreement are payable upon demand, in either case at the banks' sole discretion. This agreement also provides, on an uncommitted basis, for the issuance of letters of credit to secure contractual obligations to counterparties. This facility is guaranteed by Avista Capital and secured by substantially all of Avista Energy's assets. The maximum amount of credit extended by the banks for cash advances is \$30 million, with availability of up to \$110 million (less the amount of outstanding cash advances, if any) for the issuance of letters of credit. At September 30, 2000, there were no cash advances (demand notes payable) outstanding and letters of credit outstanding under the facility totaled approximately \$99 million.

Avista Capital, in the course of business, may provide guarantees to other parties with whom Avista Energy may be doing business. The Company's investment in Avista Capital totaled \$297.8 million at September 30, 2000.

As of September 30, 2000, Avista Capital had loaned \$21.6 million to Avista Energy to support its short-term cash and collateral needs. These loans are subordinate to any obligations to the banks under the credit agreements.

Rising prices in power and natural gas during the second and third quarters of 2000 triggered additional collateral requirements with counterparties. Avista Energy is managing the collateral calls by providing letters of credit, providing guarantees from Avista Capital and offsetting transactions with counterparties. In addition to the letters of credit and other items included above, cash deposited with counterparties totaled \$61.1 million as of September 30, 2000, and is included in the Consolidated Balance Sheets in prepayments and other. The posted collateral will be returned to Avista Energy as forward positions settle.

At September 30, 2000, the Energy Trading and Marketing operations had \$71.0 million in cash and marketable securities with \$0.9 million in long-term debt outstanding (the current portions of which are included on the Consolidated Balance Sheets in other current liabilities).

Avista Power and Cogentrix Energy, Inc. entered into an agreement to jointly build a 270 megawatt natural gas combustion turbine facility in Rathdrum, Idaho, with 100% of its output contracted to Avista Energy for 25 years. Non-recourse project financing was completed in March 2000 and the facility is currently under construction, with generation expected to start in late 2001. The total cost of the project is estimated at \$160 million; Avista Power's equity in the project is approximately \$16 million. See Item 5. Other Information about another generation project Avista Power is constructing.

Information and Technology Operations

At September 30, 2000, the Information and Technology operations had \$2.7 million in long-term debt outstanding (the current portions of which are included on the Consolidated Balance Sheets as other current liabilities).

Avista Ventures Operations

Avista Ventures operations has \$1.5 million in short-term borrowing arrangements available to fund Pentzer's portfolio companies' requirements on an interim basis. Pentzer's \$20 million agreement was terminated during the third quarter of 2000.

At September 30, 2000, these operations had \$2.3 million in cash and marketable securities with \$9.7 million in long-term debt outstanding (the current portions of which are included on the Consolidated Balance Sheets as other current liabilities).

BUSINESS RISK

Energy Trading Business

The participants in the wholesale energy market are public utility companies and, increasingly, power and natural gas marketers, which may or may not be affiliated with public utility companies or other entities. The participants in this market trade not only electricity and natural gas as commodities but also derivative commodity instruments such as futures, swaps, options and other instruments. The pricing for this market is largely unregulated and most transactions are conducted on an "over-the-counter" basis, there being no central clearing mechanism (except in the case of specific instruments traded on the commodity exchanges).

Avista Utilities and Avista Energy are subject to the various risks inherent in the energy business including, particularly, market risk and credit risk.

Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply (in the case of electricity, adequacy of generating reserve margins, as well as scheduled and unscheduled outages of generating facilities, or disruptions or constraints to transmission facilities) and demand (caused by variations in the weather and other factors). Market risk includes the risk of fluctuation in the market price of associated derivative commodity instruments. Market risk is influenced to the extent that the performance or non-performance by market participants of their contractual obligations and commitments affect the supply of, or demand for, the commodity.

Credit risk relates to the risk of loss that Avista Utilities and/or Avista Energy would incur as a result of non-performance by counterparties of their contractual obligations to deliver energy and make financial settlements. Credit risk may be concentrated to the extent that one or more groups of counterparties have similar economic, industry or other characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market or other conditions. In addition, credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances which relate to other market participants which have a direct or indirect relationship with such counterparty. Avista Utilities and Avista Energy seek to mitigate credit risk (and concentrations thereof) by applying specific eligibility criteria to prospective counterparties. However, despite mitigation efforts, defaults by counterparties occur from time to time. To date, no such default has had a material adverse effect on Avista Utilities or Avista Energy.

Risk Management

Avista Utilities and Avista Energy have adopted policies and procedures to manage the risks, both quantitative and qualitative, inherent in their businesses, and have a comprehensive Risk Management Committee, separate from the units that create the risk exposure and overseen by the Audit and Finance Committee of the Company's Board of Directors, to monitor compliance with the Company's risk management policies and procedures on a regular basis. Nonetheless, adverse changes in interest rates, commodity prices and foreign currency exchange rates may result in losses in earnings, cash flow and/or fair values.

Commodity Price Risk Both Avista Utilities and Avista Energy are subject to commodity price risk. Historically, the price of power in wholesale markets has been affected primarily by production costs and by other factors including streamflows, the availability of hydro and thermal generation and transmission capacity, weather and the resulting retail loads, and the price of coal, natural gas and oil to thermal generating units. Any combination of these factors that resulted in a shortage of energy generally caused the market price of power to move upward. Now, however, market prices appear to be affected by other factors as well. These factors include the gradual elimination of excess generating capacity in the WSCC, which results in higher prices for short-term energy, as well as increasing instances of transmission congestion in the region in periods of high demand. Other factors may include the effects of the restructuring of the electric utility business at the state and federal levels and the deregulation of wholesale energy markets.

Avista Utilities estimates future retail and firm wholesale loads based on contract terms, historic data and forward estimates of factors such as customer usage and weather. In addition, Avista Utilities projects resource availability to meet loads based on estimates of streamflows, unit availability, historic and forward market information and experience. The Company is required to both buy and sell energy on a quarterly, monthly, daily and hourly basis to optimize its resources and match actual resources to actual energy requirements. There may be significant price and volume variances when actual results are compared to estimates.

During the second and third quarters of the year 2000, significant price volatility, driven in part by availability of resources and demand for energy throughout the WSCC, materially impacted the cost of meeting the Company's system load requirements. While the Company plans for resources to meet current and expected retail and wholesale load obligations, price volatility and load volatility may materially impact the power costs to the Company in the future. The Company has a PCA mechanism in Idaho and the recently approved WUTC accounting order to defer certain changes in power costs and resource availability, both of which are expected to help offset a portion of the price risk.

The Company hired Williams Energy Marketing & Trading Company in July 2000 to advise Avista Utilities on risk management, risk analysis and resource optimization issues for all system requirements.

At September 30, 2000, Avista Energy's estimated potential one-day unfavorable impact on gross margin was \$2.0 million, as measured by Value-at-Risk (VAR), related to its commodity trading and marketing business. The average daily VAR for the first nine months of 2000 was \$1.4 million.

Interest Rate Risk The Company's market risks related to interest rates have not changed materially from those reported in the 1999 Form 10-K.

Foreign Currency Risk The Company's market risks related to foreign currency have not changed materially from those reported in the 1999 Form 10-K.

Safe Harbor for Forward Looking Statements.

The Company is including the following cautionary statement in this Form 10-Q to make applicable and to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements are all statements other than statements of historical fact, including without limitation those that are identified by the use of the words "anticipates," "estimates," "expects," "intends," "plans," "predicts," and similar expressions. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those expressed. Such risks and uncertainties include, among others, changes in the utility regulatory environment, the availability and prices of purchased power, volatility and illiquidity in wholesale energy markets, wholesale and retail competition, weather conditions and various other matters, many of which are beyond the Company's control. These forward-looking statements speak only as of the date of the report. The Company expressly undertakes no obligation to update or revise any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based. See "Safe Harbor for Forward Looking Statements" in the Company's 1999 Form 10-K under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Future Outlook.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations: Liquidity and Capital Resources: Energy Trading Business and Risk Management.”

Part II. Other Information

Item 5. Other Information

Securities Litigation See Note 6 of Notes to Financial Statements for information related to recent securities litigation filed against the Company.

Executive Changes Effective November 10, 2000, the following appointments were made at the Company’s Board of Directors’ meeting. Erik J. Anderson was appointed to the Board of Directors, filling a vacancy created by the previously announced departure of T. M. Matthews. Larry A. Stanley was elected non-executive Chairman of the Board of Directors, replacing Mr. Matthews, who resigned as Chairman of the Board at this meeting. Gary G. Ely was appointed Avista Corp. President and Chief Executive Officer. Scott L. Morris and Kelly O. Norwood were named Vice Presidents of Avista Corp.

Regulatory Proceedings Affecting the Wholesale Electricity Market In response to numerous complaints and requests for relief filed by California utilities and customers, the FERC issued an order on August 23, 2000, initiating hearing proceedings to address matters affecting bulk power markets and wholesale energy prices (including volatile price fluctuations) in California. On November 1, 2000, the FERC issued an order in which it found “that the electric market structure and market rules for wholesale sales of electric energy in California are seriously flawed and that these structures and rules, in conjunction with an imbalance of supply and demand in California, have caused, and continue to have the potential to cause, unjust and unreasonable rates for short-term energy ... under certain conditions. While this record does not support findings of specific exercises of market power, and while we are not able to reach definite conclusions about the actions of individual sellers, there is clear evidence that the California market structure and rules provide the opportunity for sellers to exercise market power when supply is tight and can result in unjust and unreasonable rates under the [Federal Power Act].” The FERC proposed specific remedies to address dysfunctions in California’s wholesale market structure and rules and to ensure just and reasonable wholesale power rates by jurisdictional sellers. The Company believes that the California wholesale electricity market has a direct effect on wholesale markets throughout the West.

The FERC also determined that sales made into the California Independent System Operator (ISO), which controls the high-voltage transmission grid, and the California Power Exchange (PX), where power is bought and sold, from October 2, 2000 could be subject to refunds from sellers. The level and extent of such refunds, if any, will be determined in future orders. In addition, the FERC indicated that it would consider requests for equitable relief to remedy price spike events occurring prior to October 2, 2000, but did not elaborate on the nature or type of relief that might be considered.

Avista Utilities and Avista Energy have made, and continue to make, sales into the California ISO or the California PX, or to power marketers known to resell into the California ISO or the California PX. Neither Avista Utilities nor Avista Energy has actively participated in these FERC proceedings, and they do not presently intend to do so unless a party seeks equitable relief which would potentially impact either of the companies. See “Risk Management” in Item 2 for additional information.

On October 26, 2000, Puget Sound Energy, Inc. filed a request for an order prospectively capping the prices at which sellers may sell energy and/or capacity into Pacific Northwest wholesale power markets at a level that is equal to the lower of any purchase price cap instituted by the California ISO or the California PX, and any sales price cap instituted by the FERC. Puget Sound Energy also asked the FERC to make any sales into wholesale power markets in the Pacific Northwest subject to refund effective 60 days after the filing of its complaint. The complaint names all sellers of wholesale power under the Western Systems Power Pool Agreement as defendants, including Avista Utilities and Avista Energy. The FERC has established a November 16, 2000 deadline for respondents to file answers to the complaint, and Avista Utilities and Avista Energy intend to file answers by that date.

Request for Proposal (RFP) for New Power Resources On August 9, 2000, the WUTC approved the Company's plan for an RFP for new power resources. The new resources are needed to serve the Company's long-term load requirements, and will replace the generation from its share of the Centralia plant, which was sold in May 2000. As part of the order, the WUTC agreed to waive normal time limits related to going out into the market to determine the resource options available to the Company. The Company is currently in the process of evaluating proposals.

Avista Power Avista Power announced that it will build a 280 MW combined cycle natural gas turbine power plant at the Coyote Springs site near Boardman, Oregon. The rights for the Coyote Springs 2 project were purchased from Enron North America and Portland General Electric (PGE). The natural gas turbine that will power the project has been secured. Coyote Springs 2 is expected to be owned by Avista Power and will be operated by PGE under a 15-year operations and maintenance contract. Engineering and procurement of major equipment is underway, with completion of the project scheduled for June 2002. The Company is working to secure long-term, non-recourse project financing by the end of 2000. The total cost of the project is estimated at \$195 million.

Avista Labs Avista Labs entered into a Joint Development Agreement with UOP, LLC, in August 1999. The Joint Development Agreement included a provision obligating the parties to work exclusively with one another in regard to the subject matter of the Agreement, which involved programs to develop a fuel cell system utilizing a fuel cell and a fuel processor. In accordance with the terms of the Joint Development Agreement, Avista Labs exercised its right to terminate the exclusivity obligations of the Joint Development Agreement effective as of September 15, 2000. On October 31, 2000, Avista Labs notified UOP of its intent to terminate the Joint Development Agreement in its entirety in accordance with the terms of the Agreement, effective as of December 1, 2000.

Avista Advantage Avista Advantage reached an agreement with EnerTech Capital Partners for a strategic business investment that includes capital, access to a wide network of resources and hands-on support and counsel. EnerTech Capital Partners, based in Pennsylvania, is a private equity firm specializing in service and technology companies poised for growth through deregulation and the resulting convergence of the energy, utility and telecommunications industries.

Regional Transmission Organizations (RTO) Avista Utilities and five other Western utilities have taken steps toward the formation of an independent transmission company, TransConnect, which would serve six states. TransConnect would be a member of the planned regional transmission organization, RTO West. The new for-profit company would own or lease the high voltage transmission facilities currently held by the Company, Montana Power Co., Puget Sound Energy Corp., Portland General Electric Co., Nevada Power Co. and Sierra Pacific Power Co. The proposal was filed October 17, 2000 in response to the FERC's Order No. 2000, which requires utilities subject to FERC regulation to file an RTO proposal, or a description of efforts to participate in an RTO, and any existing obstacles to RTO participation. If a final proposal emerges, it must be approved by the FERC, the boards of directors of the filing companies and regulators in various states. The companies' decision to move forward with the formation of TransConnect will ultimately depend on the economics and conditions related to the formation of TransConnect, as well as the economics and conditions related to the regulatory approval process.

Lake Coeur d' Alene Court Decision On July 28, 1998, the United States District Court for the District of Idaho issued its finding that the Coeur d' Alene Tribe of Idaho owns portions of the bed and banks of Lake Coeur d' Alene and the St. Joe River lying within the current boundaries of the Coeur d' Alene Reservation. The disputed bed and banks comprise approximately the southern one-third of Lake Coeur d' Alene. This action had been brought by the United States on behalf of the Tribe against the State of Idaho. While the Company is not a party to this action, which has been appealed by the State of Idaho to the Ninth Circuit Court of Appeals, the Company is continuing to evaluate the potential impact of this decision on the operation of its hydroelectric facilities on the Spokane River, downstream of Lake Coeur d' Alene. The State of Idaho has filed a petition for writ of certiorari with the United States Supreme Court, which will exercise its discretion to determine whether it will review the decision of the Ninth Circuit. The Company expects that the Court will consider the petition within the next few months.

Additional Financial Data

At September 30, 2000, the total long-term debt of the Company and its consolidated subsidiaries, as shown in the Company's consolidated financial statements, was approximately \$743.1 million. Of such amount, \$498.8 million represents long-term unsecured and unsubordinated indebtedness of the Company, and \$233.5 million represents

AVISTA CORPORATION

secured indebtedness of the Company. The balance of \$10.8 million represents indebtedness of subsidiaries. Consolidated long-term debt does not include the Company's subordinated indebtedness held by the issuers of Company-obligated preferred trust securities. An additional \$118.1 million of the Company's short-term debt outstanding under or backed by the committed lines of credit is secured.

The following table reflects the ratio of earnings to fixed charges:

	12 Months Ended	
	September 30, 2000	December 31, 1999
Ratio of Earnings to Fixed Charges	1.05 (x)	1.61 (x)

The Company has long-term purchased power arrangements with various Public Utility Districts and the interest expense components of these contracts are included in purchased power expenses. These interest amounts are not included in the fixed charges and would not have a material impact on fixed charges ratios.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

- 12 Computation of ratio of earnings to fixed charges and preferred dividend requirements.
- 27 Financial Data Schedule.

(b) Reports on Form 8-K.

Dated August 25, 2000, press release regarding executive and organizational changes.

Dated October 27, 2000, press release reporting third quarter earnings and the departure of T. M. Matthews, Avista Corp.'s Chairman of the Board, President and Chief Executive Officer.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVISTA CORPORATION
(Registrant)

Date: November 14, 2000

/s/ J. E. Eliassen
J. E. Eliassen
Senior Vice President and
Chief Financial Officer
(Principal Accounting and
Financial Officer)

AVISTA CORPORATION

Computation of Ratio of Earnings to Fixed Charges and Preferred Dividend Requirements
 Consolidated
 (Thousands of Dollars)

	12 Mos. Ended	Years Ended December 31			
	September 30, 2000	1999	1998	1997	1996
Fixed charges, as defined:					
Interest on long-term debt	\$ 64,155	\$ 62,032	\$ 66,218	\$ 63,413	\$ 60,256
Amortization of debt expense and premium - net	3,102	3,044	2,859	2,862	2,998
Interest portion of rentals	4,436	4,645	4,301	4,354	4,311
Total fixed charges	<u>\$ 71,693</u>	<u>\$ 69,721</u>	<u>\$ 73,378</u>	<u>\$ 70,629</u>	<u>\$ 67,565</u>
Earnings, as defined:					
Net income	\$(5,907)	\$ 26,031	\$ 78,139	\$ 114,797	\$ 83,453
Add (deduct):					
Income tax expense	9,697	16,740	43,335	61,075	49,509
Total fixed charges above	<u>71,693</u>	<u>69,721</u>	<u>73,378</u>	<u>70,629</u>	<u>67,565</u>
Total earnings	<u>\$ 75,483</u>	<u>\$ 112,492</u>	<u>\$ 194,852</u>	<u>\$ 246,501</u>	<u>\$ 200,527</u>
Ratio of earnings to fixed charges	1.05	1.61	2.66	3.49	2.97

AVISTA CORPORATION
 FINANCIAL DATA SCHEDULE UT
 3RD QUARTER 2000 FORM 10-Q

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF AVISTA CORPORATION, INCLUDED IN THE QUARTERLY REPORT ON FORM 10-Q FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

ARTICLE	UT
MULTIPLIER	1.000
PERIOD-TYPE	9-MOS
FISCAL-YEAR-END	DEC-31-2000
PERIOD-END	SEP-30-2000
BOOK-VALUE	PER-BOOK
TOTAL-NET-UTILITY-PLANT	1,500,752
OTHER-PROPERTY-AND-INVEST	1,119,422
TOTAL-CURRENT-ASSETS	3,353,464
TOTAL-DEFERRED-CHARGES	311,048
OTHER-ASSETS	0
TOTAL-ASSETS	6,284,686
COMMON	602,342
CAPITAL-SURPLUS-PAID-IN	(12,205)
RETAINED-EARNINGS	71,060
TOTAL-COMMON-STOCKHOLDERS-EQ	661,197
PREFERRED-MANDATORY	145,000
PREFERRED	0
LONG-TERM-DEBT-NET (1)	695,558
SHORT-TERM-NOTES	97,000
LONG-TERM-NOTES-PAYABLE	4,470
COMMERCIAL-PAPER-OBLIGATIONS	21,100
LONG-TERM-DEBT-CURRENT-PORT	41,623
PREFERRED-STOCK-CURRENT	0
CAPITAL-LEASE-OBLIGATIONS	3,119

LEASES-CURRENT	1,189
OTHER-ITEMS-CAPITAL-AND-LIAB (2)	4,614,430
TOT-CAPITALIZATION-AND-LIAB	6,284,686
GROSS-OPERATING-REVENUE	5,599,693
INCOME-TAX-EXPENSE (3)	25,305
OTHER-OPERATING-EXPENSES	5,530,462
TOTAL-OPERATING-EXPENSES	5,530,462
OPERATING-INCOME-LOSS	69,231
OTHER-INCOME-NET	29,421
INCOME-BEFORE-INTEREST-EXPENSE (4)	98,652
TOTAL-INTEREST-EXPENSE	49,774
NET-INCOME	23,573
PREFERRED-STOCK-DIVIDENDS	23,127
EARNINGS-AVAILABLE-FOR-COMMON	446
COMMON-STOCK-DIVIDENDS	16,956
TOTAL-INTEREST-ON-BONDS	0
CASH-FLOW-OPERATIONS	(58,097)
EPS-PRIMARY	0.01
EPS-DILUTED	0.01

(1) LONG-TERM DEBT-NET DOES NOT MATCH THE AMOUNT REPORTED ON THE COMPANY'S CONSOLIDATED STATEMENT OF CAPITALIZATION AS LONG-TERM DEBT DUE TO THE OTHER CATEGORIES REQUIRED BY THIS SCHEDULE.

(2) OTHER ITEMS CAPITAL AND LIABILITIES INCLUDES THE CURRENT LIABILITIES, DEFERRED CREDITS AND MINORITY INTEREST, LESS CERTAIN AMOUNTS INCLUDED UNDER LONG-TERM DEBT-CURRENT PORTION AND LEASES-CURRENT, FROM THE COMPANY'S CONSOLIDATED BALANCE SHEET.

(3) THE COMPANY DOES NOT INCLUDE INCOME TAX EXPENSE AS AN OPERATING EXPENSE ITEM. IT IS INCLUDED ON THE COMPANY'S STATEMENTS AS A BELOW-THE-LINE ITEM.

(4) INCOME BEFORE INTEREST EXPENSE IS NOT A SPECIFIC LINE ITEM ON THE COMPANY'S INCOME STATEMENTS. THE COMPANY COMBINES TOTAL INTEREST EXPENSE AND OTHER INCOME TO CALCULATE INCOME BEFORE INCOME TAXES.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ____ TO ____

Commission file number 1-3701

AVISTA CORPORATION

(Exact name of Registrant as specified in its charter)

<u>Washington</u> (State or other jurisdiction of incorporation or organization)	<u>91-0462470</u> (I.R.S. Employer Identification No.)
<u>1411 East Mission Avenue, Spokane, Washington</u> (Address of principal executive offices)	<u>99202-2600</u> (Zip Code)
Registrant's telephone number, including area code:	<u>509-489-0500</u>
Web site:	<u>http://www.avistacorp.com</u>

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, no par value, together with Preferred Share Purchase Rights apputenant thereto	New York Stock Exchange Pacific Stock Exchange
7 7/8% Trust Originated Preferred Securities, Series A	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
Preferred Stock, Cumulative, Without Par Value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

The aggregate market value of the Registrant's outstanding Common Stock, no par value (the only class of voting stock), held by non-affiliates is \$743,889,494.25, based on the last reported sale price thereof on the consolidated tape on February 28, 2001.

At February 28, 2001, 47,231,079 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

Documents Incorporated By Reference

<u>Document</u>	<u>Part of Form 10-K into Which Document is Incorporated</u>
Proxy Statement to be filed in connection with the annual meeting of shareholders to be held May 10, 2001	Part III, Items 10, 11, 12 and 13

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* = not an applicable item in the 2000 calendar year for the Company

ACRONYMS AND TERMS

(The following acronyms and terms are found in multiple locations within the document)

<u>Acronym/Term</u>	<u>Meaning</u>
aMW	- Average Megawatt - a measure of electrical energy over time
AFUCE	- Allowance for Funds Used to Conserve Energy; a carrying charge similar to AFUDC (see below) for conservation-related capital expenditures
AFUDC	- Allowance for Funds Used During Construction; represents the cost of both the debt and equity funds used to finance utility plant additions during the construction period
Avista Capital	- Parent company to the Company's non-regulated businesses
Avista Corp.	- Avista Corporation, the Company
BPA	- Bonneville Power Administration
Capacity	- a measure of the rate at which a particular generating source produces electricity
Centralia	- the coal-fired Centralia Power Plant in western Washington State
Colstrip	- the coal-fired Colstrip Generating Project in southeastern Montana
CPUC	- California Public Utilities Commission
CT	- combustion turbine; a natural gas-fired unit
Energy	- a measure of the amount of electricity produced from a particular generating source over time
FERC	- Federal Energy Regulatory Commission
IPUC	- Idaho Public Utilities Commission
KV	- Kilovolt - a measure of capacity on transmission lines
KW, KWH	- Kilowatt, kilowatthour, 1000 watts or 1000 watt hours
MW, MWH	- Megawatt, megawatthour, 1000 KW or 1000 KWH
OPUC	- Public Utility Commission of Oregon
Pentzer	- Pentzer Corporation, a wholly owned subsidiary of the Company which was the parent company to the majority of the Company's non-energy businesses
Therm	- Unit of measurement for natural gas; a therm is equal to one hundred cubic feet (volume) or 100,000 BTUs (energy)
Watt	- Unit of measurement for electricity; a watt is equal to the rate of work represented by a current of one ampere under a pressure of one volt
WUTC	- Washington Utilities and Transportation Commission

PART I

This Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements should be read with the cautionary statements and important factors included in this Form 10-K at Item 7 - - "Management's Discussion and Analysis of Financial Condition and Results of Operations - - Safe Harbor Forward-Looking Statements." Forward-looking statements are all statements other than statements of current or historical fact, including without limitation those that are identified by the use of the words "will," "anticipates," "seeks to," "estimates," "expects," "intends," "plans," "predicts," and similar expressions.

Item 1. Business

Company Overview

Avista Corporation (Avista Corp., or the Company) was incorporated in the State of Washington in 1889, and is an energy, information and technology company with utility and subsidiary operations located in the Pacific Northwest. At December 31, 2000, the Company's employees included approximately 1,460 people in its utility operations and approximately 800 people in its subsidiary businesses. The Company's corporate headquarters are in Spokane, Washington, which serves as the Inland Northwest's center for manufacturing, transportation, health care, education, communication, agricultural and service businesses.

The Company's operations are organized into four lines of business - Avista Utilities, Energy Trading and Marketing, Information and Technology, and Avista Ventures. Avista Utilities, which is an operating division of Avista Corp. and not a separate entity, represents the regulated utility operations that are responsible for retail electric and natural gas distribution, electric transmission services and electric generation and production. Avista Utilities also engages in electric wholesale sales and purchases of capacity and energy. Avista Capital, a wholly owned subsidiary of Avista Corp., owns all of the subsidiary companies engaged in the other lines of business. The Energy Trading and Marketing line of business includes Avista Energy, Inc. (Avista Energy), Avista Power, LLC (Avista Power) and Avista-STEAG, LLC (Avista-STEAG). The Information and Technology line of business includes Avista Advantage, Inc. (Avista Advantage), Avista Labs, Inc. (Avista Labs) and Avista Communications, Inc. (Avista Communications). The Avista Ventures line of business includes Avista Ventures, Inc. (Avista Ventures), and several other minor subsidiaries. As of December 31, 2000, the Company had common equity investments of \$363.0 million and \$361.2 million in Avista Utilities and Avista Capital, respectively.

Regulatory, political, economic and technological changes have brought about the accelerating transformation of the utility and energy industries, presenting both opportunities and challenges. Avista Utilities seeks to maintain a strong, low-cost utility business focused on delivering efficient, reliable and high quality service to its customers. The utility business is expected to grow modestly, consistent with historical trends. Expansion will primarily result from economic growth in its service territory. Avista Energy scaled back operations to the Western Systems Coordinating Council (WSCC) during 2000, and will continue to focus on reducing the size and the risk associated with its energy trading and marketing activities. Avista Energy's marketing efforts are expected to be driven by its base of knowledge and experience in the operation of both electric energy and natural gas physical systems in the region, as well as its relationship-focused approach to its customers. Avista Power will continue to pursue opportunities to develop new generation to support the growing power requirements in the Northwest. The Company also intends to focus on its investments in the Information and Technology subsidiaries as part of its overall plan for generating shareholder value, which could include finding equity partners to assist in financing the continued growth of the businesses.

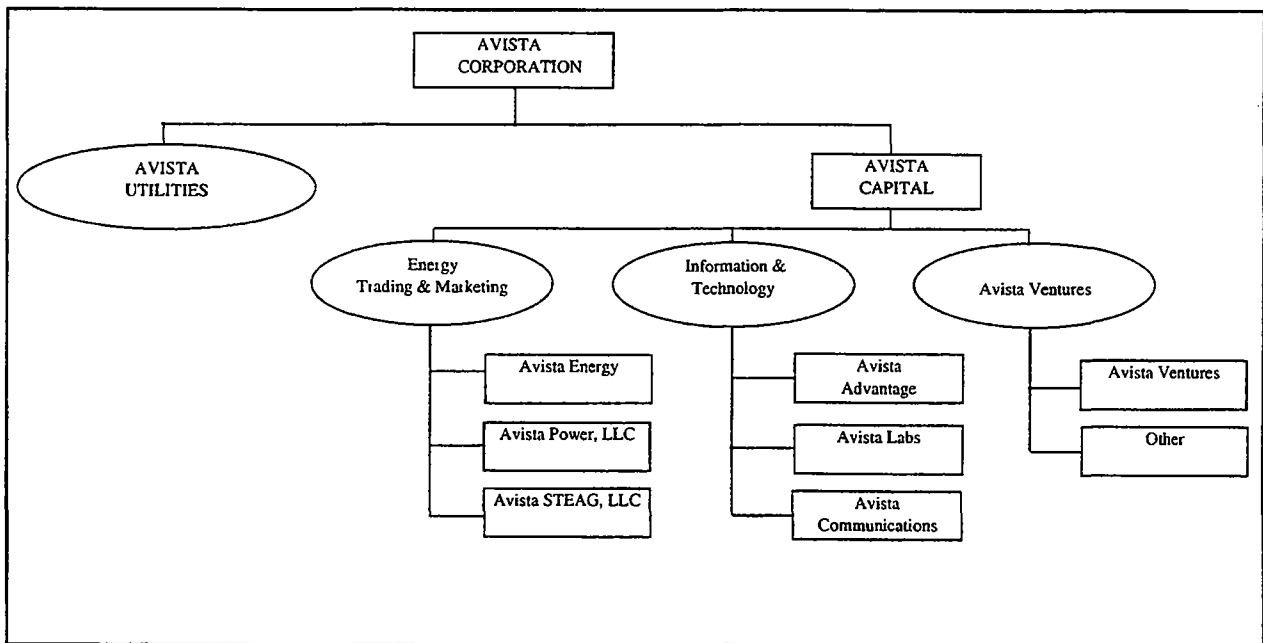
The Company's operations are exposed to risks, including legislative and governmental regulations, the price and supply of purchased power, fuel and natural gas, recovery of purchased power and purchased natural gas costs, weather conditions, availability of generation facilities, competition, technology and availability of funding. In addition, the energy business exposes the Company to the financial, liquidity, credit and commodity price risks associated with wholesale sales and purchases.

AVISTA CORPORATION

Following is a list of the major companies owned by Avista Capital:

- Avista Energy - An electricity and natural gas trading and marketing company, operating primarily in the WSCC.
- Avista Power - A developer, purchaser and owner of electricity generating plants in strategic locations throughout the West. Some projects may be developed with STEAG AG, a German independent power producer, under Avista-STEAG, LLC.
- Avista Advantage - A provider of Internet-based specialty billing and information services.
- Avista Labs - The developer of proton exchange membrane (PEM) fuel cell technology and fuel cell components.
- Avista Communications - An Integrated Communications Provider (ICP) that provides local facilities-based telecommunications solutions, and designs, builds and manages metropolitan area fiber optic networks. Avista Capital owned 82% at December 31, 2000.
- Avista Ventures - Responsible for investing in business opportunities that have potential value in the lines of business in which the Company is already involved and managing the existing businesses.

The Company's lines of business, and the companies included within them, are illustrated below:



- - denotes a business entity.
- - denotes an operating division or line of business.

AVISTA CORPORATION

For the years ended December 31, 2000, 1999 and 1998, respectively, the four primary business segments of the Company contributed the following percentages of consolidated operating revenues, gross margins and pre-tax income/(loss) from operations:

	<u>Operating Revenues</u>			<u>Gross Margins</u>			<u>Income/(Loss) from Operations (pre-tax)</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Avista Utilities	19%	14%	29%	44%	105%	89%	2%	455%	83%
Energy Trading and Marketing	81%	85%	65%	56%	(5)%	11%	123%	(312)%	13%
Information and Technology	-	-	-	n/a	n/a	n/a	(20)%	(42)%	(3)%
Avista Ventures	-	1%	6%	n/a	n/a	n/a	(5)%	(1)%	7%

n/a – not applicable

Gross margin is calculated by subtracting resource costs from operating revenues. (See Schedule of Information by Business Segments for further information).

Avista Utilities

General

Avista Utilities provides electricity and natural gas distribution and transmission services in a 26,000 square mile area in eastern Washington and northern Idaho with a population of approximately 835,000. It also provides natural gas distribution service in a 4,000 square mile area in northeast and southwest Oregon and in the South Lake Tahoe region of California, with the population in these areas approximating 500,000. At the end of 2000, retail electric service was supplied to approximately 313,000 customers in eastern Washington and northern Idaho; retail natural gas service was supplied to approximately 279,000 customers in parts of Washington, Idaho, Oregon and California.

Avista Utilities anticipates residential and commercial electric load growth to average approximately 2.6% annually for the next five years primarily due to expected increases in both population and the number of businesses in its service territory. The number of electric customers is expected to increase and the average annual usage by residential customers is expected to remain steady. Avista Utilities expects natural gas load growth, including transportation volumes, in its Washington and Idaho service area to average approximately 2.7% annually for the next five years. The Oregon and South Lake Tahoe, California service areas are anticipated to realize 3.4% growth annually during that same period. The natural gas load growth is primarily due to expected conversions from electric space and water heating to natural gas, and increases in both population and the number of businesses in its service territories. These electric and natural gas load growth projections are based on purchased economic forecasts, publicly available studies, and internal analysis of company-specific data, such as energy consumption patterns and internal business plans. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook for additional information.

Electric Operations

In addition to providing electric transmission and distribution services, Avista Utilities is responsible for electric generation and production. Avista Utilities owns and operates eight hydroelectric projects, a wood-waste fueled generating station and two natural gas-fired combustion turbine (CT) generating units. It also owns a 15% share in a two-unit coal-fired generating facility and leases and operates two additional natural gas-fired CT generating units. In addition, Avista Utilities has a number of long-term power purchase and exchange contracts that increase its available resources. With this diverse energy resource portfolio, Avista Utilities remains one of the nation's lowest-cost producers of electric energy services. See Item 2. Properties – Generating Plants for additional information.

Avista Utilities sells and purchases electric capacity and energy at wholesale to and from utilities and other entities under firm long-term contracts having terms of more than one year. In addition, Avista Utilities engages in short-term sales and purchases in the wholesale market as part of an economic selection of resources to serve its retail and firm wholesale loads. Avista Utilities makes continuing projections of (1) future retail and firm wholesale loads based on, among other things, forward estimates of factors such as customer usage and weather as well as historical data and contract terms and (2) resource availability based on, among other things, estimates of streamflows, generating unit availability, historic and forward market information and experience. On the basis of these continuing projections, Avista Utilities makes purchases and sales of energy on a quarterly, monthly, daily and hourly basis to match actual resources to actual energy requirements, as it operates the lowest-cost resources to serve its load requirements, and sells any surplus at the best available price. This process includes hedging transactions.

In the second quarter of 2000, certain wholesale transactions contributed to significant losses in Avista Utilities, as more fully discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Avista Utilities competes in the electric wholesale market with other western utilities, federal marketing agencies and power marketers. The electric wholesale market has changed significantly over the last few years with respect to market participants, level of activity, variability of prices and credit. These changes have contributed to the increased volatility of the market. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Significant Changes in Energy Markets for information about the California energy situation.

Avista Energy, a wholly owned subsidiary of Avista Corp., pursues electric energy trading activities; however, Avista Energy's activities are not related to Avista Utilities' operations.

Challenges facing Avista Utilities' electric operations include, among other things, changes in the availability of and volatility in the prices of power and fuel, generating unit availability, legislative and governmental regulations,

weather conditions and the ability to recover increased costs of purchased power. Avista Utilities believes it faces minimal risk for stranded utility assets resulting from deregulation due to its low-cost generation portfolio. In a deregulated environment, however, evolving technologies that provide alternate energy supplies could affect the market price of power, and certain generating assets could have capital and operating costs above the adjusted market price. See Industry Restructuring and Note 1 of Notes to Financial Statements for additional information.

Electric Requirements

Avista Utilities' 2000 annual peak requirements, including long-term and short-term contractual obligations, were 3,829 MW. This peak occurred on January 31, 2000, at which time the maximum capacity available from Avista Utilities' generating facilities, including long-term and short-term purchases, was 4,194 MW. The electric requirements include both retail distribution needs and wholesale short-term and long-term commitments. Variations in energy usage by Avista Utilities' ultimate customers occur from year to year, from season to season and from month to month within a season, primarily as a result of weather conditions. This results in a continual balancing of loads and resources, and requires both purchases and sales of energy on a quarterly, monthly, daily and hourly basis in order to be able to meet its load with the lowest cost resources.

Electric Resources

General Avista Utilities' diverse resource mix of hydroelectric projects, thermal generating facilities, and power purchases and exchanges, combined with strategic access to regional electric transmission systems, enables it to remain one of the nation's lowest-cost producers and sellers of retail electric energy services. At December 31, 2000, Avista Utilities' total owned resources available were 65% hydroelectric and 35% thermal. See Avista Utilities' Electric Operating Statistics for energy resource statistics.

Hydroelectric Resources Total hydroelectric resources provide 547 aMW annually under normal streamflow conditions. Hydroelectric generation is Avista Utilities' lowest cost source of electricity and the availability of hydroelectric generation has a significant effect on its total energy costs. Under average operating conditions, Avista Utilities meets approximately one-third of its total energy requirements (both retail and long-term wholesale) with its own hydroelectric generation and long-term hydroelectric contracts. The streamflows to company-owned hydroelectric projects were 86%, 112% and 93% of normal in 2000, 1999 and 1998, respectively.

Thermal Resources Total thermal resources provide 374 aMW annually under normal operating conditions. Avista Utilities has a 15% interest in a twin-unit coal-fired generating facility, the Colstrip Generating Project (Colstrip) in southeastern Montana. Avista Utilities also owns a wood-waste-fired generating facility known as the Kettle Falls Generating Station (Kettle Falls) in northeastern Washington and two natural gas-fired CT generating units, located in Spokane (Northeast Combustion Turbine). In addition, Avista Utilities also operates and leases two natural gas-fired CT generating units in northern Idaho (Rathdrum).

Avista Utilities also had a 17.5% interest in another twin-unit coal-fired generating facility, the Centralia Power Plant (Centralia) in western Washington. On May 5, 2000, the owners of Centralia sold the plant to TransAlta, a Canadian company. Avista Utilities is purchasing energy from TransAlta to replace the output from Centralia for the period from July 1, 2000 through December 31, 2003. Avista Utilities will receive approximately 200 megawatts per hour beginning each July and continuing through March of the following year during the term of the contract. In 2000, 1999 and 1998, Centralia provided approximately 15%, 37% and 37%, respectively, of Avista Utilities' thermal generation.

Colstrip, which is operated by PPL Global, Inc., is supplied with fuel under coal supply and transportation agreements in effect through December 2019 from adjacent coal reserves. In 2000, 1999 and 1998, Colstrip provided approximately 47%, 48% and 46% of Avista Utilities' thermal generation, respectively.

Kettle Falls' primary fuel is wood-waste generated as a by-product from forest industry operations within one hundred miles of the plant. Natural gas may be used as an alternate fuel. A combination of long-term contracts plus spot purchases provides Avista Utilities the flexibility to meet expected future fuel requirements for the plant. In 2000, 1999 and 1998, Kettle Falls provided approximately 12%, 8% and 9% of Avista Utilities' thermal generation, respectively.

The four CTs are natural gas-fired generating units that formerly were primarily used for peaking needs. Due to the high demand for power during 2000 and the relative operating cost compared to higher wholesale market prices, these generating units were run on a more regular basis, and will continue to be run more regularly in the future. All

four CTs have access to domestic and/or Canadian natural gas supplies. In 2000, 1999 and 1998, these four units provided approximately 26%, 7% and 8%, respectively, of Avista Utilities' thermal generation.

Purchases, Exchanges and Sales In 2000, Avista Utilities had various long-term purchase contracts with non-coincident peak (peak that does not occur during the same hour) equating to 832 MW. Additionally, long-term hydroelectric purchase contracts of 195 MW peak were available. Avista Utilities also enters into a significant number of short-term sales and purchases with durations of up to one year. Energy purchases and exchanges for the years 2000, 1999 and 1998 provided approximately 68%, 69% and 70%, respectively, of Avista Utilities' total electric energy requirements.

Under the Public Utility Regulatory Policies Act of 1978 (PURPA), Avista Utilities is required to purchase generation from qualifying facilities, including small hydroelectric and cogeneration projects, at avoided cost rates adopted by the Washington Utilities and Transportation Commission (WUTC) and the Idaho Public Utilities Commission (IPUC). Avista Utilities purchased approximately 594,944 MWH, or about 2% of its total energy requirements, from these sources at a cost of approximately \$28 million in 2000. These contracts expire at various times during the period 2001-2022.

Future Resource Needs

In August 2000, the WUTC approved Avista Utilities' plan for a Request for Proposal (RFP) process to increase its power resources. New resources are needed to serve Avista Utilities' long-term load requirements. As part of the order, the WUTC agreed to waive normal time limits related to going out into the market to determine the resource options available to Avista Utilities. In December 2000, Avista Utilities selected the Coyote Springs 2 project near Boardman, Oregon.

The Coyote Springs 2 project is a combined-cycle natural gas fired combustion turbine with generation output of approximately 280-megawatts. Key factors in the selection of Coyote Springs 2 included its fully licensed status and the fact that the manufacture and delivery of natural gas turbine equipment that will power the project is secured. Engineering and procurement of the other required major equipment began in January 2001, with completion of construction expected in June 2002. Permits and contract modifications are being filed to transfer ownership at cost to Avista Utilities from its subsidiary, Avista Power, which previously acquired the rights for the project from Enron North America and Portland General Electric. The Company is working to secure a term loan for financing the construction. The total cost of the project is estimated at \$190 million.

In addition, Avista Utilities selected three demand side management proposals which will yield approximately 13 MW in energy savings over a three-year period. Avista Utilities expects negotiations of these proposals to be finalized during the first quarter of 2001.

Avista Utilities has operational strategies in place to address the issue of available resources to meet the increased demand for energy. Future capital expenditures include plans for increasing capacity and generation at various hydroelectric and thermal generating plants. In addition, action is being taken to increase the energy output from the CT generating units owned and leased by Avista Utilities. On February 16, 2001, Avista Utilities filed for permission to increase the amount of operating hours allowed and for a small increase in the amount of emissions allowed for minor pollutants. The increase in operating hours does not require an increase in the emission levels of major pollutants from these CTs. Approval of the request is expected in mid-2001. Avista Utilities is also in the process of upgrading the air operating permit at the CT units in Spokane to a Title V permit, which will increase the annual amount of emissions allowed. In addition, Avista Utilities is asking to add additional pollution control equipment at the site in order to increase the available hours of operation.

The Company reached an agreement with the Spokane County Air Pollution Control Authority that will allow operation of the Northeast Combustion Turbine for a 90-day period, beginning February 21, 2001, when it would have been idled due to pollution control limits, producing power equivalent to 14 aMW on an annual basis. In return for this waiver, the Company will contribute up to \$324,000 to a fund to defray the energy expenses of low-income residents of Spokane County, and will also spend up to \$900,000 to design and implement an environmental offset project to reduce emissions in an amount equivalent to the emissions of the plant during the waiver period.

Under normal water conditions and loads, Avista Utilities' own generation plants and long-term contracts would be able to provide approximately 90% of its forecasted native load energy requirements in 2001, and 100% thereof in 2002 and 2003. The balance would be covered through short-term contracts. Avista Utilities has covered essentially all of its electric energy requirements in the forward markets for 2001. Current forecasts show

streamflow conditions for hydroelectric generation for 2001, estimated at 60% of normal, to be among the worst five years on record. In response to the reduced hydroelectric generation, Avista Utilities has made additional fixed price purchases of energy, and expects to receive the necessary local, state and federal approvals to increase the energy output of its gas-fired thermal generation to cover its firm retail and wholesale load requirements for 2001, with minimal additional purchases expected from the high cost short-term wholesale market. However, if hydroelectric conditions further deteriorate, its thermal plants do not operate as planned, or weather conditions cause retail loads to increase, Avista Utilities would incur increased costs from increased purchases in the short-term wholesale energy market.

Forecasted Electric Requirements and Resources
(Average MW)

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Requirements:			
System load (1)	1,026	995	1,027
Contracts	479	131	80
Short-term sales	<u>56</u>	<u>-</u>	<u>-</u>
Total Requirements	<u>1,561</u>	<u>1,126</u>	<u>1,107</u>
Resources:			
System/contract hydro (2)	547	547	547
Company owned thermal generation	367	456	594
Contracts for purchased power (1)	546	262	251
Short-term purchased power	<u>167</u>	<u>-</u>	<u>-</u>
Total Resources	<u>1,627</u>	<u>1,265</u>	<u>1,392</u>
Surplus Resources	66	139	285

- (1) Decrease from 2001 to 2002 reflects the expiration of a long-term sales contract. There is a corresponding decrease in resources as a result of the contract expiration. This information assumes no renewal of the contract.
- (2) Forecast above assumes normal water, which is the median of the 60 years of water between 1928 and 1988. Water conditions are expected to be 60% of normal in 2001 due to current snow pack conditions. Avista Utilities currently anticipates that hydro generation may be as much as 150 aMW below normal in 2001. This is offset by the waiver received on February 21, 2001, for Northeast Combustion Turbine (14 aMW), the original estimated surplus from the table above (66 aMW), the anticipated change in Rathdrum permit to allow for additional hours of operations (27 aMW) and additional short-term purchases.

Hydroelectric Relicensing

Avista Corp. is a licensee under the Federal Power Act, which regulates certain of its hydroelectric generation resources and is administered by the Federal Energy Regulatory Commission (FERC), and its licensed projects are subject to the provisions of Part I of that Act. These provisions include payment for headwater benefits, condemnation of licensed projects upon payment of just compensation, and take-over of such projects after the expiration of the license upon payment of the lesser of "net investment" or "fair value" of the project, in either case plus severance damages. All but one of the Company's hydroelectric plants are regulated by the FERC through project licenses issued for 30-50 year periods. See Item 2. Properties – Avista Utilities for additional information.

The Cabinet Gorge and Noxon Rapids plants (764 MW) received a new 45-year operating license from the FERC on February 23, 2000. The existing licenses were combined into one license under the name Clark Fork Projects. The application to relicense Cabinet Gorge and Noxon Rapids was filed with the FERC on February 18, 1999, and included the Clark Fork Settlement Agreement signed by 27 parties and a collaboratively written environmental assessment report. The application culminated seven years of planning and consultation with Native American Tribes, special interest groups, resource agencies and the general public. Settlement was reached two years before the license expired, and preserved the projects' economic peaking and load following operations.

As part of the Settlement Agreement, Avista Utilities committed to early implementation of protection, mitigation and enhancement measures, which began in March 1999. Measures in the agreement, which will cost approximately

\$4.7 million annually, address issues related to fisheries, water quality, wildlife, recreation, land use, cultural resources and erosion. Recovery of previously deferred hydro relicensing costs, as well as estimated levels of ongoing costs associated with implementation of the Settlement Agreement, have been addressed by both the WUTC and IPUC and received favorable treatment. Process costs that had been deferred during the licensing phase were allowed in rate base and are being amortized over the 45-year license term. The ongoing Settlement Agreement costs were allowed as operating expenses. See Item 2. Properties - Avista Utilities and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook for additional information.

The issue of high dissolved gas levels which exceed Idaho water quality standards downstream of Cabinet Gorge during spill periods continues to be studied, as agreed to in the Settlement Agreement. To date, intensive biological studies in the lower Clark Fork River and Lake Pend Oreille have documented minimal biological effects of high dissolved gas levels on free ranging fish. An engineering feasibility study has identified several possible structural alternatives at Cabinet Gorge that may reduce dissolved gas levels. Under the terms of the Settlement Agreement, the Company will develop an abatement and/or mitigation strategy in 2002 in conjunction with the other signatories to the agreement.

The Company operates six hydroelectric plants (191 MW) on the Spokane River, and five of these (Long Lake, Nine Mile, Upper Falls, Monroe Street and Post Falls) are under one FERC license. The sixth, Little Falls, is not licensed by the FERC. The license for the Spokane River Projects expires in August 2007, and the Company will be required to file a notice of intent to relicense prior to August 2002. Planning, discussions with stakeholder groups and information gathering activities are currently underway.

Natural Gas Operations

Natural gas commodity prices increased dramatically during 2000. However, market prices for natural gas continue to be competitive compared to alternative fuel sources for residential, commercial and industrial customers. Proven reserves and future natural gas development opportunities lead Avista Utilities to believe that natural gas should sustain its market advantage. Significant growth has occurred in the natural gas business in recent years due to increased demand for natural gas in new construction. Avista Utilities also makes sales and provides transportation service directly to large natural gas customers.

Most of Avista Utilities' large industrial customers purchase their own natural gas requirements through gas marketers. For these customers, Avista Utilities provides transportation from its pipeline interconnection to the customer's premises. Avista Utilities has numerous individual contracts for natural gas transportation service, most of which contain negotiated rates for its distribution service based on the customer's competitive alternatives. Seven of Avista Utilities' largest natural gas customers are provided natural gas transportation service under individual contracts. These negotiated contracts were entered into to retain these customers who can either by-pass Avista Utilities' distribution system or have competitive alternative fuel capability. All individual contracts are subject to regulatory review and approval. The competitive nature of the natural gas spot market results in savings in the cost of purchased natural gas, which encourages large customers with fuel-switching capabilities to continue to utilize natural gas for their energy needs when economic. The total volume transported on behalf of transportation customers for 2000, 1999 and 1998 was approximately 225.4, 232.7 and 226.1 million therms, which represented approximately 38%, 40% and 41% of Avista Utilities' total system deliveries.

Challenges facing Avista Utilities' natural gas operations include, among other things, volatility in the price of natural gas, changes in the availability of natural gas, legislative and governmental regulations, weather conditions, conservation and the ability to recover increased costs of natural gas.

Natural Gas Resources

Natural Gas Supply A diverse portfolio of resources allows Avista Utilities to capture market opportunities that benefit its natural gas customers. Natural gas supplies are available from both domestic and Canadian sources through both long- and short-term, or spot market, purchases. Avista Utilities holds capacity on six pipelines and owns natural gas storage facilities. This allows Avista Utilities to optimize its available resources.

The Company's energy trading and marketing subsidiary, Avista Energy, is responsible for the daily management and optimization of these resources for the requirements of customers in the states of Washington, Idaho and Oregon under an agreement with Avista Utilities. Under this relationship, Avista Utilities retains ownership of its

transportation, storage and long-term contracts and Avista Energy acts as an agent to optimize these important resources. The utility commissions have approved Benchmark Incentive Mechanisms that allow Avista Utilities and its customers to share some of the benefits of Avista Energy's resource optimization activities. See Regulatory Issues for additional information.

Firm natural gas supplies are available through negotiated agreements for terms ranging between one month and seven years. Approximately 25% of the natural gas supply is obtained from domestic sources, with the remaining 75% from Canadian sources. Nearly all natural gas purchased from Canadian sources is contracted in U.S. dollar denominations, limiting any foreign currency exchange exposure. Canadian natural gas supplies are not considered to be at greater risk of non-delivery than U.S. supplies.

Avista Utilities holds capacity on six natural gas pipelines, Northwest Pipeline Company (NWP), Gas Transmission Northwest (GTN), Paiute Pipeline (Paiute), Tuscarora Gas Transmission Company (Tuscarora), NOVA Pipeline, Ltd. (NOVA) and Alberta Natural Gas Co. Ltd. (ANG), which provide it access to both domestic and Canadian natural gas supplies.

Avista Utilities contracts with NWP for three types of firm service (transportation, liquefied natural gas storage and underground storage), with Paiute for firm transportation and liquefied natural gas storage and with GTN, Tuscarora, NOVA and ANG for firm transportation only.

Jackson Prairie Natural Gas Storage Project (Storage Project) Avista Utilities owns a one-third interest in the Storage Project, an underground natural gas storage field located near Chehalis, Washington. The role of the Storage Project in providing flexible natural gas supplies is increasingly important to Avista Utilities' natural gas operations. It enables Avista Utilities to place natural gas into storage when prices are low or to meet minimum natural gas purchasing requirements, as well as to withdraw natural gas from storage when spot prices are high or as needed to meet high demand periods. During 1999, Avista Utilities completed the process of increasing the capacity at the Storage Project. This increased capacity is being operated and managed by Avista Energy for the next ten years. Avista Utilities has contracted to release some of its Storage Project capacity to two other utilities until 2001 and 2002, with a provision under one of the releases to partially recall the released capacity if Avista Utilities determines additional natural gas storage is required for its own system supply.

Regulatory Issues

Avista Corp., as a regulated public utility, is currently subject to regulation by state utility commissions with respect to prices, accounting, the issuance of securities and other matters. The retail electric operations are subject to the jurisdiction of the WUTC and the IPUC. The retail natural gas operations are subject to the jurisdiction of the WUTC, the IPUC, the Oregon Public Utility Commission (OPUC) and the California Public Utilities Commission (CPUC). The Company is also subject to the jurisdiction of the FERC for its wholesale natural gas rates charged for the release of capacity from the Jackson Prairie Storage Project, and for electric transmission service and wholesale electric sales.

In each regulatory jurisdiction, the price the Company may charge for retail electric and natural gas services (other than specially negotiated retail rates for industrial or large commercial customers, which are subject to regulatory review and approval) is currently determined on a "cost of service" basis and is designed to provide, after recovery of allowable operating expenses, an opportunity to earn a reasonable return on "rate base." "Rate base" is generally determined by reference to the original cost (net of accumulated depreciation) of utility plant in service, subject to various adjustments for deferred taxes and other items. Over time, rate base is increased by additions to utility plant in service and reduced by depreciation of utility plant. As the energy business is restructured, traditional "cost of service" ratemaking may evolve into some other form of ratemaking. Rates for transmission services are based on the "cost of service" principles and are set forth in tariffs on file with the FERC. See Note 1 of Notes to Financial Statements for additional information about regulation, depreciation and deferred taxes. Also see Industry Restructuring for additional information about deregulation.

General Rate Cases In October 1999, Avista Utilities filed with the WUTC a request for a general electric rate increase of \$26.2 million, or 10.4%, subsequently revised to \$18.2 million, and a general natural gas rate increase of \$4.9 million, or 6.5%. On September 29, 2000, the WUTC ordered a \$3.4 million, or 1.4%, reduction in electric rates and a \$1.7 million, or 2.1%, increase in natural gas rates. The WUTC also ordered that Avista Utilities' annual rate of return on investment for both electricity and natural gas be reduced from its current rate of return of 10.7% to 9.03%. Avista Utilities had requested a 9.9% rate of return. Avista Utilities filed a Petition for Reconsideration before the WUTC requesting that the commission reconsider certain portions of its order. On November 8, 2000,

the Commission slightly modified the original order by reducing the electric reduction from \$3.4 million to \$2.9 million and increasing the natural gas increase from \$1.7 million to \$1.8 million.

In Avista Utilities' last general electric rate case in the State of Idaho, the IPUC granted a rate increase of \$9.3 million, or 7.6%, with an authorized rate of return of 8.98%, effective August 1999.

Power Cost Deferrals (Washington) On August 9, 2000, the WUTC approved Avista Utilities' request for deferred accounting treatment for certain power costs related to increases in short-term power prices beginning July 1, 2000 and ending June 30, 2001. The specific power costs deferred include the changes in power costs to Avista Utilities from those included in base retail rates, related to three power cost components: the net effect of changes in short-term wholesale market prices on short-term wholesale purchases and sales; the effect on power costs from changes in the level of hydroelectric generation; and the net effect on power costs from changes in the level of thermal generation (including changes in fuel prices). The deferrals each month are calculated as the difference between the actual costs to Avista Utilities associated with these three power cost components, and the level of costs included in Avista Utilities' base retail rates. The power costs deferred are related solely to the operation of Avista Utilities' system resources to serve its system retail and wholesale load obligations. During 2000, the Company deferred a total of \$33.9 million under this accounting order.

On January 24, 2001, the WUTC approved a modification to the deferral mechanism to recover power supply costs associated with meeting increased retail and wholesale system load requirements, effective December 1, 2000. The WUTC also required Avista Utilities to file a proposal by mid-March 2001 that will address the prudence of the incurred power costs, the optimization of Company-owned resources to the benefit of retail customers, the appropriateness of recovery of power costs through a deferral mechanism, a proposal for cost of capital offsets to recognize the shift in risk from shareholders to ratepayers and Avista Utilities' plan to mitigate the deferred power costs. Avista Utilities also plans to file for an extension of the deferred accounting treatment beyond June 30, 2001.

Power Cost Adjustment (PCA) (Idaho) Avista Utilities has a PCA mechanism in Idaho that tracks changes in hydroelectric generation, secondary energy prices, related changes in thermal generation, as well as changes in PURPA contracts, but not changes in revenues or costs associated with other wheeling or power contracts. Rate changes were triggered when the deferred balance reached \$2.2 million. No more than two surcharges or rebates are to be in effect at the same time. A new trigger of \$3.0 million was effective beginning December 2000. On January 16, 2001, Avista Utilities filed an application with the IPUC seeking proposed modifications to the existing PCA mechanism. Due to extremely high short-term power prices, Avista Utilities is requesting to recover power supply costs associated with meeting increased retail and wholesale system load requirements, as well as to recover replacement power costs associated with possible thermal plant forced outages. See Note 1 of Notes to Financial Statements for additional information.

Purchased Gas Adjustment (PGA or Natural Gas Trackers) Natural gas trackers are supplemental tariffs filed with state regulatory commissions which are designed to pass through changes in purchased natural gas costs, and do not normally result in any changes in net income. In December 2000, Avista Utilities filed natural gas trackers with the WUTC, IPUC and OPUC requesting increases of \$33.9 million, or 29%, \$14.1 million, or 29%, and \$22.4 million, or 35%, respectively. Avista Utilities received effective approval dates from the WUTC of January 12, 2001, the IPUC of February 15, 2001, and the OPUC of January 24, 2001. In February 2001, Avista Utilities filed with CPUC a gas tracker requesting an increase of \$7.7 million, or 61%. Prior to the above mentioned increases, the WUTC and IPUC each approved increases of 29% effective September 1, 2000. The OPUC approved a 19% increase effective October 1, 2000.

Natural Gas Benchmark Mechanism Avista Utilities received regulatory approval of its Natural Gas Benchmark Mechanism in 1999 from the IPUC, WUTC and OPUC. The mechanism eliminates natural gas procurement operations within Avista Utilities and consolidates gas procurement operations under Avista Energy, the Company's non-regulated affiliate. The ownership of the natural gas assets remains with Avista Utilities, but the assets are managed by Avista Energy through an Agency Agreement. Avista Utilities maintains a natural gas staff to prepare load forecasts and analyses related to long-term resource acquisitions, to manage the Agency Agreement with Avista Energy and to support state and federal regulatory activities. The Natural Gas Benchmark Mechanism was implemented September 1, 1999 and runs through March 31, 2002.

Consolidation of natural gas procurement operations under Avista Energy allows the Company to gain synergies and better manage its risk by combining and operating the two portfolios as one portfolio and gain efficiencies by eliminating duplicate functions. Effective January 1, 2001, the WUTC and IPUC approved Avista Utilities' modifications to the Benchmark Mechanism, incorporating the use of financial products (fixed-price transactions or

hedging). Due to the unprecedented increase in and volatility of natural gas commodity costs, it was determined that such additional flexibility was needed in the Mechanism to properly manage costs. (The use of financial products was incorporated in the original Oregon Mechanism.) The Natural Gas Benchmark Mechanism provides certain guaranteed benefits to retail customers and provides the Company with the opportunity to improve earnings, i.e., a performance-based mechanism.

Demand Side Management (DSM) Programs On January 17, 2001, Avista Utilities filed a request with the WUTC and IPUC to implement a natural gas revenue surcharge of 0.5% to provide funding for natural gas energy-efficiency programs. The WUTC approved the surcharge effective February 8, 2001 and the IPUC approved it effective February 15, 2001. Avista Utilities currently has an electric revenue surcharge, or tariff rider, of approximately 1.5% and 1.0% in Washington and Idaho, respectively, to fund its electric DSM programs. Avista Utilities expects to file a request with the IPUC in mid-March 2001 to increase the Idaho Electric DSM rider to 1.5%. The tariff rider has been in place since 1995 and was the first "system benefit charge" for energy efficiency in the country.

Industry Restructuring

Federal Level

Industry restructuring to open the electric wholesale energy market to competition was initially promoted by federal legislation. The Energy Policy Act of 1992 (Energy Act) amended provisions of the Public Utility Holding Company Act of 1935 (PUHCA) and the Federal Power Act to remove certain barriers to a competitive wholesale market. The Energy Act confers expanded authority upon the FERC to issue orders requiring electric utilities to transmit power and energy to or for wholesale purchasers and sellers, and to require electric utilities to enlarge or construct additional transmission capacity for the purpose of providing these services. It also created "exempt wholesale generators", a new class of independent power plant owners that are able to sell generation only at the wholesale level. This permits public utilities and other entities to participate through subsidiaries in the development of independent electric generating plants for sales to wholesale customers without being required to register under the PUHCA.

FERC Order No. 888, issued in April 1996, requires public utilities operating under the Federal Power Act to provide access to their transmission systems to third parties pursuant to the terms and conditions of the FERC's pro-forma open access transmission tariff. FERC Order No. 889, the companion rule to Order No. 888, requires public utilities to establish an Open Access Same-Time Information System (OASIS) to provide transmission customers with information about available transmission capacity and other information by electronic means. It also requires each public utility subject to the rule to functionally separate its transmission and wholesale power merchant functions. The FERC issued its initial order accepting the non-rate terms and conditions of Avista Utilities' open access transmission tariff in November 1996. Avista Utilities filed its "Procedures for Implementing Standards of Conduct under FERC Order No. 889" with the FERC in December 1996 and adopted these Procedures effective January 3, 1997. FERC Orders No. 888 and No. 889 have not had a material effect on Avista Utilities' operating results.

In December 1999, FERC Order No. 2000 was issued regarding the development of Regional Transmission Organizations (RTO). This final rule required public utilities subject to FERC regulation to file an RTO proposal, or a description of efforts to participate in an RTO, and any existing obstacles to RTO participation, by October 2000. Avista Utilities and five other Western utilities have taken steps toward the formation of an independent transmission company, TransConnect, which would serve six states. TransConnect would be a member of the planned regional transmission organization, RTO West. The new, for-profit company would own or lease the high voltage transmission facilities currently held by the Company, Montana Power Co., Puget Sound Energy Corp., Portland General Electric Co., Nevada Power Co. and Sierra Pacific Power Co. The proposal was filed October 17, 2000. If a final proposal emerges, it must be approved by the FERC, the boards of directors of the filing companies and regulators in various states. The companies' decision to move forward with the formation of TransConnect will ultimately depend on the economics and conditions related to the formation of TransConnect, as well as the economics and conditions related to the regulatory approval process.

The North American Electric Reliability Council and the Western Systems Coordinating Council (WSCC) have undertaken initiatives to establish a series of security coordinators to oversee the reliable operation of the regional transmission system. Accordingly, Avista Utilities, in cooperation with other utilities in the Pacific Northwest, established the Pacific Northwest Security Coordinator (PNSC), which oversees daily and short-term operations of

the Northwest sub-regional transmission grid, and has limited authority to direct certain actions of control area operators in the case of a pending transmission system emergency. Avista Utilities executed its service agreement with the PNSC in September 1998.

State Level

Further competition may be introduced by state action. Competition for retail customers is not generally allowed in Avista Utilities' service territory. While the Energy Act precludes the FERC from mandating retail wheeling, state regulators and legislators could open service territories to full competition at the retail level. Legislative action at the state level would be required for full retail wheeling and customer choice to occur in Washington and Idaho.

For the past several years, the legislatures and public utility commissions in Washington and Idaho have conducted a series of hearings and several studies regarding electric industry restructuring. Issues such as unbundling, deregulation, reliability and consumer protection have been examined. Impacts on customer service quality and system reliability (generation, transmission and distribution) have been considered on a "macro" basis under various restructuring scenarios. Public policy makers in Washington and Idaho continue to examine other states' experiences with restructuring, while cognizant that the Pacific Northwest generally benefits from the lowest electric rates in the country.

Although there is currently no action surrounding deregulation in Washington or Idaho, activities related to California's deregulation have affected wholesale power prices in the West, including the Company's service territory. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for information about the California energy situation.

Environmental Issues

The Company is subject to environmental regulation by federal, state and local authorities. The generation, transmission, distribution, service and storage facilities in which Avista Utilities has an ownership interest have been designed to comply with all environmental laws presently applicable. Furthermore, the Company conducts periodic reviews of all its facilities and operations to anticipate emerging environmental issues. The Company's Board of Directors has an Environmental Committee to deal specifically with these issues.

Air Quality The most significant impact of the Clean Air Act (CAA) and the 1990 Clean Air Act Amendments (CAAA) was on the Centralia Power Plant, which is classified as a "Phase II" coal plant under the CAAA. Obligations under the CAA were assumed by TransAlta when the sale of Centralia was completed in May 2000.

Colstrip, which is also a "Phase II" coal-fired plant under the CAAA, is not expected to be required to implement any additional SO₂ mitigation in the foreseeable future in order to continue operations.

Avista Utilities' other thermal projects also are subject to various CAAA standards. Every five years each project requires an updated operating permit (known as a Title V permit) which addresses, among other things, the compliance of the plant with the CAAA. The operating permit for the CT peaking units at Rathdrum was issued in December 2000. During 2001, the Company will renew the operating permit for the Kettle Falls plant and apply for an upgrade to a Title V permit for the natural gas-fired CTs located in Spokane.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook and Note 22 to Financial Statements for additional information.

AVISTA UTILITIES OPERATING STATISTICS

	Years Ended December 31,		
	2000	1999	1998
ELECTRIC OPERATIONS			
ELECTRIC OPERATING REVENUES (Thousands of Dollars):			
Residential.....	\$158,065	\$158,658	\$157,019
Commercial.....	149,770	152,107	149,767
Industrial.....	82,992	69,559	64,662
Public street and highway lighting.....	3,612	3,517	3,387
Total retail revenues.....	<u>394,439</u>	<u>383,841</u>	<u>374,835</u>
Long-term wholesale.....	322,229	134,945	102,928
Short-term wholesale.....	542,525	387,554	354,413
Total wholesale revenues.....	<u>864,754</u>	<u>522,499</u>	<u>457,341</u>
Total energy revenues.....	1,259,193	906,340	832,176
Other.....	28,062	21,824	23,898
Total electric operating revenues.....	<u>\$1,287,255</u>	<u>\$928,164</u>	<u>\$856,074</u>
ELECTRIC ENERGY SALES (Thousands of MWhs):			
Residential.....	3,279	3,237	3,217
Commercial.....	2,886	2,848	2,810
Industrial.....	2,048	2,032	1,878
Public street and highway lighting.....	25	25	24
Total retail energy sales.....	<u>8,238</u>	<u>8,142</u>	<u>7,929</u>
Long-term wholesale.....	5,554	5,335	3,680
Short-term wholesale.....	10,253	14,443	15,535
Total wholesale energy sales.....	<u>15,807</u>	<u>19,778</u>	<u>19,215</u>
Total electric energy sales.....	<u>24,045</u>	<u>27,920</u>	<u>27,144</u>
ELECTRIC ENERGY RESOURCES (Thousands of MWhs):			
Hydro generation (from Company facilities).....	3,819	4,287	3,860
Thermal generation (from Company facilities).....	3,153	3,353	3,522
Purchased power - long-term hydro.....	929	1,093	910
Purchased power - other.....	16,706	19,697	19,405
Power exchanges.....	67	16	26
Total power resources.....	<u>24,674</u>	<u>28,446</u>	<u>27,723</u>
Energy losses and Company use.....	(629)	(526)	(579)
Total energy resources (net of losses).....	<u>24,045</u>	<u>27,920</u>	<u>27,144</u>
NUMBER OF ELECTRIC CUSTOMERS (Average for Period):			
Residential.....	273,219	270,013	265,891
Commercial.....	35,060	34,877	34,407
Industrial.....	1,254	1,189	1,169
Public street and highway lighting.....	392	389	383
Total electric retail customers.....	<u>309,925</u>	<u>306,468</u>	<u>301,850</u>
Wholesale.....	58	68	85
Total electric customers.....	<u>309,983</u>	<u>306,536</u>	<u>301,935</u>
ELECTRIC RESIDENTIAL SERVICE AVERAGES:			
Annual use per customer (KWh).....	12,003	11,990	12,099
Revenue per KWh (in cents).....	4.82	4.90	4.88
Annual revenue per customer.....	\$578.53	\$587.59	\$590.54
ELECTRIC AVERAGE HOURLY LOAD (aMW).....	<u>1,012</u>	<u>990</u>	<u>971</u>
RESOURCE AVAILABILITY at time of system peak (MW):			
Total requirements (winter):			
Retail.....	1,491	1,351	1,701
Long-term contract obligations.....	965	941	663
Short-term sales.....	1,373	2,340	2,401
Total requirements (winter).....	<u>3,829</u>	<u>4,632</u>	<u>4,765</u>
Total resource availability (winter).....	4,194	4,831	4,991
Total requirements (summer):			
Retail.....	1,473	1,418	1,521
Long-term contract obligations.....	1,231	1,155	780
Short-term sales.....	1,525	3,435	2,792
Total requirements (summer).....	<u>4,229</u>	<u>6,008</u>	<u>5,093</u>
Total resource availability (summer).....	4,656	6,633	5,340

AVISTA UTILITIES OPERATING STATISTICS

	Years Ended December 31,		
	2000	1999	1998
NATURAL GAS OPERATIONS			
NATURAL GAS OPERATING REVENUES (Thousands of Dollars):			
Residential.....	\$128,240	\$99,879	\$92,614
Commercial.....	69,982	51,952	49,539
Industrial - firm.....	5,404	3,695	3,685
Industrial - interruptible.....	2,276	1,352	1,639
Total retail natural gas revenues.....	205,902	156,878	147,477
Non-retail sales.....	5,691	15,189	24,846
Transportation.....	10,254	10,784	12,100
Other revenues.....	2,999	4,633	8,715
Total natural gas operating revenues.....	<u>\$224,846</u>	<u>\$187,484</u>	<u>\$193,138</u>
THERMS DELIVERED (Thousands of Therms):			
Residential.....	212,198	200,184	187,571
Commercial.....	135,126	125,611	122,263
Industrial - firm.....	12,604	11,241	11,494
Industrial - interruptible.....	5,746	5,209	6,053
Total retail sales.....	365,674	342,245	327,381
Non-retail sales.....	4,034	74,117	126,522
Transportation.....	225,392	232,739	226,139
Interdepartmental sales and Company use.....	802	9,801	32,647
Total therms delivered.....	<u>595,902</u>	<u>658,902</u>	<u>712,689</u>
SOURCES OF NATURAL GAS SUPPLY (Thousands of Therms):			
Purchases.....	372,795	430,698	499,983
Storage - injections.....	(467)	(30,508)	(32,023)
Storage - withdrawals.....	403	23,972	23,140
Natural gas for transportation.....	225,392	232,739	226,139
Distribution system gains (losses).....	(2,221)	2,001	(4,550)
Total supply.....	<u>595,902</u>	<u>658,902</u>	<u>712,689</u>
NUMBER OF NATURAL GAS CUSTOMERS (Average for Period):			
Residential.....	242,983	234,844	226,165
Commercial.....	29,739	29,032	28,236
Industrial - firm.....	296	308	310
Industrial - interruptible.....	38	30	26
Total retail customers.....	273,056	264,214	254,737
Non-retail sales.....	2	9	19
Transportation.....	96	107	119
Total natural gas customers.....	<u>273,154</u>	<u>264,330</u>	<u>254,875</u>
NATURAL GAS RESIDENTIAL SERVICE AVERAGES:			
Washington and Idaho			
Annual use per customer (therms).....	950	887	861
Revenue per therm (in cents).....	57.82	45.74	44.97
Annual revenue per customer.....	\$549.07	\$405.51	\$387.17
Oregon and California			
Annual use per customer (therms).....	730	789	772
Revenue per therm (in cents).....	66.83	58.59	58.32
Annual revenue per customer.....	\$487.80	\$462.21	\$450.13
NET SYSTEM MAXIMUM CAPABILITY (Thousands of Therms):			
Net system maximum demand (winter).....	2,347	2,077	3,284
Net system maximum firm contractual capacity (winter).....	4,320	4,320	4,220
HEATING DEGREE DAYS: (1)			
Spokane, WA			
Actual.....	7,176	6,408	5,951
30 year average.....	6,842	6,842	6,842
% of average.....	105%	94%	87%
Medford, OR			
Actual.....	4,388	4,401	4,421
30 year average.....	4,611	4,611	4,611
% of average.....	95%	95%	96%

(1) Heating degree days are the measure of the coldness of weather experienced, based on the extent to which the average of high and low temperatures for a day falls below 65 degrees Fahrenheit (annual degree days below historic average indicate warmer than average temperatures).

Energy Trading and Marketing Line of Business

The Energy Trading and Marketing line of business includes Avista Energy, Avista Power and Avista-STEAG. Avista Energy and Avista Power are wholly owned subsidiaries of Avista Capital. Avista-STEAG is 50% owned by Avista Capital.

Avista Energy

Avista Energy is an electricity and natural gas trading and marketing business focused on marketing energy in the Western U.S. In 1997, Avista Energy began conducting business on a national basis and expanded operations with its acquisition of Vitol Gas & Electric, LLC (Vitol) in 1999. However, in November 1999, the decision was made to reduce Avista Energy's size and risk by redirecting its focus away from national energy trading and marketing toward a more regionally-based energy trading and marketing effort in the West backed by contracts for energy commodities and by the output of specific facilities available under contract.

Avista Energy's headquarters are in Spokane, Washington, with offices in Portland, Oregon, and Vancouver, British Columbia, Canada.

Avista Energy is in the business of buying and selling electricity and natural gas. Avista Energy's customers include commercial and industrial end-users, electric utilities, natural gas distribution companies and other trading companies. Avista Energy also trades electricity and natural gas derivative commodity instruments, including futures, options, swaps and other contractual arrangements on national exchanges and through unregulated exchanges and brokers from whom these commodity derivatives are available. During 1999, Avista Energy also sold and traded coal and sulfur dioxide (SO₂) allowances, but eliminated these activities in 2000 as contracts expired. In 2000, Avista Energy sold approximately 105.5 million MWhs of electric energy, 309.2 million dekatherms of natural gas and 3.5 million tons of coal, compared to approximately 135.1 million MWhs of electric energy, 775.8 million dekatherms of natural gas and 1.6 million tons of coal in 1999.

Avista Energy's business is affected by many factors, including, among other things, volatility of prices within the power and natural gas markets, the demand for and availability of energy, lower unit margins on new sales contracts and deregulation of the electric utility industry.

In April 1997, Avista Energy entered into a marketing agreement with Chelan County Public Utility District (Chelan PUD), located in Washington State. The agreement allows Avista Energy to market, on a "real-time" basis, a portion of the output from Chelan PUD's hydroelectric resources (557 Mwhs) and to jointly market energy products and services to other utilities in the region.

Effective September 1, 1999, Avista Energy began managing Avista Utilities' natural gas assets and natural gas purchasing operations. Under the agreement, Avista Energy serves as agent for Avista Utilities, managing its pipeline transportation and natural gas storage assets, as well as purchasing natural gas for Avista Utilities' retail customers. The assets continue to be owned by Avista Utilities, but they are fully integrated operationally into Avista Energy's portfolio to optimize the value. An incentive plan allows Avista Energy the opportunity to retain a portion of the benefits associated with asset optimization and the efficiencies gained in purchasing natural gas for Avista Utilities. Approvals were received from the state regulatory agencies in Washington, Idaho and Oregon. The incentive plan began September 1, 1999 and ends March 31, 2002. Avista Utilities may seek continuation of the plan from regulators with six months notice prior to the end of the term.

The participants in the emerging wholesale energy market are public utility companies and, increasingly, power marketers which may or may not be affiliated with public utility companies or other entities. The participants in this market trade not only electricity and natural gas as commodities, but also derivative commodity instruments such as futures, forwards, swaps, options and other instruments. This market is largely unregulated and most transactions are conducted on an "over-the-counter" basis, there being no central clearing mechanism (except in the case of specific instruments traded on the commodity exchanges).

Avista Energy is subject to the various risks inherent in commodity trading including, particularly, market risk and credit risk. Because Avista Energy operates within the WSCC, the company is directly and indirectly exposed to the California markets. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations and Future Outlook, and Notes 1, 2, 4 and 5 of Notes to Financial Statements for additional information regarding the market and credit risks inherent in the energy trading business, fourth quarter

1999 restructuring costs, Avista Energy's risk management policies and procedures, accounting practices, and positions held by Avista Energy at December 31, 2000.

Avista Capital provides guarantees for Avista Energy's line of credit agreement and, in the course of business, may provide guarantees to other parties with whom Avista Energy may be doing business.

Avista Power

Avista Power develops and owns electricity generation in strategic locations primarily throughout the West. Avista Power and Cogentrix Energy, Inc. have entered into an agreement to jointly build and/or buy interests in natural gas-fired electric generation plants in the states of Washington, Oregon and Idaho. A project under this agreement is the 270 megawatt facility located in Rathdrum, Idaho, with 100 percent of its output contracted to Avista Energy for 25 years. The facility is currently under construction and is expected to be on-line in August 2001. The total cost of the project is estimated at \$160 million; Avista Power's equity in the project is approximately \$16 million.

In December 2000, Avista Utilities selected the Coyote Springs 2 project, a 280-megawatt combined-cycle natural gas turbine plant under construction near Boardman, Oregon, to add generation to its portfolio. Permits and contract modifications are in the process of being filed to transfer ownership from Avista Power to Avista Utilities. The final permit transfers are expected in early 2001, with project completion in mid-2002.

Avista Power is also in the permitting process for an additional 249-megawatt turbine plant to be sited in Longview, Washington. This project is a joint venture with STEAG AG, Germany's largest independent power producer.

As a further execution of its strategy to shift focus to the western regional power markets, Avista Power sold all its licensed and unlicensed assets located outside the WSCC to STEAG AG. In addition, Avista Power's interest in a project site located in Bogalusa, Louisiana, was sold in late 2000.

Some projects may be developed with STEAG AG under Avista-STEAG, LLC.

Information and Technology Line of Business

The Information and Technology line of business includes Avista Advantage, Avista Labs and Avista Communications. Avista Fiber and Avista Communications merged operations in 2000, incorporating Avista Fiber into Avista Communications. Avista Advantage and Avista Labs are majority-owned and wholly owned subsidiaries of Avista Capital, respectively. As of December 31, 2000, Avista Capital owned approximately 82% of Avista Communications.

Avista Advantage

Headquartered in Spokane, Avista Advantage is an e-commerce provider of facilities management billing and information services to commercial customers throughout the U.S. and Canada.

Avista Advantage processes and presents consolidated bills on-line, and pays utility and maintenance and repair bills for multi-site commercial and industrial customers. Information gathered from invoices, utilities and other customer-specific data allows Avista Advantage to provide its customers with in-depth analytical support, real-time reporting and unbiased consulting in regard to energy, water, waste, and maintenance and repair expenses.

Avista Advantage has secured patents on its two critical business systems, the Advantage Customer Internet Site (ACIS®), which provides high value, operational information drawn from utility bills, and the AviTrack® database, which processes and reports on information gathered from utilities to ensure customers are receiving the most effective services at the proper price. Avista Advantage is not aware of any claimed or threatened infringement on any patents issued to date and will continue to expand and protect its existing patents, as well as file additional patent applications for new products, services and process enhancements.

As of the end of 2000, Avista Advantage's customer base was over 140 customers, having over 46,000 billed sites throughout the U.S. and Canada. Two venture capital firms invested in Avista Advantage during the fourth quarter of 2000. The strategic investments will help refine, expand and market Avista Advantage's growing number of facility cost management services.

Avista Labs

Avista Labs has developed a unique modular PEM fuel cell that delivers reliable, affordable and clean distributed power solutions. The modular design allows fuel cell cartridges to be easily removed and replaced without interrupting power. The company believes this exclusive "hot swap" feature makes Avista Labs' technology more scalable, configurable, reliable and durable than other fuel cell technologies. In addition to its modular-based PEM fuel cell, Avista Labs is dedicated to commercializing a broad array of components to complement its fuel cell in order to deliver system solutions to residential, industrial and commercial markets.

Avista Labs has been granted two patents, with more than 230 issued claims recognizing and protecting the unique attributes of its fuel cell system. The company has eight more patent applications pending or in process directed to its unique approach.

Testing of the Avista Labs' fuel cells is underway to gather field data in a wide variety of operating conditions. In September 2000, Avista Labs delivered its latest prototype to the Houston Advanced Research Center for testing and evaluation. Avista Labs continues to add new locations to its current list of seven Beta testing sites around the country.

Key alliances in bringing Avista Labs' product to market include a joint marketing / installation agreement with Black & Veatch, a global leader in engineering, procurement and construction, and an agreement with Logan Industries, Inc., which has been manufacturing and assembling Avista Labs fuel cell units for field testing since early 1999.

Effective December 1, 2000, Avista Labs exercised its right to terminate the exclusivity obligations of the Joint Development Agreement with UOP, LLC, entered into in August 1999. The Joint Development Agreement included a provision obligating the parties to work exclusively with one another in regard to the subject matter of the Agreement, which involved programs to develop a fuel cell system utilizing a fuel cell and a fuel processor.

Avista Labs formed a new company, H2fuel, LLC, in January 2001 to develop and commercialize a new technology for manufacturing hydrogen for fuel cells. Avista Labs owns a 70% interest in H2fuel. The remaining interest is owned by United Fuel Technologies, LLC. Avista Labs will transfer its ongoing fuel processor development work to H2fuel.

Avista Communications

A provider of facilities-based telecommunications solutions in under-served communities throughout Washington, Idaho and Montana, Avista Communications delivers integrated voice and broadband data services over a state-of-the-art network, offering business customers a choice in bundled communications services including data transport, Internet access and local voice services. Continually seeking new ways to leverage advancing technology, Avista Communications is dedicated to creating competitive advantages for customers delivered by experienced teams of local experts. The total number of lines sold at December 31, 2000 was over 7,200, with approximately 5,400 lines installed.

Based in Spokane, Avista Communications currently serves customers in 10 northwest markets including Billings, Montana; Coeur d'Alene, Post Falls, Moscow and Lewiston, Idaho; Spokane, Yakima, Bellingham, Clarkston and Pullman, Washington. In 2001, Avista Communications expects to add additional products and services to complement its strategic direction toward the convergence of voice and data service delivery for business customers in communities with populations under 500,000.

Avista Ventures Line of Business

The Avista Ventures line of business includes Avista Ventures and several other minor subsidiaries, including Pentzer Corporation, Avista Development and Avista Services. Avista Ventures was formed in April 2000 to align Avista Corp.'s investment and acquisition activities in the strategic growth areas of energy, information and technology.

ENERGY TRADING AND MARKETING OPERATING STATISTICS

	Years Ended December 31,		
	2000	1999	1998
AVISTA ENERGY			
REVENUES (Thousands of Dollars):			
Electric.....	\$4,721,291	\$4,745,615	\$1,665,348
Natural gas.....	1,751,264	1,900,487	743,386
Coal.....	58,996	49,569	-
Total revenues.....	<u>\$6,531,551</u>	<u>\$6,695,671</u>	<u>\$2,408,734</u>
SALES VOLUMES:			
Electricity (Thousands of MWhs).....	105,548	135,099	54,430
Natural gas (Thousands of dekatherms).....	309,160	775,822	424,152
Coal (Thousands of tons).....	3,514	1,638	-

INFORMATION AND TECHNOLOGY OPERATING STATISTICS

	Years Ended December 31,		
	2000	1999	1998
AVISTA ADVANTAGE			
Contracted Sites	65,858	26,056	5,603
Billed Sites.....	46,127	21,186	3,081
AVISTA LABS			
Beta Units Produced.....	114	n/a	n/a
Beta Units Installed.....	29	n/a	n/a
AVISTA COMMUNICATIONS			
Lines Sold.....	7,248	2,857	n/a
Lines Installed.....	5,395	1,598	n/a

n/a - not available.

Item 2. Properties

Avista Utilities

Avista Utilities' electric properties, located in the States of Washington, Idaho and Montana, include the following:

Generating Plants

	<u>No. of Units</u>	<u>Nameplate Rating (MW) (1)</u>	<u>Present Capability (MW) (2)</u>	<u>Year of FERC License Expiration</u>
Hydroelectric Generating Stations (River)				
Washington:				
Long Lake (Spokane)	4	70.0	88.0	2007
Little Falls (Spokane)	4	32.0	36.0	n/a
Nine Mile (Spokane)	4	26.4	24.5	2007
Upper Falls (Spokane)	1	10.0	10.2	2007
Monroe Street (Spokane)	1	14.8	14.8	2007
Idaho:				
Cabinet Gorge (Clark Fork)	4	231.3	236.0	2045 (3)
Post Falls (Spokane)	6	14.8	18.0	2007
Montana:				
Noxon Rapids (Clark Fork)	5	<u>466.2</u>	<u>528.0</u>	2045 (3)
Total Hydroelectric		865.5	955.5	
Thermal Generating Stations				
Washington:				
Kettle Falls	1	50.7	49.0	
Northeast (Spokane) CT	2	61.2	68.0	
Idaho:				
Rathdrum CT	2	166.5	176.0	
Montana:				
Colstrip (Units 3 and 4) (4)	2	<u>233.4</u>	<u>222.0</u>	
Total Thermal		511.8	515.0	
Total Generation Properties		<u>1,377.3</u>	<u>1,470.5</u>	

n/a not applicable.

- (1) Nameplate Rating, also referred to as "installed capacity", is the manufacturer's assigned power rating under specified conditions.
- (2) Capability is the maximum generation of the plant without exceeding approved limits of temperature, stress and environmental conditions.
- (3) On February 23, 2000, the Company received a new operating license for Cabinet Gorge and Noxon Rapids. (See Item 1. Business: Avista Utilities - Hydroelectric Relicensing for additional information.)
- (4) Jointly owned; data above refers to Avista Utilities' 15% interest.

Electric Distribution and Transmission Plant

Avista Utilities operates approximately 12,200 miles of primary and secondary distribution lines in its electric system in addition to a transmission system of approximately 575 miles of 230 kV line and 1,520 miles of 115 kV line. Avista Utilities also owns a 10% interest in 495 miles of a 500 kV line between Colstrip, Montana and Townsend, Montana.

The 230 kV lines are used to transmit power from Avista Utilities' Noxon Rapids and Cabinet Gorge hydroelectric generating stations to major load centers in its service area, as well as to transfer power between points of interconnection with adjoining electric transmission systems. These lines interconnect with Bonneville at five locations and at one location each with PacifiCorp, Montana Power and Idaho Power Company. The Bonneville interconnections serve as points of delivery for power from the Colstrip generating station, as well as for the

interchange of power with entities outside the Pacific Northwest. The interconnection with PacifiCorp is used to integrate Mid-Columbia hydroelectric generating facilities to Avista Utilities' loads, as well as for the interchange of power with entities within the Pacific Northwest.

The 115 kV lines provide for transmission of energy and the integration of the Spokane River hydroelectric and Kettle Falls wood-waste generating stations with service-area-load centers. These lines interconnect with Bonneville at nine locations, Grant County Public Utility District (PUD), Seattle City Light and Tacoma City Light at two locations and one interconnection each with Chelan County PUD, PacifiCorp and Montana Power.

Natural Gas Plant

Avista Utilities has natural gas distribution mains of approximately 3,877 miles in Washington and Idaho and 1,849 miles in Oregon and California, as of December 31, 2000.

Avista Utilities, Northwest Pipeline and Puget Sound Energy each own a one-third undivided interest in the Jackson Prairie Natural Gas Storage Project, which has a total peak day deliverability of 8.8 million therms, with a total working natural gas inventory of 190.3 million therms.

Item 3. Legal Proceedings

See Note 22 of Notes to Financial Statements for additional information.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Outstanding shares of Common Stock are listed on the New York and Pacific Stock Exchanges. As of February 28, 2001, there were approximately 19,066 registered shareholders of the Company's no par value Common Stock.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook for additional general information about common stock dividends.

For additional information, refer to Notes 1, 18 and 21 of Notes to Financial Statements. For high and low stock price information, refer to Note 24 of Notes to Financial Statements.

Item 6. Selected Financial Data

	Years Ended December 31.				
	2000	1999	1998	1997	1996
	(Thousands of Dollars except Per Share Data and Ratios)				
Operating Revenues:					
Avista Utilities	\$1,512,101	\$1,115,647	\$1,049,212	\$ 891,665	\$798,994
Energy Trading and Marketing	6,531,551	6,695,671	2,408,734	247,028	-
Information and Technology	11,645	4,851	1,995	1,030	813
Avista Ventures	32,937	122,303	231,483	163,598	145,150
Intersegment eliminations	<u>(176,744)</u>	<u>(33,488)</u>	<u>(7,440)</u>	<u>(1,149)</u>	<u>-</u>
Total	\$7,911,490	\$7,904,984	\$3,683,984	\$1,302,172	\$944,957
Operating Income/(Loss) (pre-tax):					
Avista Utilities	\$ 3,177	\$142,567	\$143,153	\$178,289	\$173,658
Energy Trading and Marketing	250,196	(97,785)	22,826	6,577	(649)
Information and Technology	(40,084)	(13,002)	(5,192)	(5,364)	(1,443)
Avista Ventures	<u>(9,861)</u>	<u>(423)</u>	<u>12,033</u>	<u>9,962</u>	<u>15,355</u>
Total	\$203,428	\$ 31,357	\$172,820	\$189,464	\$186,921
Net Income/(Loss):					
Avista Utilities	\$(38,781)	\$59,573	\$56,297	\$100,777 (3)	\$62,404
Energy Trading and Marketing	161,753	(60,739)	14,116	5,346	(414)
Information and Technology	(28,408)	(8,620)	(3,398)	(3,425)	(919)
Avista Ventures	<u>(2,885)</u>	<u>35,817</u>	<u>11,124</u>	<u>12,099</u>	<u>22,382</u>
Total	\$ 91,679	\$26,031	\$78,139	\$114,797	\$83,453
Preferred Stock Dividend Requirements	\$23,735 (1)	\$21,392 (1)	\$8,399 (1)	\$5,392	\$7,978
Income Available for Common Stock	\$67,944	\$4,639	\$69,740	\$109,405 (3)	\$75,475
Outstanding Common Stock (000s):					
Weighted Average	45,690	38,213 (1)	54,604 (1)	55,960	55,960
Year-End	47,209	35,648 (1)	40,454 (1)	55,960	55,960
Book Value per Share	\$15.34	\$11.04 (1)	\$12.07 (1)	\$13.36	\$12.70
Earnings per Share:					
Avista Utilities	\$(1.36)	\$1.00	\$0.88	\$1.70 (3)	\$0.97
Energy Trading and Marketing	3.51	(1.59)	0.26	0.10	(0.01)
Information and Technology	(0.62)	(0.23)	(0.06)	(0.06)	(0.01)
Avista Ventures	<u>(0.06)</u>	<u>0.94</u>	<u>0.20</u>	<u>0.22</u>	<u>0.40</u>
Total, Diluted	\$1.47	\$0.12	\$1.28	\$1.96	\$1.35
Total, Basic	\$1.49	\$0.12	\$1.28	\$1.96 (3)	\$1.35
Dividends Paid per Common Share	\$0.48	\$0.48 (2)	\$1.05 (2)	\$1.24	\$1.24
Total Assets at Year-End:					
Avista Utilities	\$ 2,129,614	\$1,976,716	\$2,004,935	\$1,926,739	\$1,921,429
Energy Trading and Marketing	10,271,834	1,595,470	955,615	212,868	320
Information and Technology	59,632	26,379	7,461	3,475	1,517
Avista Ventures	<u>102,844</u>	<u>114,929</u>	<u>285,625</u>	<u>268,703</u>	<u>254,032</u>
Total	\$12,563,924	\$ 3,713,494	\$ 3,253,636	\$2,411,785	\$ 2,177,298
Long-term Debt at Year-End:					
Company-Obligated Mandatorily					
Redeemable Preferred Trust Securities	\$100,000	\$110,000	\$110,000	\$110,000	-
Preferred Stock Subject to Mandatory					
Redemption at Year-End	\$35,000	\$35,000	\$35,000	\$45,000	\$65,000
Convertible Preferred Stock	-	\$263,309	\$269,227 (1)	-	-
Ratio of Earnings to Fixed Charges	3.26	1.61	2.66	3.49	2.97
Ratio of Earnings to Fixed Charges and					
Preferred Dividend Requirements	2.06	1.07	2.25	3.12	2.50

- (1) In December 1998, the Company converted shares of common stock for Convertible Preferred Stock, which was responsible for a number of changes in the data in 2000, 1999 and 1998 from 1997. (See Note 15 of Notes to Financial Statements.)
- (2) The Company paid a quarterly common stock dividend of \$0.31 per share through the third quarter of 1998. Beginning in the fourth quarter of 1998, the quarterly common stock dividend was reduced to \$0.12 per share.
- (3) Includes the \$41.4 million after-tax effect of an IRS income tax recovery related to the Company's investment in the terminated nuclear project 3 of the Washington Public Power Supply System.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Avista Corporation (Avista Corp. or the Company) operates as an energy, information and technology company with a regional utility operation and subsidiary operations located in the Pacific Northwest. The Company's operations are organized into four lines of business – Avista Utilities, Energy Trading and Marketing, Information and Technology, and Avista Ventures. Avista Utilities, which is an operating division of Avista Corp. and not a separate entity, represents the regulated utility operations. Avista Capital, a wholly owned subsidiary of Avista Corp., owns all of the subsidiary companies engaged in the other lines of business. As of December 31, 2000, the Company had common equity investments of \$363.0 million and \$361.2 million in Avista Utilities and Avista Capital, respectively.

In addition to providing electricity and natural gas distribution and electric transmission services, Avista Utilities is responsible for electric generation and production. Avista Utilities owns and operates eight hydroelectric projects, a wood-waste fueled generating station and two natural gas-fired combustion turbine (CT) generating units. It also owns a 15% share in a two-unit coal-fired generating facility and leases and operates two additional natural gas-fired CT generating units. In addition, Avista Utilities has a number of long-term power purchase and exchange contracts that increase its available resources. With this diverse energy resource portfolio, Avista Utilities remains one of the nation's lowest-cost producers of electric energy services.

Avista Utilities sells and purchases electric capacity and energy at wholesale to and from utilities and other entities under firm long-term contracts having terms of more than one year. In addition, Avista Utilities engages in short-term sales and purchases in the wholesale market as part of an economic selection of resources to serve its retail and firm wholesale loads. Avista Utilities makes continuing projections of (1) future retail and firm wholesale loads based on, among other things, forward estimates of factors such as customer usage and weather as well as historical data and contract terms and (2) resource availability based on, among other things, estimates of streamflows, generating unit availability, historic and forward market information and experience. On the basis of these continuing projections, Avista Utilities makes purchases and sales of energy on a quarterly, monthly, daily and hourly basis to match actual resources to actual energy requirements, as it operates the lowest-cost resources to serve its load requirements, and sells any surplus at the best available price. This process includes hedging transactions. In the second quarter of 2000, certain wholesale transactions contributed to significant losses in Avista Utilities, as more fully discussed below in "Results of Operations".

The Energy Trading and Marketing line of business excludes the regulated utility operations, Avista Utilities, and is comprised of Avista Energy, Inc. (Avista Energy), Avista Power, Inc. (Avista Power) and Avista-STEAG, LLC (Avista-STEAG). Avista Energy is an electricity and natural gas trading and marketing business, operating primarily in the Western Systems Coordinating Council (WSCC). Avista Power was formed to develop and own generation assets. Avista-STEAG is a joint venture between Avista Capital and STEAG AG, a German independent power producer, to develop electric generating assets.

The Information and Technology line of business is comprised of Avista Advantage, Inc. (Avista Advantage), Avista Laboratories, Inc. (Avista Labs) and Avista Communications, Inc. (Avista Communications). Avista Advantage is a business-to-business e-commerce enabled portal that provides a variety of energy-related products and services to commercial and industrial customers on a North American basis. Its primary product lines include consolidated billing, resource accounting, energy analysis, load profiling, and maintenance and repair billing services. Avista Labs is in the process of developing both modular Proton Exchange Membrane (PEM) fuel cells for power generation at the site of the consumer or industrial user and fuel cell components. Avista Communications is an Integrated Communications Provider (ICP) providing local dial tone, data transport, internet services, voice messaging and other telecommunications services to under-served communities in the Western U.S. In April 2000, Avista Communications and Avista Fiber, Inc. merged operations, with Avista Communications now additionally responsible for designing, building and managing metropolitan area fiber optic networks.

The Avista Ventures line of business includes Avista Ventures, Inc. (Avista Ventures), and several other minor subsidiaries. This line of business is responsible for investing in business opportunities that have potential value in the lines of business in which the Company is already involved.

Significant Changes in Energy Markets

Regulatory, political, economic and technological changes have brought about the accelerating transformation of the utility and energy industries, presenting both opportunities and challenges.

These changes have had a significant effect on energy markets. Historically, the price of power in wholesale markets has been affected primarily by production costs and by other factors including streamflows, the availability of hydro and thermal generation and transmission capacity, weather and the resulting retail loads, and the price of coal, natural gas and oil for thermal generating units. Any combination of these factors that resulted in a shortage of energy or increased cost of production generally caused the market price of power to move upward. Now, however, wholesale power market prices appear to react more independently from traditional cost-driven and supply and demand factors. Significant emerging factors include the gradual depletion of excess generating capacity in the WSCC, increasing instances of transmission congestion and increased ownership of generating facilities by entities which are not traditional "public utilities". Wholesale power markets have been affected by the restructuring of electric utility regulation at the state and federal levels.

Wholesale power prices rose dramatically starting in the second quarter of 2000 and remain significantly above historic levels in the Pacific Northwest and throughout the WSCC. Federal and state officials, including the Federal Energy Regulatory Commission (FERC) and the California Public Utility Commission (CPUC), commenced reviews to determine the cause of the market changes. Additionally, President Bush has appointed Vice President Cheney to chair an energy policy task force at least in part as a response to the extreme market pressures and power shortages that have affected California and other parts of the WSCC. The governors of Washington, Oregon and Idaho have also become involved in seeking to stabilize power market prices and the availability of power in the region.

California Energy Crisis. During 2000, particularly in the fourth quarter, the changes in Western energy markets resulted in an energy supply shortage that particularly affected power availability in California. Power shortages, coupled with California's power market structure, led to the two largest of California's three investor-owned utilities (IOUs), Southern California Edison (SCE) and Pacific Gas & Electric (PG&E), issuing warnings of their impending inability to meet payment commitments. In the first quarter of 2001, SCE and PG&E defaulted on several hundred million dollars of payment obligations owed to various creditors. Because of regulatory changes that were adopted by California law in 1997, California's IOUs were required to divest ownership of much of their owned power generation capacity, to sell output from their remaining generating plants into a power market, to reduce retail customer prices and hold them at a fixed level until certain transition charges were amortized, and to buy all requirements for customers' needs through short-term purchases from the newly-created California Power Exchange (CalPX), California Independent System Operator (CalISO), Automated Power Exchange (APX) and other specified entities. As demand began to outstrip supply in California, the price of power skyrocketed and these IOUs bought power at much higher prices than they sold it to end users. They exhausted their credit and capital capacity early in 2001. The PG&E and SCE defaults resulted in subsequent defaults by CalPX, CalISO and APX in amounts the latter three parties owed to Avista Energy.

There were approximately 50 participants in the CalPX at the end of 2000. Avista Energy participated in transactions with the CalPX and CalISO, primarily as a seller. The CalPX tariff, approved by the FERC, includes a provision that permits backcharges to CalPX participants under certain circumstances to keep its settlement accounts whole in the event of a default by a participant. The CalPX tariff specifies that collateral and contracts of the defaulting parties be liquidated to provide funds to cover their defaults, followed by liquidation of a performance bond posted by participants collectively, before backcharges will be levied. The CalPX did not obtain sufficient collateral from SCE or PG&E to assure their performance, even when signals of their financial difficulties were gaining attention from rating agencies, from the press, and from reports filed by SCE and PG&E with the Securities and Exchange Commission. When SCE and PG&E defaulted, the Governor of California obtained a temporary restraining order (TRO) to block the CalPX from liquidating the SCE and PG&E contracts. When the TRO expired and an injunction was not granted, the Governor invoked emergency executive powers to seize those contracts. The CalPX began levying backcharges by withholding amounts payable to participants and sending invoices for additional amounts. In January 2001, the CalPX gave notice that it was suspending its block forward and day-ahead market operations. Several of the CalPX participants, including PG&E, have protested the backcharges through filings with the FERC and the courts. Avista Energy is among the entities seeking to have the backcharge provisions ruled inoperable by the FERC. In its second round of backcharges in February 2001, the CalPX backcharged remaining participants for the increasing cascade of defaults, leading to the possibility that, if backcharges were continued and additional parties either could not or would not pay amounts so invoiced, the last remaining participant might bear the entire market's settlement obligation. On February 9, 2001, Avista Energy obtained a TRO in Federal Court in the Central District of California that suspended the backcharges and preserved Avista Energy's \$500,000 letter of credit posted to the CalPX for assurance of performance; on March 5, 2001, the court issued a preliminary injunction that continued the relief granted by the TRO and required the escrowing of amounts received by the CalPX. Avista Energy joined in a group of nine complainants to file with the FERC to take action to declare the backcharge practices to be contrary to the tariff's purpose, to declare the backcharges to be inoperable because of the removal of the SCE and PG&E contracts, and to invoke jurisdiction over the CalPX in winding up its affairs. The court action and the FERC complaint are continuing.

Avista Energy participated in the California power market as part of its Western U.S. business focus. At December 31, 2000, Avista Energy had net accounts receivable of \$66.3 million from CalPX, CalISO and APX and had a special bad debt reserve of \$8.3 million against that amount. Avista Energy received \$21.4 million in January and February of 2001 against the \$66.3 million balance, with \$22.5 million being due in March 2001.

Avista Energy also has forward contracts with affiliates of SCE's parent corporation, Edison International (EIX), through its Edison Mission Energy (EME) unit and with affiliates of PG&E's parent corporation, PG&E Corp. (PGC), through entities in its National Energy Group (NEG). EIX and PGC have taken steps collectively referred to as "ring-fencing" to protect EME and NEG, respectively, and their subsidiaries from creditors of their utility business units, SCE and PG&E, respectively. The CPUC and certain customer groups have initiated investigations into the transactions between regulated units of EIX and PGC and their affiliates. Avista Energy is continuing to monitor the situation with respect to EME and NEG counterparties and cannot predict the ultimate outcome of its positions with these entities. Avista Energy does not believe these conditions will have a material adverse impact on the results of operations or its financial position.

The Company's operations are exposed to risks, including legislative and governmental regulations, the price and supply of purchased power, fuel and natural gas, recovery of purchased power and purchased natural gas costs, weather conditions, availability of generation facilities, competition, technology and availability of funding. In addition, the energy business exposes the Company to the financial, liquidity, credit and commodity price risks associated with wholesale sales and purchases.

The Company expects Avista Utilities' electric and natural gas business to earn between \$0.90 and \$1.00 per share for 2001, based on current streamflow and weather projections, anticipated purchased power prices and the continued ability to defer excess purchased power costs. Avista Corp.'s consolidated earnings for 2001 will reflect continued support of the Information and Technology subsidiaries and the expectations for a reduced contribution from Avista Energy as it continues to manage the size and risk of the business. Consolidated earnings per share could be significantly less than the \$0.90 to \$1.00 anticipated from the Avista Utilities business segment.

RESULTS OF OPERATIONS

Overall Operations

2000 compared to 1999

Overall diluted earnings per share for 2000 were \$1.47, compared to \$0.12 in 1999. The primary reason for the increase was earnings of \$161.8 million recorded by the Energy Trading and Marketing line of business, after a loss of \$60.7 million in 1999 recorded by this business segment. Avista Energy benefited in 2000 from a well-positioned portfolio in the volatile Pacific Northwest and western energy markets. The loss from Avista Energy in 1999 related to expenses associated with the downsizing and restructuring of the business, as well as operational losses. The positive earnings from Avista Energy in 2000 were partially offset by losses from the other lines of business. In February 2000, the Company converted all the remaining outstanding shares of its Series L Preferred Stock back into common stock, which resulted in a one-time charge of \$21.3 million to preferred dividend requirements. In addition, Avista Utilities' operations recorded losses, which were primarily the result of significantly higher purchased power costs that were compounded by short positions related to wholesale trading activity at the utility during the second quarter of 2000. (See paragraphs below for additional information about the higher energy prices and short positions.)

Net income available for common stock increased \$63.3 million in 2000 over 1999. Energy Trading and Marketing's contribution to income available for common stock increased to \$161.8 million over 1999, for earnings of \$3.51 per diluted share in 2000 compared to a loss of \$1.59 per share in 1999, due primarily to the volatile energy market discussed above. Avista Utilities' contribution to income available for common stock decreased \$100.7 million from 1999 due to the conversion costs associated with the convertible preferred stock discussed above, higher purchased power expenses and wholesale trading activities, for a loss of \$1.36 per diluted share in 2000 compared to a contribution of \$1.00 in 1999. Information and Technology's contribution to income available for common stock decreased \$19.8 million from 1999, for a loss of \$0.62 per diluted share in 2000 compared to a loss of \$0.23 in 1999, as these businesses continued to grow their operations. The contribution to income available for common stock from the Avista Ventures line of business decreased \$38.7 million in 2000, for a loss of \$0.06 per diluted share in 2000 compared to a contribution of \$0.94 in 1999. The 1999 earnings included transactional gains

recorded by Pentzer that totaled \$35.9 million, or \$0.94 per share, from the sale of two groups of portfolio companies.

Total revenues increased \$6.5 million in 2000 over 1999, but there were large changes within the individual lines of business. Avista Utilities' revenues increased 36%, primarily due to increased prices of both electricity and natural gas. Revenues at Avista Energy decreased 2% due to decreased sales volumes of electricity and natural gas from the restructuring and downsizing of the business, offset by sharply higher prices. Revenues from the Information and Technology companies increased 140% to \$11.6 million as these companies continued to grow their businesses. Intersegment eliminations represent the transactions between Avista Utilities and Avista Energy for commodities and services. The large increase in 2000 over 1999 was primarily due to an entire year of activity under the agency agreement whereby Avista Energy serves as agent for Avista Utilities, managing its pipeline transportation contract rights and natural gas storage assets, as well as purchasing natural gas for Avista Utilities' retail customers.

Resource costs decreased \$97.7 million in total. Avista Utilities' resource costs increased 73%, primarily due to electric and natural gas commodity prices. Avista Energy's resource costs decreased 7%, due to decreased energy trading volumes but offset by the increased prices of commodities. Intersegment eliminations also increased due to an entire year of activity under the agency agreement between Avista Utilities and Avista Energy.

Operations and maintenance, administrative and general, and depreciation and amortization expenses were all primarily impacted by the Information and Technology and Avista Ventures lines of business. All three categories of expenses increased at the Information and Technology companies as they continued to grow their businesses. All three categories of expenses decreased at the Avista Ventures line of business as a result of the sales of portfolio companies by Pentzer during 1999.

Interest expense increased \$3.6 million in 2000 over 1999, primarily due to higher levels of outstanding debt during the year. During 2000, \$224.0 million of long-term debt was issued, while \$54.6 million of long-term debt matured and \$10.0 million of Preferred Trust Securities were repurchased. Long-term debt and short-term borrowings outstanding at December 31, 2000 were \$217.1 million higher than at the end of 1999.

Income taxes increased \$56.7 million in 2000 over 1999, primarily due to increased earnings recorded by the Energy Trading and Marketing line of business and gains on the sale of the Centralia Power Plant (Centralia) recorded by Avista Utilities. Income taxes in 1999 were lower than normal primarily as a result of the operational losses and restructuring charges incurred by Avista Energy.

Preferred stock dividend requirements increased \$2.3 million in 2000 over 1999 due to the conversion costs and dividends paid associated with converting the Convertible Preferred Stock, Series L, into common stock in February 2000.

1999 compared to 1998

Overall diluted earnings per share for 1999 were \$0.12, compared to \$1.28 in 1998. The primary reason for the decrease was a \$60.7 million after-tax loss recorded by the Energy Trading and Marketing line of business, due to a \$27.3 million after-tax charge recorded by Avista Energy related to the downsizing and restructuring of the business, and \$32.1 million of after-tax operational losses due to warmer than normal weather across the nation, soft national energy markets and a lack of volatility within those markets. The restructuring charge includes a charge for impairment of assets from the purchase of Vitol in February 1999 and reserves for severance and other related expenses. In December 1998, the Company exchanged 15,404,595 shares of its common stock for shares of Convertible Preferred Stock, Series L, which resulted in an increase of \$13.4 million in preferred stock dividend requirements in 1999 over 1998. In addition, the utility operations recorded charges of approximately \$5 million related to the impairment of utility assets, which were partially offset by the reversal of certain environmental reserves. These charges were partially offset by the \$35.9 million of transactional gains recorded by Pentzer due to the sales of two groups of portfolio companies.

Net income available for common stock decreased \$65.1 million in 1999 from 1998. Avista Utilities' income available for common stock decreased \$9.8 million from 1998 due to the increased preferred stock dividend associated with the Convertible Preferred Stock, contributing \$1.00 per diluted share for 1999, compared to \$0.88 in 1998. Energy Trading and Marketing's income available for common stock decreased \$74.9 million from 1998, for a loss of \$1.59 per diluted share in 1999, as compared to a contribution of \$0.26 per share in 1998, due primarily to the restructuring charges and operational losses discussed above. Information and Technology's income available for common stock decreased \$6.8 million from 1998, for a loss of \$0.27 per share in 1999, compared to a loss of

\$0.06 in 1998, due primarily to continued start-up and expansion costs. Income available for common stock from the Avista Ventures line of business increased \$26.3 million in 1999 and contributed \$0.98 to diluted earnings per share in 1999, compared to \$0.20 per share in 1998. Transactional gains recorded by Pentzer totaled \$35.9 million, or \$0.94 per share, and \$4.3 million, or \$0.08 per share, in 1999 and 1998, respectively.

Total revenues increased \$4.22 billion in 1999 over 1998, primarily due to the growth of Avista Energy's business as a result of its acquisition of Vitol. Resource costs increased \$4.40 billion, again primarily as a result of the growth in Avista Energy's business. Intersegment eliminations represent the transactions between Avista Utilities and Avista Energy for commodities and services. The large increase in 1999 over 1998 was primarily due to an agreement whereby Avista Energy serves as agent for Avista Utilities, managing its pipeline transportation and natural gas storage assets, as well as purchasing natural gas for Avista Utilities' retail customers. Gross margins for Avista Utilities decreased \$3.0 million primarily due to larger increases in purchased power costs than in the associated wholesale revenues. Avista Energy's gross margin decreased \$66.6 million to a negative \$17.9 million, primarily due to losses on positions taken in anticipation of certain weather patterns in particular areas of the country which did not occur. Operations and maintenance expenses decreased \$74.4 million, primarily due to decreased expenses as a result of the sales of portfolio companies by Pentzer. Administrative and general expenses decreased \$1.8 million primarily due to decreased expenses as a result of the sales of portfolio companies by Pentzer, partially offset by increased salary expenses from the growth in Avista Energy's business and the purchase of Vitol, which added significantly to staffing levels, and increased start-up costs at the Information and Technology companies.

Interest expense decreased \$4.0 million in 1999, as compared to 1998, primarily due to lower levels of outstanding debt during the year. During 1999, \$108.7 million of long-term debt was issued, while \$208.3 million of long-term debt matured or was redeemed. At December 31, 1999, \$118.5 million of notes payable were outstanding, compared to no balances at December 31, 1998. Long-term debt outstanding at December 31, 1999 was \$11.8 million lower than at the end of 1998.

Income taxes decreased \$26.6 million, or 61%, in 1999 from 1998, primarily due to losses and restructuring charges incurred by the Energy Trading and Marketing line of business, which were partially offset by higher taxes resulting from the transactional gains from the sales of the portfolio companies by Pentzer.

Preferred stock dividend requirements increased \$13.0 million in 1999 over 1998 due to the exchange of shares of common stock for shares of \$12.40 Convertible Preferred Stock, Series L, which occurred in December 1998 and the redemption of the final \$10.0 million of Preferred Stock, Series I in June 1998.

Avista Utilities

2000 compared to 1999

Avista Utilities' pre-tax income from operations was \$3.2 million in 2000, or a decrease of \$139.4 million from 1999. The loss resulted primarily from significantly higher electric energy prices in wholesale markets, compounded by a short position related to wholesale trading activity. The results for 2000 include a \$9.0 million after-tax gain recorded as a result of the sale of its interest in Centralia. The balance of the total after-tax gain of \$37.2 million from the sale of Centralia was deferred and has been or will be returned to Avista Utilities' customers through rates. Avista Utilities' operating revenues and expenses increased \$396.5 million and \$535.8 million, respectively, in 2000 over 1999.

During 2000, Avista Utilities purchased energy in order to meet system obligations to serve retail and wholesale customers. Unprecedented sustained peaks in electric energy prices throughout the WSCC beginning in May 2000, compounded by a wholesale short position discussed below, contributed to significant losses recorded by Avista Utilities in the second quarter of 2000. The cost of these power purchases was significantly higher than the amounts currently being recovered from customers. The increased purchased power prices caused a reduction in gross margin of approximately \$138.9 million in 2000 from 1999. Based on historical trends, Avista Utilities' business plan had forecast on-peak power prices of approximately \$19 per megawatthour for May and June of 2000. On-peak power costs in the market averaged \$60 per megawatthour in May and over \$180 per megawatthour in June, with hourly spikes as high as \$1,300 per megawatthour.

On August 9, 2000, the Washington Utilities and Transportation Commission (WUTC) approved Avista Utilities' request for deferred accounting treatment for certain power costs related to increases in short-term power prices beginning July 1, 2000 and ending June 30, 2001. The specific power costs deferred include the changes in power

costs to Avista Utilities from those included in base retail rates, related to three power cost components: the net effect of changes in short-term wholesale market prices on short-term wholesale purchases and sales; the effect on power costs from changes in the level of hydroelectric generation; and the net effect on power costs from changes in the level of thermal generation (including changes in fuel prices). The deferrals each month are calculated as the difference between the actual costs to Avista Utilities associated with these three power cost components, and the level of costs included in Avista Utilities' base retail rates. The power costs deferred are related solely to the operation of Avista Utilities' system resources to serve its system retail and wholesale load obligations.

On January 24, 2001, the WUTC approved a modification to the deferral mechanism to recover power supply costs associated with meeting increased retail and wholesale system load requirements, effective December 1, 2000. The WUTC also required Avista Utilities to file a proposal by mid-March 2001 that will address the prudence of the incurred power costs, the optimization of Company-owned resources to the benefit of retail customers, the appropriateness of recovery of power costs through a deferral mechanism, a proposal for cost of capital offsets to recognize the shift in risk from shareholders to ratepayers and Avista Utilities' plan to mitigate the deferred power costs. Avista Utilities also plans to file for an extension of this deferred accounting treatment beyond June 30, 2001.

On January 16, 2001, Avista Utilities filed an application with the Idaho Public Utilities Commission (IPUC) seeking proposed modifications to the existing Power Cost Adjustment (PCA) mechanism. Due to extremely high short-term power prices, Avista Utilities is requesting to recover power supply costs associated with meeting increased retail and wholesale system load requirements, as well as to recover replacement power costs associated with possible thermal plant forced outages.

During 2000, Avista Utilities deferred \$33.9 million in power costs in Washington and \$4.5 million in Idaho under the PCA mechanism currently in place.

Based on Avista Utilities' views of streamflows, historic market prices and energy availability in the second quarter of 2000, Avista Utilities entered into contracts and sold call options for fixed-price power for delivery through the remainder of 2000, without making matching purchases at the same time, and also made certain short-term sales at fixed prices which were offset by purchases at prices indexed to the market price at the time of delivery. Certain of these wholesale trading positions were outside normal operating guidelines. Avista Utilities was required to buy additional power not only to meet its obligations to its retail and long-term wholesale customers, as described above, but also to cover its wholesale trading positions. An orderly process to complete the necessary power purchases was impeded by the rapid escalation of market prices and lack of liquidity in the power markets. These purchases were made at fixed prices significantly higher than the related selling prices and at index, which settled at unprecedented levels in June. The pricing of these purchases caused the majority of Avista Utilities' loss for the second quarter.

Avista Utilities' short position was compounded by the May 5 sale of its interest in Centralia, which reduced its system capacity by 201 megawatts. Based on historical trends and Avista Utilities' views on power prices and availability of power for May and June, Avista Utilities did not seek to replace the Centralia generation for those two months with firm commitments. Avista Utilities entered into a three-and-one-half-year contract to purchase 200 megawatts from TransAlta beginning in July 2000.

On September 29, 2000, the WUTC ordered a \$3.4 million, or 1.4%, reduction in electric rates and a \$1.7 million, or 2.1%, increase in natural gas rates. Avista Utilities had filed a request with the WUTC in October 1999 for a general electric rate increase of \$26.2 million, or 10.4%, subsequently revised to \$18.2 million, and a general natural gas rate increase of \$4.9 million, or 6.5%. The WUTC also ordered that Avista Utilities' annual rate of return on investment for both electricity and natural gas be reduced from 10.7% to 9.03%. Avista Utilities had requested a 9.9% rate of return. Avista Utilities filed a Petition for Reconsideration before the WUTC requesting that the commission reconsider certain portions of its order. On November 8, 2000, the Commission slightly modified the original order by reducing the electric reduction from \$3.4 million to \$2.9 million and increasing the natural gas increase from \$1.7 million to \$1.8 million.

Retail electric revenues increased \$10.6 million in 2000 over 1999 due primarily to increased prices, as well as greater sales volumes due to customer growth and increased usage due to weather. Wholesale electric revenues increased \$342.3 million, or 66%, while sales volumes decreased 20% in 2000 compared to 1999, reflecting average sales prices 107% higher in 2000. Wholesale sales volumes decreased due to management's decision in mid-year to reduce power imbalance volume limits (the difference between projected load obligations and projected resource availability), based on the emergent market price volatility, and to focus primarily on energy transactions necessary to efficiently manage power resources to meet retail customer loads and wholesale obligations. The extent of future wholesale transactions will be determined based on resource additions or changes and load obligations and contract commitments. Wholesale transactions continue to be an integral tool in efficiently managing and economically

dispatching Avista Utilities' power resource availability to meet supply obligations within the coordinated Pacific Northwest power grid.

Natural gas revenues increased \$37.4 million in 2000 over 1999. Retail natural gas revenues increased \$49.0 million, primarily due to increased natural gas prices, but were offset by a \$9.5 million decrease in non-retail sales. Non-retail natural gas sales are sales of natural gas commodity and related services outside of the Avista Utilities distribution system to other utilities and large industrial customers. Revenues from these sales are offset by like increases in purchased gas expense, and margins from these transactions are credited back to retail customers through rate changes approved by state regulators for the cost of natural gas. Non-retail sales have decreased since mid-1999 primarily due to the agency agreement between Avista Utilities and Avista Energy mentioned above. Avista Energy will make the majority of these sales in the future, if it is optimal to managing the natural gas portfolio. The utility commissions of Washington, Idaho and Oregon have approved Benchmark Incentive Mechanisms that allow Avista Utilities and its customers to share some of the benefits of Avista Energy's resource optimization activities.

Purchased power volumes were 15% lower in 2000 primarily due to decreased wholesale sales, but purchased power prices averaged 132% higher, resulting in a \$529.0 million, or 97%, increase in purchased power expense in 2000 over 1999. The \$33.9 million deferral of power costs pursuant to the WUTC accounting order and the \$4.5 million deferred under the Idaho PCA partially offset purchased power expense recognized in 2000. Streamflows in 2000 were 86% of normal compared to 112% in 1999. Fuel for power generation expense increased \$22.7 million due to increased generation at the thermal plants as a result of increased demand for power and increases in natural gas commodity prices. Purchased natural gas costs increased \$39.7 million in 2000, primarily due to increased prices for the commodity, increased volumes of sales due to customer growth and increased usage due to weather.

Operations and maintenance expenses increased \$5.6 million, or 10%, due to a variety of items, including increased distribution expenses, higher fees associated with the increased amount of customer accounts receivables sold, increased accruals for uncollectible accounts and other expenses related to customer accounting services.

1999 compared to 1998

Avista Utilities' pre-tax income from operations decreased \$0.6 million in 1999 from 1998. Operating revenues and expenses increased \$66.4 million and \$67.0 million, respectively, during 1999.

Retail electric revenues increased \$9.0 million due to increased kWh sales of 3% due to customer growth of 1.5% and slightly cooler weather in Avista Utilities' service area in 1999 than in 1998. Wholesale electric revenues increased \$65.2 million, primarily due to prices 11% greater and sales volumes 3% higher in 1999 over 1998. Natural gas revenues decreased \$5.7 million primarily as a result of decreased non-retail sales, partially offset by increased retail sales due to customer growth and increased customer usage as a result of slightly cooler weather in Avista Utilities' service area in 1999.

Purchased power volumes increased 2% and prices were 13% higher than the previous year, which resulted in a \$72.9 million, or 15%, increase in purchased power expense in 1999 over 1998. This increase accounted for the majority of the increase in Avista Utilities' operating expenses. Operations and maintenance expenses decreased \$4.6 million in 1999 from 1998 as a result of fewer storms, resulting in less storm damage, and realizing the benefit of preventive maintenance programs such as cable replacement, pole test and treat, and tree trimming. Administrative and general expenses decreased \$3.3 million due to increased expenditures during 1998 associated with the change in executive officers and the corporate name change. Avista Utilities also recorded charges of approximately \$5 million related to impairment of assets, which primarily included items such as deferred charges now deemed unrecoverable through rates and a defective inventory software system.

Energy Trading and Marketing

Energy Trading and Marketing includes the results of Avista Energy, Avista Power, and Avista-STEAG. Avista Power and Avista-STEAG operations had minimal impact on earnings in 2000, 1999 or 1998. Avista Energy maintains an energy trading portfolio that it marks to fair market value on a daily basis (mark-to-market accounting), and which may cause earnings variability in the future. Market prices are utilized in determining the value of electric, natural gas and related derivative commodity instruments. For longer-term positions, in addition to market prices, a model based on forward price curves is also utilized. See Liquidity and Capital Resources: Risk Management and Note 4 of Notes to Financial Statements for additional information about market risk and credit risk.

2000 compared to 1999

Energy Trading and Marketing's income available for common stock for 2000 was \$161.8 million compared to a loss of \$60.7 million in 1999. Avista Energy's operations in 2000 were positively affected by a well-positioned portfolio in the volatile Pacific Northwest and western electric markets. Avista Energy's operations were negatively impacted by losses from the liquidation of its Eastern electric book and associated operating costs to close its Eastern operations in Houston and Boston.

In November 1999, Avista Energy began redirecting its focus away from national energy trading toward a more regionally-based energy trading and marketing effort in the West. Its more narrowly focused operations in the West are backed by contracts for energy commodities and by the output of specific facilities available under contracts. The change in strategy followed significant changes in the overall energy trading and marketing industry that created low margins while requiring higher levels of investment, credit commitments and value-at-risk limits. By late 1999, mergers and consolidations within the industry reduced the number of firms and increased the remaining firms' typical size, leaving a marketplace where liquidity and volatility were not favorable. Avista Energy shut down its operations in Houston and Boston during the first and second quarters of 2000 and reduced its workforce by approximately 80 positions. The Eastern electric book was sold at a \$1.0 million after-tax loss in early 2000. The remaining Eastern natural gas contracts, primarily for transportation and storage, are being managed out of the Spokane office until the last of the contracts expire in 2002.

Energy Trading and Marketing's revenues and operating expenses decreased \$164.1 million and \$512.1 million, respectively, in 2000 from 1999. The decrease in revenues was primarily due to lower sales volumes, partially offset by increased prices. The decreased expenses primarily resulted from decreased volumes of transactions, partially offset by increased resource costs due to increased commodity prices, and the closure of Avista Energy's Eastern operations and refocusing the business to the West.

The volume of power and natural gas sales decreased significantly as Avista Energy's focus was redirected to the WSCC. Electric sales volumes decreased 22%, while natural gas sales decreased 60%. The exception to this was the comparatively minor coal sales, which increased 115% in volume in 2000 over 1999. However, after the Houston and Boston offices were closed, no more coal sales were made and the remaining contracts expired by the end of 2000, so there will be no more coal sales or revenues to the future.

Energy Trading and Marketing's balance sheet increased \$8.68 billion from December 1999 to December 2000. Avista Energy's energy commodity assets and liabilities increased primarily as a result of significant price increases for both natural gas and power during this period. Trade receivables and payables increased due to higher market prices on current positions.

1999 compared to 1998

Energy Trading and Marketing income available for common stock for 1999 was an after-tax loss of \$60.7 million compared to earnings of \$14.1 million in 1998. The primary reason for the decrease was a \$27.3 million after-tax charge recorded by Avista Energy related to the downsizing and restructuring of the business, and \$32.1 million of after-tax operational losses due to warmer than normal weather across the nation, soft national energy markets and a lack of volatility within those markets. The restructuring charge consisted of a \$21.4 million after-tax charge for the write-off of goodwill from the purchase of Vitol in February 1999 and a \$5.9 million after-tax reserve for severance payments and other related expenses. Avista Energy recognized losses (1) on positions taken in anticipation of certain weather patterns in particular areas of the country, which lost value when the expected patterns did not occur, and (2) on options, also taken in anticipation of certain weather patterns in particular areas of the country, which expired unexercised when the expected patterns did not occur.

Since its inception in 1997, Avista Energy developed and expanded its business and added experienced traders and staff. This growth continued in 1999 with Avista Energy's purchase of Vitol in the first quarter. Vitol, located in Boston, Massachusetts, was one of the top 20 energy marketing companies in the United States. Late in the second quarter of 1999, Avista Energy added a significant number of energy professionals in its Spokane and Houston offices. The integration of Vitol operations into Avista Energy began during the second quarter with the consolidation of back-office support, improvements in accounting and trading processes and personnel, and continued enhancements in risk management systems across Avista Energy.

Energy Trading and Marketing's revenues and operating expenses increased \$4.29 billion and \$4.36 billion, respectively, in 1999 over 1998. The increase in revenues and expenses was primarily the result of Avista Energy

continuing to grow its business. Energy Trading and Marketing's assets increased \$639.9 million from December 1998 to December 1999. Avista Energy's energy commodity assets and liabilities increased as a result of additional trading volumes, which were partially offset by market price declines. Trade receivables and payables increased due to additional volumes of sales and purchases.

Information and Technology

The Information and Technology line of business includes the results of Avista Advantage, Avista Labs and Avista Communications. Avista Corp. has committed to invest in the continued growth of these information and technology businesses as part of its overall strategic focus on generating shareholder value.

2000 compared to 1999

Information and Technology's loss attributable to common stock for the year was \$28.4 million compared to a loss of \$8.6 million in 1999. Operating revenues and expenses for this line of business increased \$6.8 million and \$33.9 million, respectively, over 1999, primarily due to growth in each of the individual businesses.

1999 compared to 1998

Information and Technology's income available for common stock for 1999 was a loss of \$10.2 million, compared to a loss of \$3.4 million in 1998. Increases in revenues and various expense categories for this line of business were primarily due to growth in each of the individual businesses.

Avista Ventures

The Avista Ventures line of business includes the results of Avista Ventures, Pentzer, Avista Development and Avista Services.

2000 compared to 1999

The loss attributable to common stock from this line of business was \$2.9 million for 2000, compared to earnings of \$35.8 million in 1999. The 2000 loss includes a \$1.2 million after-tax charge recorded by Pentzer in the first quarter for expenses related to employee terminations resulting from a redirection of Pentzer's business focus. The 1999 earnings included transactional gains totaling \$35.9 million, net of taxes, recorded by Pentzer as a result of the sale of its Creative Solutions Group and Store Fixtures Group of portfolio companies, partially offset by a loss on the sale of equipment.

Operating revenues and expenses from this line of business decreased \$89.4 million and \$79.9 million, respectively, during 2000, primarily as a result of the sales of portfolio companies by Pentzer. The Creative Solutions Group of companies was sold at the end of the first quarter of 1999 and the Store Fixtures Group of companies was sold during the third quarter of 1999. Revenues and expenses from these companies were included only in the 1999 amounts.

1999 compared to 1998

Income available for common stock for 1999 from the Avista Ventures line of business totaled \$35.8 million, which was a \$24.7 million increase over 1998. The increased earnings resulted primarily from transactional gains recorded by Pentzer in 1999 totaling \$35.9 million, net of taxes, from the sales of two groups of portfolio companies. Transactional gains during 1998 totaled \$4.3 million, net of taxes, as a result of the sale of a portfolio company.

Non-transactional earnings totaled \$1.2 million in 1999, a decrease of \$6.2 million from 1998, primarily due to the loss of income resulting from the sales of portfolio companies. Operating revenues and expenses decreased \$109.2 million and \$96.7 million, respectively, primarily as a result of the sales of portfolio companies by Pentzer.

LIQUIDITY AND CAPITAL RESOURCES

Overall Operations

Operating Activities Operating activities provided cash of \$76.2 million in 2000 compared to \$111.2 million in 1999. The primary reasons for the decrease in cash were the second quarter losses at Avista Utilities, not included in retail rates, caused by higher power costs and the funds expended for power and natural gas, but deferred for later recovery from customers. Increased commodity prices that affected both Avista Utilities and Avista Energy were primarily responsible for the large changes in various working capital components, such as receivables and payables.

Investing Activities Investing activities used cash of \$96.9 million in 2000 compared to \$27.2 million in 1999. In 2000, Avista Utilities sold the Centralia Power Plant, resulting in proceeds of approximately \$89.2 million. In 1999, Pentzer sold the Creative Solutions and Store Fixtures groups of companies and Avista Energy acquired Vitol. Utility operations' capital expenditures, excluding Allowance for Funds Used During Construction (AFUDC) and Allowance for Funds Used to Conserve Energy (AFUCE, a carrying charge similar to AFUDC for conservation-related capital expenditures), were \$270 million for the 1998-2000 period.

Financing Activities Financing activities provided net cash of \$175.0 million in 2000 compared to using cash of \$116.8 million in 1999. In 2000, short-term notes payable increased \$42.1 million and \$224.0 million of long-term debt was issued, while \$54.6 million of long-term debt matured or was redeemed. In addition, the Company repurchased \$10.0 million of Preferred Trust Securities. In 1999, short-term notes payable increased \$110.5 million and \$116.5 million of proceeds were received from the issuance of long-term debt, including \$25.0 million of Medium-Term Notes (MTNs). These proceeds, plus cash provided from operating activities, were used to retire \$211.5 million of long-term debt and repurchase \$82.0 million of common stock and \$5.9 million of preferred stock. During the 1998-2000 period, \$296 million of long-term debt and preferred stock matured, was mandatorily redeemed or was optionally redeemed and refinanced at a lower cost.

In August 1998, the Company announced a dividend restructuring plan that reduced the Company's annual common stock dividend from \$1.24 per share to \$0.48 per share, a 61% reduction, which was effective with the payment of the common stock dividend paid on December 15, 1998. At the same time, an exchange offer was made whereby shareholders were provided the opportunity to exchange their shares of common stock for depositary shares, also known as RECONS (Return-Enhanced Convertible Securities). Each RECONS represented a one-tenth ownership interest in one share of mandatorily convertible Series L Preferred Stock. Each RECONS paid an annual dividend of \$1.24 for a period of about three years and after three years would automatically convert back to common stock, unless the Company exercised its option to convert the Series L Preferred Stock prior to the end of the three-year period. Shareholders who chose not to participate in the exchange offer retained their ownership in Avista Corp. common stock. The annual savings resulting from the dividend restructuring were approximately \$30 million for the periods that the preferred stock was outstanding, increasing to about \$42 million annually after the conversion of the preferred shares back to common stock. The savings assisted in funding a portion of the Company's capital expenditures, maturing long-term debt and preferred stock sinking fund requirements. See Note 15 of Notes to Financial Statements for additional information about the convertible preferred stock.

On February 16, 2000, the Company exercised its option to convert all the remaining outstanding shares of Series L Preferred Stock back into common stock. The RECONS were also converted into common stock on the same conversion date, and each of the RECONS was converted into the following: 0.7205 shares of common stock, representing the optional conversion price; plus 0.0361 shares of common stock, representing the optional conversion premium; plus the right to receive \$0.21 in cash, representing an amount equivalent to accumulated and unpaid dividends up until, but excluding, the conversion date. Cash payments were made in lieu of fractional shares.

In March 2000, the Company began issuing new shares of common stock to the Employee Investment Plan rather than the Plan purchasing shares of common stock on the open market. In the fourth quarter of 2000, the Company also began issuing new shares of common stock for the Dividend Reinvestment and Stock Purchase Plan. Through December 31, 2000, a total of 125,636 new shares of common stock were issued to both plans.

In August and December of 2000, the Company issued a total of \$224.0 million of Unsecured MTNs, Series D at rates of 8.000% and 8.625% due in 2001 and 2003. A total of \$44.9 million of Secured MTNs matured during 2000, with rates between 6.13% and 8.20%. As of December 31, 2000, the Company had a total of \$317.0 million of Unsecured MTNs authorized to be issued.

In May 1999, the Company's Board of Directors authorized a common stock repurchase program in which the Company may repurchase in the open market or through privately negotiated transactions up to an aggregate of 10 percent of its common stock and common stock equivalents over the following two years. The repurchased shares will return to the status of authorized but unissued shares. During 1999, the Company repurchased approximately 4.8 million common shares and 322,500 shares of RECONS (which was equivalent to 32,250 shares of Convertible Preferred Stock, Series L). The combined repurchases of these two securities represent 9% of outstanding common stock and common stock equivalents. There was no activity under this plan during 2000.

The Company funds capital expenditures with a combination of internally-generated cash and external financing. The level of cash generated internally and the amount that is available for capital expenditures fluctuates annually. Cash provided by operating activities remains the Company's primary source of funds for operating needs, dividends and capital expenditures.

The Company's cash flows have been affected because of the higher power and natural gas costs, as well as cash collateral required for counterparties and trading at Avista Energy. The higher power and natural gas prices are expected to continue to affect cash flows during 2001. The purchased power and natural gas costs incurred to serve the utility's retail customers are generally recovered or expected to be recovered in retail rates, however, there is a lag between the time the costs are incurred by the Company and the time they are collected from customers. As more fully described in Note 1 of Notes to the Financial Statements – "Power Cost Deferrals and Power and Natural Gas Adjustment Provisions", costs in excess of those included in rates are deferred as an asset on the balance sheet. Deferral balances at the end of 2000 totaled \$78.8 million. Costs during 2001 are expected to continue to exceed the levels included in rates and, as a result, deferral balances are expected to increase during 2001. Because of the continuing high level of power and natural gas prices, a significant change in company resource availability (such as hydro generation) or customer demand could have a significant positive or negative impact on expected deferrals and cash flows. On an interim basis, the Company uses its revolving line of credit to fund these costs to the extent that they exceed the cash flows available from operations. The Company expects to issue longer-term debt during 2001 to pay down balances outstanding under the revolving line of credit. This will provide additional liquidity needed to fund the deferral balances. The Company intends to file applications with regulatory commissions during 2001 to address timing of recovery of the deferred costs. If the commissions approve the Company's requests, the deferral balances are expected to begin being recovered starting in 2001 or 2002. The Company's existing lines of credit are expected to be adequate to meet the current needs.

Under normal water conditions and loads, Avista Utilities' own generation plants and long-term contracts would be able to provide approximately 90% of its forecasted native load energy requirements in 2001, and 100% thereof in 2002 and 2003. The balance would be covered through short-term contracts. Avista Utilities has covered essentially all of its electric energy requirements in the forward markets for 2001. Current forecasts show streamflow conditions for hydroelectric generation for 2001, estimated at 60% of normal, to be among the worst five years on record. In response to the reduced hydroelectric generation, Avista Utilities has made additional fixed price purchases of energy, and expects to receive the necessary local, state and federal approvals to increase the energy output of its natural gas-fired thermal generation to cover its firm retail and wholesale load requirements for 2001, with minimal additional purchases expected from the high cost short-term wholesale market. However, if hydroelectric conditions further deteriorate, its thermal plants do not operate as planned, or weather conditions cause retail loads to increase, Avista Utilities would incur increased costs from increased purchases in the short-term wholesale energy market.

Higher volatility in 2000 in power and natural gas prices and significant increases in average price levels have resulted in the need for energy trading counterparties to provide one another adequate assurances of their future performance on energy transaction obligations. The adequate assurance demands are satisfied through various means, including letters of credit, cash deposits or prepayments, parent entity guaranties, contract terms and portfolio management.

As mentioned earlier, the Company is currently in the process of obtaining separate financing for construction of the Coyote Springs 2 project. The Company is seeking to finance a majority of the costs during construction with a term loan that would match the construction period. The project would serve as collateral for the term loan. If the Company does not complete a separate financing for this project, there would be a need to issue other debt or equity securities during 2001 and 2002 to provide the funding.

The California Energy Crisis discussed earlier has had an impact on banks' willingness to extend credit to energy and utility companies. Banks are particularly concerned with the credit of companies in California and those in the West with exposure to California or the potential to be impacted by what ultimately happens in California. This may impact the Company's ability to obtain financing from traditional sources. However, the Company currently expects that it

will be able to obtain financing required to meet its capital and operating needs on reasonable terms. Capital expenditures are financed on an interim basis with short-term borrowings or notes payable (due within one year). The Company has \$230 million in two committed lines of credit, which expire on June 26, 2001. As part of the renewal of the agreements in 2000, the Company pledged its shares of common stock in Avista Capital as security for these agreements. The Company also had a \$60 million three-month line of credit that expired on October 25, 2000 and was not replaced. In addition, the Company has a \$50 million regional commercial paper program that is backed by the committed lines of credit. During 2000, the Company could also borrow up to \$100 million through other borrowing arrangements with banks, but none of these agreements were in place at year-end. As of December 31, 2000, \$152.0 million was outstanding under the committed line of credit and \$11.2 million was outstanding under the commercial paper program.

From time to time the Company enters into sale/leaseback arrangements for various long-term assets which provide additional sources of funds. See Note 13 of Notes to Financial Statements for additional information about leases.

The Company is restricted under various agreements as to the additional securities it can issue. As of December 31, 2000, under its Restated Articles of Incorporation, approximately \$844.0 million of additional preferred stock could be issued at an assumed dividend rate of 6.95%.

During 1998, the Company entered into an agreement that increased the amount of customer accounts receivable the Company could sell from \$40 million to \$80 million to provide additional funds for capital expenditures, maturing long-term debt and preferred stock sinking fund requirements. At December 31, 2000, \$80.0 million in receivables had been sold pursuant to the agreement.

As part of its ongoing cash management practices and operations, Avista Corp. may, at any time, have short-term notes receivable and payable with Avista Capital. In turn, Avista Capital may also have short-term notes receivable and payable with its subsidiaries. As of December 31, 2000, Avista Corp. had short-term notes receivable of \$113.6 million from Avista Capital, which includes \$56.7 million for the Coyote Springs 2 project, compared to short-term notes payable of \$18.3 million at December 31, 1999.

Avista Capital provides guarantees for Avista Energy's line of credit agreement, and in the course of business may provide guarantees to other parties with whom Avista Energy may be doing business. The Company's investment in Avista Capital totaled \$361.2 million at December 31, 2000.

Avista Utilities Operations

During the 2001-2003 period, utility capital expenditures are expected to be \$478 million, and \$348 million will be required for long-term debt maturities and preferred stock sinking fund requirements. During this three-year period, internally generated funds and external financings will be used to fund the Company's capital expenditure program, maturing long-term debt and preferred stock sinking fund requirements. Sources of funds would include, but are not necessarily limited to, sales of certain assets, additional long-term debt, leasing or issuance of other equity securities. These estimates of capital expenditures are subject to continuing review and adjustment. Actual capital expenditures may vary from these estimates due to factors such as changes in business conditions, construction schedules and environmental requirements.

See Notes 3, 11, 12, 13, 14, 15, 16, 17 and 18 of Notes to Financial Statements for additional details related to financing activities.

Energy Trading and Marketing Operations

Avista Capital's total investment in this line of business was \$291.7 million at December 31, 2000. Avista Energy funds its ongoing operations with a combination of internally generated cash and a bank line of credit.

Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, have a credit agreement with two commercial banks in the aggregate amount of \$110 million, decreasing periodically to \$70 million at the end of the agreement, and expiring April 30, 2001. Avista Energy is in the process of renewing the line of credit. The credit agreement may be terminated by the banks at any time and all extensions of credit under the agreement are payable upon demand, in either case at the banks' sole discretion. The agreement also provides, on an uncommitted basis, for the issuance of letters of credit to secure contractual obligations to counterparties. The facility is guaranteed by Avista Capital and is secured by substantially all of Avista Energy's assets. The maximum amount of credit extended by the banks for cash advances is \$30 million, with availability of up to \$110 million (less the amount of outstanding cash

AVISTA CORPORATION

advances, if any) for the issuance of letters of credit. At December 31, 2000 and 1999, there were no cash advances (demand notes payable) outstanding. Letters of credit outstanding under the facility totaled approximately \$71.5 million and \$75.8 million at December 31, 2000 and 1999, respectively.

Capital expenditures for the Energy Trading and Marketing companies were \$71.1 million for the 1998-2000 period, primarily due to Avista Power's investments in the Rathdrum and Coyote Springs 2 projects. Avista Power's equity investment of \$16 million in Rathdrum is expected to occur in 2001.

At December 31, 2000, the Energy Trading and Marketing companies had \$179.6 million in cash and cash equivalents and \$0.5 million in long-term debt outstanding.

As of December 31, 2000, Avista Capital had loaned \$21.6 million to Avista Energy to support its short-term cash and collateral needs. These loans are subordinate to any obligations to the banks under the credit agreements.

Rising prices in power and natural gas beginning in the second quarter of 2000 and continuing beyond the end of 2000 triggered additional collateral requirements with counterparties. Avista Energy is managing the collateral calls by providing letters of credit, providing guarantees from Avista Capital and offsetting transactions with counterparties. In addition to the letters of credit and other items included above, cash deposited with counterparties totaled \$40.5 million as of December 31, 2000, and is included in the Consolidated Balance Sheets in prepayments and other. The posted collateral will be returned to Avista Energy depending on the effect of changing market values of forward contracts or as forward positions settle. Avista Energy held cash deposits from other parties in the amount of \$96.6 million as of December 31, 2000, and such amounts are subject to refund if conditions warrant because of continuing portfolio value fluctuations with those parties.

Avista Power and Cogentrix Energy, Inc. entered into an agreement to jointly build a 270 megawatt natural gas combustion turbine facility in Rathdrum, Idaho, with 100% of its output contracted to Avista Energy for 25 years. Non-recourse project financing was completed in March 2000 and the facility is currently under construction, with generation expected to start in late 2001. The total cost of the project is estimated at \$160 million; Avista Power's equity in the project is approximately \$16 million.

Information and Technology Operations

Capital expenditures for the Information and Technology companies were \$55.1 million for the 1998-2000 period. The 2001-2003 capital expenditures are expected to be \$61.0 million, and \$0.1 million in debt maturities will also occur. These companies expect to seek outside funding through partnerships or other arrangements to support these capital requirements.

Two venture capital firms made small minority interest investments in Avista Advantage during the fourth quarter of 2000.

At December 31, 2000, the Information and Technology companies had \$1.3 million in long-term debt outstanding.

In early 1999, Avista Labs announced the receipt of a \$2 million technology development award from the Department of Commerce's National Institute of Standards and Technology Advanced Technology Program. Avista Labs is working on technology that will increase the energy density of its fuel cell design and develop multiple fuel processing approaches using propane, methane and methanol as base fuels to integrate into its fuel cell subsystem.

Avista Ventures Operations

Capital expenditures for these companies were \$18.6 million for the 1998-2000 period. The 2001-2003 capital expenditures are expected to be \$27.3 million, and \$0.5 million in debt maturities will also occur. During the next three years, internally generated cash and other debt obligations are expected to provide the majority of the funds for these capital expenditure requirements. The decrease in these projected capital expenditures is primarily related to the change in Pentzer's focus beginning in 2000.

At December 31, 2000, this line of business had \$1.2 million in cash and cash equivalents and temporary investments, with \$0.8 million in long-term debt outstanding.

AVISTA CORPORATION

Total Company Cash Requirements (Millions of Dollars)

	<u>Actual</u>			<u>Projected</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Avista Utilities operations:						
Capital expenditures (1)	\$ 92	\$ 86	\$100	\$256	\$131	\$ 91
Debt and preferred securities maturities and redemptions (2)	<u>24</u>	<u>214</u>	<u>55</u>	<u>89</u>	<u>52</u>	<u>207</u>
Total Avista Utilities	<u>116</u>	<u>300</u>	<u>155</u>	<u>345</u>	<u>183</u>	<u>298</u>
Avista Capital operations:						
Capital expenditures (3)	14	29	101 (4)	38	28	22
Investments	53	51	4	29	-	2
Debt maturities	<u>18</u>	<u>3</u>	<u>10</u>	<u>-</u>	<u>1</u>	<u>-</u>
Total Avista Capital	<u>85</u>	<u>83</u>	<u>115</u>	<u>67</u>	<u>29</u>	<u>24</u>
Total Company	<u>\$201</u>	<u>\$383</u>	<u>\$270</u>	<u>\$412</u>	<u>\$212</u>	<u>\$322</u>
Funding of Avista Capital (5)	42	40	114	75	22	2

- (1) Capital expenditures exclude AFUDC and AFUCE.
- (2) Excludes short-term borrowings and notes payable (due within one year).
- (3) Represents Avista Capital's portion of projected joint projects. Some projected capital expenditures may depend on the availability of additional funding from other outside sources.
- (4) The 2000 capital expenditures by Avista Capital includes funding of Coyote Springs 2, which will be transferred to Avista Utilities.
- (5) Funding of Avista Capital by Avista Corp. includes both equity investments and notes payable.

The Company's total common equity increased \$330.7 million to \$724.2 million at the end of 2000. The increase was primarily due to the conversion of convertible preferred stock into common stock and the earnings recorded by Avista Energy. The Company's consolidated capital structure at December 31, 2000, was 44% debt, 9% preferred securities (including the Preferred Trust Securities) and 47% common equity as compared to 47% debt, 27% preferred securities (including the Preferred Trust Securities) and 26% common equity at year-end 1999. Had the convertible preferred stock been converted into common stock, the Company's consolidated capital structure at December 31, 1999, would have been 47% debt, 10% preferred securities (including the Preferred Trust Securities) and 43% common equity.

Additional Financial Data

At December 31, 2000, the total long-term debt of the Company and its consolidated subsidiaries, as shown in the Company's consolidated financial statements, was approximately \$679.8 million. Of such amount, \$473.8 million represents long-term unsecured and unsubordinated indebtedness of the Company, and \$203.5 million represents secured indebtedness of the Company. The balance of \$2.5 million represents indebtedness of subsidiaries. Consolidated long-term debt does not include the Company's subordinated indebtedness held by the issuers of Company-obligated preferred trust securities. An additional \$163.2 million of the Company's short-term debt outstanding under or backed by the committed lines of credit is secured.

FUTURE OUTLOOK

Business Strategy

Avista Utilities seeks to maintain a strong, low-cost utility business focused on delivering efficient, reliable and high quality service to its customers. The utility business is expected to grow modestly, consistent with historical trends. Expansion will primarily result from economic growth in its service territory. Avista Energy scaled back operations to the WSCC during 2000, and will continue to focus on reducing the size and the risk associated with its energy trading and marketing activities. Avista Energy's marketing efforts are expected to be driven by its base of knowledge and experience in the operation of both electric energy and natural gas physical systems in the region, as well as its relationship-focused approach to its customers. Avista Power will continue to pursue opportunities to develop new generation to support the growing power requirements in the Northwest. The Company also intends to focus on its investments in the Information and Technology subsidiaries as part of its overall plans for generating

shareholder value, which could include finding equity partners to assist in financing the continued growth of the businesses.

Competition

Avista Utilities competes to provide service to new retail electric customers with various rural electric cooperatives and public utility districts in and adjacent to its service territories. Alternate sources of power may compete for sales to existing Avista Utilities customers, including new market entrants as a result of deregulation. Competition for available electric resources has become more critical to utilities as surplus power resources have been absorbed by load growth. Avista Utilities' natural gas distribution operations compete with other energy sources but natural gas continues to maintain a price advantage compared to heating oil, propane and other fuels, provided that the natural gas distribution system is proximate to prospective customers.

The Avista Capital subsidiaries, particularly the Information and Technology companies, are subject to competition as they develop products and services and enter new markets. Competition from other companies in these emerging industries may mean challenges for a company to be the first to market a new product or service to gain the advantage in market share. In order for these new businesses to grow as planned, one significant challenge will be the availability of funding and resources to meet the capital needs. Other challenges will be rapidly advancing technologies, possibly making some of the current technology quickly obsolete, and requiring continual research and development for product advancement. In order for some of these subsidiaries to succeed, they will need to reduce costs of these emerging technologies to make them affordable to future customers.

Business Risk

The Company's operations are exposed to risks, including legislative and governmental regulations, the price and supply of purchased power, fuel and natural gas, recovery of purchased power and purchased natural gas costs, weather conditions, availability of generation facilities, competition, technology and availability of funding.

Challenges facing Avista Utilities' electric operations include, among other things, changes in the availability of and volatility in the prices of power and fuel, generating unit availability, legislative and governmental regulations, weather conditions, and the ability to recover increased costs of purchased power. Avista Utilities believes it faces minimal risk for stranded utility assets resulting from deregulation due to its low-cost generation portfolio and because of the slower and more cautious approach to regulatory changes that have been under consideration in Washington and Idaho. In a deregulated environment, however, evolving technologies that provide alternate energy supplies could affect the market price of power, and certain generating assets could have capital and operating costs above the adjusted market price.

In addition, the energy trading and marketing business exposes the Company to the financial, liquidity, credit and commodity price risks associated with wholesale sales and purchases.

Natural gas commodity prices increased dramatically during 2000. However, market prices for natural gas continue to be competitive compared to alternative fuel sources for residential, commercial and industrial customers. Proven reserves and future natural gas development opportunities lead the Company to believe that natural gas should sustain its market advantage. Significant growth has occurred in the natural gas business in recent years due to increased demand for natural gas in new construction. Challenges facing Avista Utilities' natural gas operations include, among other things, volatility in the price of natural gas, changes in the availability of natural gas, legislative and governmental regulations, weather conditions, conservation and the timing for recovery of increased commodity supply costs. Avista Utilities' natural gas business also faces the potential for large natural gas customers to by-pass its natural gas system. To reduce the potential for such by-pass, Avista Utilities prices its natural gas services, including transportation contracts, competitively and has varying degrees of flexibility to price its transportation and delivery rates by means of individual contracts. Avista Utilities has long-term transportation contracts with seven of its largest industrial customers, which reduces the risks of these customers by-passing the system in the foreseeable future.

Commodity Price Risk. Both Avista Utilities and Avista Energy are subject to commodity price risk. Historically, the price of power in wholesale markets has been affected primarily by production costs and by other factors including streamflows, the availability of hydro and thermal generation and transmission capacity, weather and the resulting retail loads, and the price of coal, natural gas and oil to thermal generating units. Any combination of these factors that resulted in a shortage of energy generally caused the market price of power to move upward. Now, however, market prices appear to be affected by other factors as well. These factors include the gradual elimination of excess

generating capacity in the WSCC and the effects of the restructuring of the electric utility business at the state and federal levels and the deregulation of wholesale energy markets.

Price risk is, in general, the risk of fluctuation in the market price of the commodity needed, held or traded. In the case of electricity, price movements are correlated to adequacy of generating reserve margins, scheduled and unscheduled outages of generating facilities, availability of streamflows for hydroelectric production, the price of thermal generating plant fuel, and disruptions or constraints to transmission facilities. Demand changes (caused by variations in the weather and other factors) are also correlated to price movements. Price risk also includes the risk of fluctuation in the market price of associated derivative commodity instruments (such as options and forward contracts). Price risk may also be influenced to the extent that the performance or non-performance by market participants of their contractual obligations and commitments affect the supply of, or demand for, the commodity. As discussed earlier, market prices for power and natural gas in the Western U.S. and Western Canada were significantly higher in 2000 than at any time in history, with unprecedented levels of volatility. The extreme price volatility experienced in 2000 suggests that other factors, including unexplained influences, also affect market prices.

Credit Risk. Credit risk relates to the risk of loss that Avista Utilities and/or Avista Energy would incur as a result of non-performance by counterparties of their contractual obligations to deliver energy and make financial settlements. Credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances which relate to other market participants which have a direct or indirect relationship with such counterparty. Avista Utilities and Avista Energy seek to mitigate credit risk by applying specific eligibility criteria to existing and prospective counterparties and by actively monitoring current credit exposures. However, despite mitigation efforts, defaults by counterparties occur from time to time. Avista Energy has experienced payment receipt defaults from certain parties impacted by the California energy crisis and ultimate collection is not known at this time. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Significant Changes in Energy Markets: California Energy Crisis and Note 4 of Notes to Financial Statements for more information about credit reserves.

Credit risk also involves the exposure that counterparties perceive related to performance by Avista Utilities and Avista Energy to perform deliveries and settlement of energy resource transactions. These counterparties seek assurance of performance in the form of letters of credit, prepayment or cash deposits, and, in the case of Avista Energy, parent company performance guaranties. In periods of price volatility, the level of exposure can change significantly, with the result that sudden and significant demands may be made against the Company's capital resource reserves (credit facilities and cash).

Other Operating Risks. In addition to commodity price risk, Avista Utilities' commodity positions are also subject to operational and event risks including, among others, increases in load demand, transmission or transport disruptions, fuel quality specifications and forced outages at generating plants. Some of these factors have been addressed in the recent changes to the Washington deferred power accounting adjustment and the Idaho PCA.

Interest Rate Risk. The Company is subject to the risk of fluctuating interest rates in the normal course of business. The fair value of the Company's cash and short-term investment portfolio and the fair value of notes payable at December 31, 2000 approximated carrying value. Given the short-term nature of these instruments, market risk, as measured by the change in fair value resulting from a hypothetical change in interest rates, is immaterial.

The Company manages interest rate risk by taking advantage of market conditions when timing the issuance of long-term financings and optional debt redemptions and through the use of fixed rate long-term debt with varying maturities. A portion of the Company's capitalization consists of floating rate Pollution Control Bonds, of which the interest rate resets periodically, and Company-Obligated Mandatorily Redeemable Preferred Trust Securities, of which the interest portion of the \$40 million Series B resets on a quarterly basis, both reflecting current market conditions. As of December 31, 2000, a hypothetical 15% change in interest rates would result in an immaterial change in the Company's cash flows related to the increased interest expense associated with these floating rate securities.

Foreign Currency Risk. The Company has investments in several Canadian companies through Avista Energy Canada, Ltd. and its acquisition of Coast Pacific Management, Inc. (see Note 23 for additional information about this acquisition). The Company's exposure to foreign currency risk and other foreign operations risk was immaterial to the Company's consolidated results of operations and financial position in 2000 and is not expected to change materially in the near future.

Risk Management

Risk Policies and Oversight. Avista Utilities and Avista Energy use a variety of techniques to manage risks. The Company has established risk management oversight for these risks for each area of the Company's energy-related business. The Company has established a Risk Management Committee composed of senior management separate from the units that create such risk exposure and overseen by the Audit and Finance Committee of the Company's Board of Directors, to monitor compliance with the Company's risk management policies. Avista Utilities and Avista Energy have adopted policies and procedures to manage the risks, both quantitative and qualitative, inherent in their businesses. The Company's Risk Management Committee reviews the status of risk exposures through regular reports and monitors compliance with the Company's risk management policies and procedures on a regular basis. Nonetheless, adverse changes in commodity prices, generating capacity, customer loads, and other factors may result in losses in earnings, cash flow and/or fair values.

Avista Utilities hired Williams Energy Marketing & Trading Company in July 2000 to advise on risk management, risk analysis and power resource optimization issues for all system requirements. The work was completed and the contract ended in the fourth quarter of 2000.

Quantitative Risk Measurements. Avista Utilities has established volume limits for its imbalance between projected loads and resources. Normal operations result in seasonal mismatches between power loads and available resources. Avista Utilities uses the wholesale power markets to sell projected resource surpluses and obtain resources when deficits are projected in the 24-month forward planning horizon. Any imbalance is required to remain within limits, or management action or decisions are triggered to address larger imbalance situations. Volume limits for forward periods are based on monthly and quarterly averages, which may vary materially from the actual load and resource variations within any given month or operating day. Future projections of resources are updated as forecasted streamflows and other factors differ from prior estimates. Forward power markets may be illiquid, and market products may only be available to approximate Avista Utilities' desired transaction size and shape. Therefore, open imbalance positions exist at any given time. During 2000, as market prices and volatility rose to unprecedented levels, the Risk Management Committee decreased the size of Avista Utilities' forward power imbalance limits.

Avista Energy measures the risk in its power and natural gas portfolio daily utilizing a Value-at-Risk (VAR) model and monitors its risk in comparison to established thresholds. VAR measures the worst expected loss over a given time interval under normal market conditions at a given confidence level. Avista Energy also measures its open positions in terms of volumes at each delivery location for each forward time period. The extent of open positions is included in the risk management policy and is measured with stress tests and VAR modeling. The Risk Management Committee adopted a revised Avista Energy risk policy in early 2000 to reflect the change in focus from a national operation to the Western energy markets. The revised risk policy also reduced targeted levels of risk compared to the prior policy.

The VAR computations are based on an historical simulation, which utilizes price movements over a specified period to simulate forward price curves in the energy markets to estimate the unfavorable impact of price movement in the portfolio of transactions scheduled to settle within the following eight calendar quarters. The quantification of market risk using VAR provides a consistent measure of risk across Avista Energy's continually changing portfolio. VAR represents an estimate of reasonably possible net losses in earnings that would be recognized on its portfolio assuming hypothetical movements in future market rates and is not necessarily indicative of actual results that may occur.

Avista Energy's VAR computations utilize several key assumptions, including a 95% confidence level for the resultant price movement and holding periods of one and three days. The calculation includes derivative commodity instruments held for trading purposes and excludes the effects of written and embedded physical options in the trading portfolio.

At December 31, 2000, Avista Energy's estimated potential one-day unfavorable impact on gross margin was \$4.0 million, as measured by VAR, related to its commodity trading and marketing business, compared to \$1.1 million at December 31, 1999. The average daily VAR for 2000 was \$1.6 million, compared to \$3.7 million in 1999, primarily due to Avista Energy's restructuring. Changes in markets inconsistent with historical trends or assumptions used could cause actual results to exceed predicted limits. Market risks associated with derivative commodity instruments held for purposes other than trading were not material at December 31, 2000.

For forward transactions that would settle beyond the immediate eight calendar quarters, Avista Energy applies other risk measurement techniques, including price sensitivity stress tests, to assess the future market risk. Volatility in longer-dated forward markets tends to be significantly less than near-term markets.

AVISTA CORPORATION

Economic and Load Growth

Avista Utilities expects economic growth to continue in its eastern Washington and northern Idaho service area. Avista Utilities, along with others in the service area, is continuing its efforts to facilitate expansion of existing businesses and attract new businesses to the Inland Northwest. Although agriculture, mining and lumber were the primary industries for many years, today health care, education, electronic and other manufacturing, tourism and the service sectors are becoming increasingly important industries that operate in Avista Utilities' service area. Avista Utilities also anticipates moderate economic growth to continue in its Oregon service area.

Avista Utilities anticipates residential and commercial electric load growth to average approximately 2.6% annually for the next five years, primarily due to increases in both population and the number of businesses in its service territory. The number of electric customers is expected to increase and the average annual usage by residential customers is expected to remain steady. A Public Utility Regulatory Policies Act of 1978 (PURPA) contract with Avista Utilities' largest customer expires in 2002. The customer is expected to self-generate at that time, which will reduce the load to this customer by the amount Avista Utilities has been purchasing and then reselling to them.

Avista Utilities anticipates natural gas load growth, including transportation volumes, in its Washington and Idaho service area to average approximately 2.7% annually for the next five years. The Oregon and South Lake Tahoe, California service areas are anticipated to realize 3.4% growth annually during that same period. The anticipated natural gas load growth is primarily due to expected conversions from electric space and water heating to natural gas, and increases in both population and the number of businesses in its service territory.

The forward-looking projections set forth above regarding retail sales growth are based, in part, upon purchased economic forecasts and publicly available population and demographic studies. The expectations regarding retail sales growth are also based upon various assumptions including, without limitation, assumptions relating to weather and economic and competitive conditions, internal analysis of company-specific data, such as energy consumption patterns and internal business plans, and an assumption that Avista Utilities will incur no material loss of retail customers due to self-generation or retail wheeling. Changes in the underlying assumptions can cause actual experience to vary significantly from forward-looking projections.

Environmental Issues

Since December 1991, a number of species of fish in the Northwest, including the Snake River sockeye salmon and fall chinook salmon, the Kootenai River white sturgeon, the upper Columbia River steelhead, the upper Columbia River spring chinook salmon and the bull trout have been listed as threatened or endangered under the Federal Endangered Species Act (ESA). Thus far, measures which have been adopted and implemented to save the Snake River sockeye salmon and fall chinook salmon have not directly impacted generation levels at any of Avista Utilities' hydroelectric dams. Avista Utilities does, however, purchase power from four projects on the Columbia River that are being directly impacted by ongoing mitigation measures for salmon and steelhead. The reduction in generation at these projects is relatively minor, resulting in minimal economic impact on Avista Utilities at this time. It is currently not possible to accurately predict the likely economic costs to the Company resulting from all future actions.

The Company received a new FERC operating license for the Cabinet Gorge and Noxon Rapids hydroelectric projects on February 23, 2000 that incorporates a comprehensive settlement agreement reached with 27 signatories. The restoration of native salmonid fish, in particular bull trout, is a principal focus of the agreement. Bull trout are native to this area and were listed as "threatened" in 1998 under the ESA. A collaborative bull trout recovery program with the U.S. Fish and Wildlife Service, Native American tribes and the states of Idaho and Montana is underway on the lower Clark Fork River. The new FERC license establishes a plan for bull trout restoration, including annual budget estimates.

The Company continues to study the issue of high dissolved gas levels downstream of Cabinet Gorge during spill periods, as agreed to in the Settlement Agreement for relicensing of Cabinet Gorge. To date, intensive biological studies in the lower Clark Fork River and Lake Pend Oreille have documented minimal biological effects of high dissolved gas levels on free ranging fish. Under the terms of the Settlement Agreement, the Company will develop an abatement and/or mitigation strategy in 2002.

See Note 22 of Notes to Financial Statements for additional information.

Lake Coeur d' Alene Decision

On July 28, 1998, the United States District Court for the District of Idaho issued its finding that the Coeur d' Alene Tribe of Idaho owns portions of the bed and banks of Lake Coeur d' Alene and the St. Joe River lying within the current boundaries of the Coeur d' Alene Reservation. The disputed bed and banks comprise approximately the southern one-third of Lake Coeur d' Alene. This action had been brought by the United States on behalf of the Tribe against the State of Idaho. While the Company is not a party to this action, which has been appealed by the State of Idaho to the Ninth Circuit Court of Appeals, the Company is continuing to evaluate the potential impact of this decision on the operation of its hydroelectric facilities on the Spokane River, downstream of Lake Coeur d' Alene. The State of Idaho filed a petition for writ of certiorari with the United States Supreme Court, which petition was granted. The Company expects that the matter will be heard and decided by July 2001.

Other

The Board of Directors considers the level of dividends on the Company's common stock on a continuing basis, taking into account numerous factors including, without limitation, the Company's results of operations and financial condition, as well as general economic and competitive conditions. The Company's net income available for dividends is derived from Avista Utilities' operations.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

The Company is including the following cautionary statement in this Form 10-K to make applicable and to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, projections of future events or performance, and underlying assumptions (many of which are based, in turn, upon further assumptions) and are all statements which are other than statements of historical fact, including without limitation those that are identified by the use of the words "anticipates," "estimates," "expects," "intends," "plans," "predicts," and similar expressions. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are also expressly qualified by these cautionary statements.

Forward-looking statements involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that the Company's expectations, beliefs or projections will be achieved or accomplished. Furthermore, any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the Company's business or the extent to which any such factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

Avista Utilities' Operations --

In addition to other factors and matters discussed elsewhere herein, some important factors that could cause actual results or outcomes for Avista Utilities' operations to differ materially from those discussed in forward-looking statements include prevailing legislative developments, governmental policies and regulatory actions with respect to allowed rates of return, financings, or industry and rate structures, weather conditions, wholesale and retail competition (including but not limited to electric retail wheeling and transmission cost), availability of economic supplies of natural gas, present or prospective natural gas distribution or transmission competition (including but not limited to prices of alternative fuels and system deliverability costs), recovery of purchased power and purchased gas costs, present or prospective generation, operations and construction of plant facilities, and acquisition and disposal of assets or facilities.

Energy Trading and Marketing Operations –

In addition to other factors and matters discussed elsewhere herein, some important factors that could cause actual results or outcomes for the Energy Trading and Marketing operations to differ materially from those discussed in forward-looking statements include further industry restructuring evolving from federal and/or state legislation, regulatory actions by state utility commissions, demand for and availability of energy throughout the country, wholesale competition, availability of economic supplies of natural gas, margins on purchased power, changes in market factors, the formation of additional alliances or entities, the availability of economically feasible generating projects and the availability of funding for new generating assets.

Information, Technology, and Avista Ventures' Operations –

Certain additional important factors which could cause actual results or outcomes for the remaining subsidiaries' operations to differ materially from those discussed in forward-looking statements include competition from other companies and other technologies, obsolescence of technologies, the ability or inability to reduce costs of the technologies down to economic levels, the ability to obtain new customers and retain old ones, reliability of customer orders, business acquisitions, disposal of assets, the availability of funding from other sources, research and development findings and the availability of economic expansion or development opportunities.

Factors Common to All Operations –

The business and profitability of the Company are also influenced by, among other things, economic risks, changes in and compliance with environmental and safety laws and policies, weather conditions, population growth rates and demographic patterns, market demand for energy from plants or facilities, changes in tax rates or policies, unanticipated project delays or changes in project costs, unanticipated changes in operating expenses or capital expenditures, labor negotiation or disputes, changes in credit ratings or capital market conditions, inflation rates, inability of the various counterparties to meet their obligations with respect to the Company's financial instruments, changes in accounting principles and/or the application of such principles to the Company, changes in technology and legal proceedings.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

See "Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook: Business Risk and Risk Management."

Item 8. Financial Statements and Supplementary Data

The Independent Auditor's Report and Financial Statements begin on the next page.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

INDEPENDENT AUDITORS' REPORT

Avista Corporation
Spokane, Washington

We have audited the accompanying consolidated balance sheets and statements of capitalization of Avista Corporation and subsidiaries (the Company) as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows, which include the schedule of information by business segments, for each of the three years in the period ended December 31, 2000. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Seattle, Washington
February 2, 2001
(February 26, 2001, as to Note 22)

CONSOLIDATED STATEMENTS OF INCOME

Avista Corporation

For the Years Ended December 31

Thousands of Dollars

	<u>2000</u>	<u>1999</u>	<u>1998</u>
OPERATING REVENUES.....	\$7,911,490	\$7,904,984	\$3,683,984
OPERATING EXPENSES:			
Resource costs.....	7,320,261	7,417,940	3,021,046
Operations and maintenance.....	108,092	155,176	229,620
Administrative and general.....	139,355	127,958	129,771
Depreciation and amortization.....	75,941	76,474	70,547
Taxes other than income taxes.....	54,608	53,157	60,180
Asset impairment and restructuring charges.....	9,805	42,922	-
Total operating expenses.....	<u>7,708,062</u>	<u>7,873,627</u>	<u>3,511,164</u>
INCOME FROM OPERATIONS.....	<u>203,428</u>	<u>31,357</u>	<u>172,820</u>
OTHER INCOME (EXPENSE):			
Interest expense.....	(68,723)	(65,076)	(69,077)
Net gain on subsidiary transactions.....	770	57,531	7,937
Other income (deductions)-net.....	29,665	18,959	9,794
Total other income (expense)-net.....	<u>(38,288)</u>	<u>11,414</u>	<u>(51,346)</u>
INCOME BEFORE INCOME TAXES.....	165,140	42,771	121,474
INCOME TAXES.....	<u>73,461</u>	<u>16,740</u>	<u>43,335</u>
NET INCOME.....	91,679	26,031	78,139
DEDUCT-Preferred stock dividend requirements.....	<u>23,735</u>	<u>21,392</u>	<u>8,399</u>
INCOME AVAILABLE FOR COMMON STOCK.....	<u>\$ 67,944</u>	<u>\$ 4,639</u>	<u>\$ 69,740</u>
Average common shares outstanding, basic (thousands).....	45,690	38,213	54,604
EARNINGS PER SHARE OF COMMON STOCK, BASIC.....	\$ 1.49	\$ 0.12	\$ 1.28
EARNINGS PER SHARE OF COMMON STOCK, DILUTED (Note 19).....	\$ 1.47	\$ 0.12	\$ 1.28
Dividends paid per common share.....	\$ 0.48	\$ 0.48	\$ 1.05

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED BALANCE SHEETS

Avista Corporation

At December 31

Thousands of Dollars

	<u>2000</u>	<u>1999</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$194,365	\$40,041
Temporary cash investments.....	1,058	9,277
Accounts and notes receivable-net.....	861,308	530,774
Energy commodity assets.....	7,956,229	585,913
Materials and supplies, fuel stock and natural gas stored.....	24,496	28,352
Prepayments and other.....	54,244	21,499
Total current assets.....	<u>9,091,700</u>	<u>1,215,856</u>
UTILITY PROPERTY:		
Utility plant in service-net.....	2,205,230	2,184,698
Construction work in progress.....	33,535	30,912
Total.....	<u>2,238,765</u>	<u>2,215,610</u>
Less: Accumulated depreciation and amortization.....	720,453	714,773
Net utility plant.....	<u>1,518,312</u>	<u>1,500,837</u>
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power-net.....	46,981	54,123
Non-utility properties and investments-net.....	219,450	135,426
Energy commodity assets.....	1,367,107	491,799
Other-net.....	21,885	31,051
Total other property and investments.....	<u>1,655,423</u>	<u>712,399</u>
DEFERRED CHARGES:		
Regulatory assets for deferred income tax.....	156,692	166,456
Conservation programs.....	18,528	44,444
Unamortized debt expense.....	27,874	31,122
Other-net.....	95,395	42,380
Total deferred charges.....	<u>298,489</u>	<u>284,402</u>
TOTAL.....	<u>\$12,563,924</u>	<u>\$3,713,494</u>
LIABILITIES AND CAPITALIZATION:		
CURRENT LIABILITIES:		
Accounts payable.....	\$892,545	\$522,478
Energy commodity liabilities.....	7,834,007	594,065
Current portion of long-term debt.....	89,000	-
Short-term borrowings.....	163,160	-
Taxes and interest accrued.....	1,971	35,123
Other.....	144,524	35,313
Total current liabilities.....	<u>9,125,207</u>	<u>1,186,979</u>
NON-CURRENT LIABILITIES AND DEFERRED CREDITS:		
Non-current liabilities.....	38,975	47,366
Deferred revenue.....	46,498	132,975
Energy commodity liabilities.....	1,272,374	441,372
Deferred income taxes.....	446,310	377,049
Other deferred credits.....	95,530	11,041
Total non-current liabilities and deferred credits.....	<u>1,899,687</u>	<u>1,009,803</u>
CAPITALIZATION (See Consolidated Statements of Capitalization).....	<u>1,539,030</u>	<u>1,516,712</u>
COMMITMENTS AND CONTINGENCIES (Notes 10, 13 and 22)		
TOTAL.....	<u>\$12,563,924</u>	<u>\$3,713,494</u>

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF CAPITALIZATION

Avista Corporation

At December 31

Thousands of Dollars

	2000	1999
LONG-TERM DEBT:		
First Mortgage Bonds:		
Secured Medium-Term Notes:		
Series A - 6.25% to 7.90% due 2002 through 2023.....	\$ 129,500	\$ 139,400
Series B - 6.50% to 7.89% due 2001 through 2010.....	74,000	124,000
Total first mortgage bonds.....	203,500	263,400
Pollution Control Bonds:		
Floating Rate, Colstrip 1999A, due 2032.....	66,700	66,700
Floating Rate, Colstrip 1999B, due 2034.....	17,000	17,000
6% Series due 2023.....	4,100	4,100
Total pollution control bonds.....	87,800	87,800
Unsecured Medium-Term Notes:		
Series A - 7.94% to 9.57% due 2001 through 2007.....	13,000	31,000
Series B - 6.75% to 8.23% due 2001 through 2023.....	89,000	96,000
Series C - 5.99% to 8.02% due 2007 through 2028.....	109,000	109,000
Series D - 8.00% to 8.625% due 2001 through 2003.....	175,000	-
Total unsecured medium-term notes.....	386,000	236,000
Notes payable (due within one year) to be refinanced.....	-	118,500
Other.....	2,506	9,204
Total long-term debt.....	679,806	714,904
COMPANY-OBLIGATED MANDATORILY REDEEMABLE		
PREFERRED TRUST SECURITIES:		
7 7/8%, Series A, due 2037.....	60,000	60,000
Floating Rate, Series B, due 2037.....	40,000	50,000
Total company-obligated mandatorily redeemable preferred trust securities.....	100,000	110,000
PREFERRED STOCK-CUMULATIVE:		
10,000,000 shares authorized:		
Subject to mandatory redemption:		
\$6.95 Series K; 350,000 shares outstanding (\$100 stated value).....	35,000	35,000
Total subject to mandatory redemption.....	35,000	35,000
CONVERTIBLE PREFERRED STOCK:		
Not subject to mandatory redemption:		
\$12.40 Convertible Series L; 0 and 1,508,210 shares outstanding (\$182.80 stated value).....	-	263,309
Total convertible preferred stock.....	-	263,309
COMMON EQUITY:		
Common stock, no par value; 200,000,000 shares authorized;		
47,208,689 and 35,648,239 shares outstanding.....	610,741	318,731
Note receivable from employee stock ownership plan.....	(7,040)	(8,240)
Capital stock expense and other paid in capital.....	(11,696)	(4,347)
Other comprehensive income.....	(723)	(166)
Retained earnings.....	132,942	87,521
Total common equity.....	724,224	393,499
TOTAL CAPITALIZATION.....	\$1,539,030	\$1,516,712

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

Avista Corporation

For the Years Ended December 31

Thousands of Dollars

	2000	1999	1998
OPERATING ACTIVITIES:			
Net income.....	\$ 91,679	\$ 26,031	\$ 78,139
NON-CASH ITEMS INCLUDED IN NET INCOME:			
Depreciation and amortization.....	75,941	76,474	70,547
Provision for deferred income taxes.....	79,274	(1,085)	10,402
Allowance for equity funds used during construction.....	(604)	(1,040)	(1,283)
Power and natural gas cost deferrals and amortizations.....	(67,299)	(14,906)	(3,512)
Gain on sale of property and subsidiary investments-net.....	(16,506)	(57,860)	(8,084)
Energy commodity assets and liabilities.....	(172,918)	(9,841)	(23,563)
Impairment of assets.....	-	33,622	-
Other-net.....	13,954	(31,821)	25,334
(Increase) decrease in working capital components:			
Sale of customer accounts receivable-net.....	35,000	20,000	(15,000)
Receivables and prepaid expense.....	(377,285)	(140,348)	(246,873)
Materials & supplies, fuel stock and natural gas stored.....	3,857	497	9,524
Payables and other accrued liabilities.....	446,184	164,908	246,208
Other.....	(35,081)	46,545	(17,336)
Monetization of contract.....	-	-	143,400
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.....	76,196	111,176	267,903
INVESTING ACTIVITIES:			
Construction expenditures (excluding AFUDC-equity funds).....	(98,680)	(87,160)	(92,942)
Other capital requirements.....	(100,661)	(29,451)	(14,920)
(Increase) decrease in other noncurrent balance sheet items-net.....	3,470	(7,712)	27,266
Proceeds from property sales and sale of subsidiary investments.....	105,228	148,851	16,385
Assets acquired and investments in subsidiaries.....	(6,223)	(51,729)	(52,780)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES.....	(96,866)	(27,201)	(116,991)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings.....	42,126	110,522	(108,500)
Redemption of preferred trust securities.....	(10,000)	-	-
Proceeds from issuance of long-term debt.....	224,000	116,516	84,000
Redemption and maturity of long-term debt.....	(54,603)	(211,514)	(14,000)
Redemption of preferred stock.....	-	(5,918)	(10,000)
Sale (repurchase) of common stock.....	2,625	(81,985)	(1,475)
Cash dividends paid.....	(28,304)	(39,757)	(64,548)
Other-net.....	(850)	(4,634)	5,854
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES.....	174,994	(116,770)	(108,669)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS.....	154,324	(32,795)	42,243
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	40,041	72,836	30,593
CASH & CASH EQUIVALENTS AT END OF PERIOD.....	\$ 194,365	\$ 40,041	\$ 72,836
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the period:			
Interest.....	\$ 61,774	\$ 63,207	\$ 64,402
Income taxes.....	31,404	42,891	40,716
Noncash financing and investing activities:			
Series L preferred stock converted to common stock.....	271,286	-	-
Property purchased under capitalized leases.....	-	2,557	1,209
Net unrealized holding gains (losses).....	(475)	(201)	(2,052)
Notes receivable for sale of investment.....	3,500	-	25,000
Common stock and retained earnings transfer to preferred stock.....	-	-	276,821

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Avista Corporation

For the Years Ended December 31

Thousands of Dollars

	Preferred Stock		Convertible Preferred Stock,		Common Stock		Note Receivable from Employee Stock Ownership Plan	Capital Stock Expense and Other Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Series K Shares	Amount	Series L Shares	Amount	Shares	Amount					
Balance at December 31, 1997	350,000	\$35,000	-	\$-	55,960,360	\$594,852	\$ (9,750)	\$ (10,143)	\$ 2,077	\$ 171,776	\$ 783,812
Net income										78,139	78,139
Conversion of common stock to convertible preferred stock			1,540,460	269,227	(15,404,595)	(211,201)		5,967		(64,844)	(851)
Stock issued under compensatory plans					(102,036)	(2,250)				(419)	(2,669)
Repayments of note receivable							455				455
Foreign currency translation adjustment									(366)		(366)
Unrealized investment loss-net									(2,052)		(2,052)
Cash dividends paid (common stock)										(56,898)	(56,898)
Cash dividends paid (preferred stock)										(7,639)	(7,639)
ESOP dividend tax savings										330	330
Balance at December 31, 1998	350,000	\$35,000	1,540,460	\$269,227	40,453,729	\$381,401	\$ (9,295)	\$ (4,176)	\$ (341)	\$ 120,445	\$ 792,261
Net income										26,031	26,031
Repurchase of common stock and common stock equivalents					(4,788,900)	(62,393)		(171)		(19,315)	(87,797)
Stock issued under compensatory plans			(32,250)	(5,918)	(16,590)	(277)				(84)	(361)
Repayments of note receivable							1,055				1,055
Foreign currency translation adjustment									376		376
Unrealized investment loss-net									(201)		(201)
Cash dividends paid (common stock)										(18,301)	(18,301)
Cash dividends paid (preferred stock)										(21,402)	(21,402)
ESOP dividend tax savings										147	147
Balance at December 31, 1999	350,000	\$35,000	1,508,210	\$263,309	35,648,239	\$318,731	\$ (8,240)	\$ (4,347)	\$ (166)	\$ 87,521	\$ 691,808
Net income										91,679	91,679
Conversion of convertible preferred stock into common stock			(1,508,210)	(263,309)	11,410,047	289,118		(8,009)		(17,868)	(68)
Repurchase of common stock					(45,975)	(1,488)				(419)	(1,907)
Stock issued under compensatory plans											
net of tax benefit of \$359										101	1,982
Employee Investment Plan (401-K)					70,742	1,192		689			2,585
Dividend Reinvestment Plan					97,478	2,614		(29)			574
Repayments of note receivable					28,158	574					1,200
Foreign currency translation adjustment									(82)		(82)
Unrealized investment loss-net									(475)		(475)
Cash dividends paid (common stock)										(22,616)	(22,616)
Cash dividends paid (preferred stock)										(5,600)	(5,600)
ESOP dividend tax savings										144	144
Balance at December 31, 2000	350,000	\$35,000	-	\$-	47,208,689	\$610,741	\$ (7,040)	\$ (11,696)	\$ (723)	\$ 132,942	\$ 759,224

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS

Avista Corporation

For the Years Ended December 31

Thousands of Dollars

	2000	1999	1998
OPERATING REVENUES:			
Avista Utilities.....	\$1,512,101	\$1,115,647	\$1,049,212
Energy Trading and Marketing.....	6,531,551	6,695,671	2,408,734
Information and Technology.....	11,645	4,851	1,995
Avista Ventures.....	32,937	122,303	231,483
Intersegment eliminations.....	(176,744)	(33,488)	(7,440)
Total operating revenues.....	<u>\$7,911,490</u>	<u>\$7,904,984</u>	<u>\$3,683,984</u>
RESOURCE COSTS:			
Avista Utilities:			
Power purchased.....	\$ 1,072,475	\$ 543,436	\$ 470,604
Natural gas purchased for resale.....	141,700	101,958	109,182
Fuel for generation.....	69,077	46,368	44,281
Other.....	(10,052)	46,053	44,309
Energy Trading and Marketing:			
Cost of sales.....	6,223,805	6,713,613	2,360,110
Intersegment eliminations.....	(176,744)	(33,488)	(7,440)
Total resource costs (excluding non-energy businesses).....	<u>\$7,320,261</u>	<u>\$7,417,940</u>	<u>\$3,021,046</u>
GROSS MARGINS:			
Avista Utilities.....	\$238,901	\$377,832	\$380,836
Energy Trading and Marketing.....	307,746	(17,942)	48,624
Total gross margins (excluding non-energy businesses).....	<u>\$546,647</u>	<u>\$359,890</u>	<u>\$429,460</u>
OPERATIONS AND MAINTENANCE EXPENSES:			
Avista Utilities.....	\$61,883	\$56,291	\$60,847
Energy Trading and Marketing.....	249	370	-
Information and Technology.....	18,229	7,732	3,902
Avista Ventures.....	27,731	90,783	164,871
Total operations and maintenance expenses.....	<u>\$108,092</u>	<u>\$155,176</u>	<u>\$229,620</u>
ADMINISTRATIVE AND GENERAL EXPENSES:			
Avista Utilities.....	\$62,111	\$66,362	\$69,693
Energy Trading and Marketing.....	41,256	31,732	25,201
Information and Technology.....	26,772	7,351	2,607
Avista Ventures.....	9,216	22,513	32,270
Total administrative and general expenses.....	<u>\$139,355</u>	<u>\$127,958</u>	<u>\$129,771</u>
DEPRECIATION AND AMORTIZATION EXPENSES:			
Avista Utilities.....	\$63,972	\$62,981	\$59,538
Energy Trading and Marketing.....	2,466	3,692	596
Information and Technology.....	5,681	2,340	653
Avista Ventures.....	3,822	7,461	9,760
Total depreciation and amortization expenses.....	<u>\$75,941</u>	<u>\$76,474</u>	<u>\$70,547</u>
INCOME/(LOSS) FROM OPERATIONS (PRE-TAX):			
Avista Utilities.....	\$3,177	\$142,567	\$143,153
Energy Trading and Marketing.....	250,196	(97,785)	22,826
Information and Technology.....	(40,084)	(13,002)	(5,192)
Avista Ventures.....	(9,861)	(423)	12,033
Total income from operations.....	<u>\$203,428</u>	<u>\$31,357</u>	<u>\$172,820</u>

	<u>2000</u>	<u>1999</u>	<u>1998</u>
INCOME AVAILABLE FOR COMMON STOCK:			
Avista Utilities.....	\$(62,516)	\$38,181	\$47,898
Energy Trading and Marketing.....	161,753	(60,739)	14,116
Information and Technology.....	(28,408)	(8,620)	(3,398)
Avista Ventures.....	(2,885)	35,817	11,124
Total income available for common stock.....	<u>\$67,944</u>	<u>\$4,639</u>	<u>\$69,740</u>
ASSETS:			
Avista Utilities.....	\$2,129,614	\$1,976,716	\$2,004,935
Energy Trading and Marketing.....	10,271,834	1,595,470	955,615
Information and Technology.....	59,632	26,379	7,461
Avista Ventures.....	102,844	114,929	285,625
Total assets.....	<u>\$12,563,924</u>	<u>\$3,713,494</u>	<u>\$3,253,636</u>
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):			
Avista Utilities.....	\$99,807	\$86,256	\$92,295
Energy Trading and Marketing.....	65,095	3,676	2,357
Information and Technology.....	35,555	15,506	4,120
Avista Ventures.....	976	10,171	7,498
Total capital expenditures.....	<u>\$201,433</u>	<u>\$115,609</u>	<u>\$106,270</u>

The Accompanying Notes are an Integral Part of These Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Avista Corporation (Avista Corp. or the Company) operates as an energy, information and technology company with a regional utility operation and subsidiary operations located in the Pacific Northwest. The utility portion of the Company, doing business as Avista Utilities, is subject to state and federal price regulation. The other businesses are conducted under Avista Capital, which is the parent company to the Company's subsidiaries.

Regulatory, political, economic and technological changes have brought about the accelerating transformation of the utility and energy industries, presenting both opportunities and challenges. The Company's focus is to optimize its businesses and to adapt its operations accordingly.

The Company's operations are exposed to risks, including legislative and governmental regulations, the price and supply of purchased power, fuel and natural gas, recovery of purchased power and purchased natural gas costs, weather conditions, availability of generation facilities, competition, technology and availability of funding. In addition, the energy business exposes the Company to the financial, liquidity, credit and commodity price risks associated with wholesale sales and purchases.

Basis of Reporting

The financial statements are presented on a consolidated basis and, as such, include the assets, liabilities, revenues and expenses of the Company and its wholly owned subsidiaries. All material intercompany transactions have been eliminated in the consolidation. The accompanying financial statements include the Company's proportionate share of utility plant and related operations resulting from its interests in jointly owned plants (See Note 7). The financial activity of each of the Company's lines of business is reported in the "Schedule of Information by Business Segments." Such information is an integral part of these financial statements.

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America necessarily requires management to make estimates and assumptions that directly affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from estimates.

System of Accounts

The accounting records of the Company's utility operations are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the appropriate state regulatory commissions.

Regulation

The Company is subject to state regulation in Washington, Idaho, Montana, Oregon and California. The Company is subject to regulation by the FERC with respect to its wholesale electric transmission rates and the natural gas rates charged for the release of capacity from the Jackson Prairie Storage Project.

Business Segments

The business segment presentation reflects the basis currently used by the Company's management to analyze performance and determine the allocation of resources. Avista Utilities' business is managed based on the total regulated operations. The Energy Trading and Marketing line of business has redirected its focus to a Western regional effort, but its operations are non-regulated, as opposed to Avista Utilities' operations. The Information and Technology line of business reflects the Company's newest businesses with operations related to internet billing services, fuel cells and telecommunications. The Avista Ventures line of business reflects the other non-energy operations of various subsidiaries.

Operating Revenues

The Company accrues estimated unbilled revenues for electric and natural gas sales and services provided through month-end. Avista Energy follows the mark-to-market method of accounting for energy contracts entered into for trading and price risk management purposes. Avista Energy recognizes revenue based on the change in the market value of outstanding derivative commodity sales contracts, net of future servicing costs and reserves, in addition to revenue related to physical and financial contracts that have matured.

Intersegment Eliminations

Intersegment eliminations represent the transactions between Avista Utilities and Avista Energy for commodities and services.

Research and Development Expenses

Company-sponsored research and development expenses related to present and future products are expensed as incurred. The majority of the Company's research and development expenses are related to subsidiary businesses. Research and development expenses totaled approximately \$8.1 million, \$3.3 million and \$1.0 million in 2000, 1999 and 1998, respectively.

Other Income (Deductions)—net

Other income (deductions)-net is composed of the following items:

	<u>Years Ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(Thousands of Dollars)		
Interest income.....	\$11,824	\$ 3,615	\$9,560
Capitalized interest (debt).....	3,476	1,001	1,592
Gain (loss) on property dispositions.....	20,278	4,071	12
Minority interest	3,148	2,002	296
Capitalized interest (equity).....	604	1,040	1,283
Other	<u>(9,665)</u>	<u>7,230</u>	<u>(2,949)</u>
Total.....	<u>\$29,665</u>	<u>\$18,959</u>	<u>\$ 9,794</u>

Earnings Per Share

Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if dilutive securities, such as stock options and convertible stock, were exercised or converted into common stock that then shared in the earnings of the Company. See Note 19 for specific information about the Company's EPS calculations.

Utility Plant

The cost of additions to utility plant, including an allowance for funds used during construction and replacements of units of property and betterments, is capitalized. Costs of depreciable units of property retired plus costs of removal less salvage are charged to accumulated depreciation.

Allowance for Funds Used During Construction

The Allowance for Funds Used During Construction (AFUDC) represents the cost of both the debt and equity funds used to finance utility plant additions during the construction period. In accordance with the uniform system of accounts prescribed by regulatory authorities, AFUDC is capitalized as a part of the cost of utility plant and is credited currently as a noncash item to Other Income (see Other Income (Deductions)-net above). The Company generally is permitted, under established regulatory rate practices, to recover the capitalized AFUDC, and a fair return thereon, through its inclusion in rate base and the provision for depreciation after the related utility plant has been placed in service. Cash inflow related to AFUDC does not occur until the related utility plant investment is placed in service.

The effective AFUDC rate was 10.67% in 2000, 1999 and 1998. The Company's AFUDC rates do not exceed the maximum allowable rates as determined in accordance with the requirements of regulatory authorities.

Depreciation

For utility operations, depreciation provisions are estimated by a method of depreciation accounting utilizing unit rates for hydroelectric plants and composite rates for other properties. Such rates are designed to provide for retirements of properties at the expiration of their service lives. The rates for hydroelectric plants include annuity and interest components, in which the interest component is 9%. For utility operations, the ratio of depreciation provisions to average depreciable property was 2.72% in 2000, 2.69% in 1999 and 2.60% in 1998.

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The average service lives and remaining average service lives, respectively, for the following broad categories of utility property are: electric thermal production - 35 and 16 years; hydroelectric production - 100 and 78 years; electric transmission - 60 and 27 years; electric distribution - 40 and 30 years; and natural gas distribution property - 44 and 29 years.

Cash and Cash Equivalents

For the purposes of the Consolidated Statements of Cash Flows, the Company considers all temporary investments with an initial maturity of three months or less to be cash equivalents.

Temporary Investments

Temporary investments consist of marketable equity securities that are classified as "available for sale." At December 31, 2000 and 1999, unrealized investment losses totaled \$0.7 million and \$0.2 million, respectively, net of taxes, and are reflected as a component of other comprehensive income on the consolidated Statements of Capitalization. At December 31, 2000 and 1999, the carrying value of available for sale securities was \$1.1 million and \$9.3 million, respectively.

Inventory

Inventory consists primarily of materials and supplies, fuel stock and natural gas stored. Inventory is recorded at the lower of cost or market, primarily using the average cost method.

Deferred Charges and Credits

The Company prepares its financial statements in accordance with the provisions of FAS No. 71, "Accounting for the Effects of Certain Types of Regulation." A regulated enterprise can prepare its financial statements in accordance with FAS No. 71 only if (i) the enterprise's rates for regulated services are established by or subject to approval by an independent third-party regulator, (ii) the regulated rates are designed to recover the enterprise's cost of providing the regulated services and (iii) in view of demand for the regulated services and the level of competition, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. FAS No. 71 requires a cost-based, rate-regulated enterprise to reflect the impact of regulatory decisions in its financial statements. In certain circumstances, FAS No. 71 requires that certain costs and/or obligations (such as incurred costs not currently recovered through rates, but expected to be so recovered in the future) be reflected in a deferral account in the balance sheet and not be reflected in the statement of income or loss until matching revenues are recognized. If at some point in the future the Company determines that it no longer meets the criteria for continued application of FAS No. 71 to all or a portion of the Company's regulated operations, the Company could be required to write off its regulatory assets and could be precluded from the future deferral in the Consolidated Balance Sheets of costs not recovered through rates at the time such costs were incurred, even if such costs were expected to be recovered in the future.

The Company's primary regulatory assets include Investment in Exchange Power, conservation programs, deferred income taxes, unrecovered purchased gas costs, deferred power costs, the provision for postretirement benefits and debt issuance and redemption costs. Those items without a specific line on the Consolidated Balance Sheets are included in Deferred Charges - Other-net. Deferred credits include natural gas deferrals, regulatory liabilities created when the Centralia plant was sold and the gain on the general office building sale/leaseback which is being amortized over the life of the lease, and are included on the Consolidated Balance Sheets as Non-current Liabilities and Deferred Credits - Other Deferred Credits.

Deferred Revenues

In December 1998, the Company received cash proceeds of \$143.4 million from the monetization of a contract in which the Company assigned and transferred certain rights under a long-term power sales contract to a funding trust. The proceeds were recorded as deferred revenue and are being amortized into revenues over the 16-year period of the long-term sales contract. Pursuant to the WUTC order in late 2000, the Company was directed to offset the Washington jurisdiction's share of the deferred revenue by writing down certain of the Company's assets and liabilities, such as conservation programs and a PURPA contract buyout. The balance at December 31, 2000 was \$40.4 million, which represents the Idaho jurisdiction's share of the deferred revenue.

Power Cost Deferrals

On August 9, 2000, the WUTC approved Avista Utilities' request for deferred accounting treatment for certain power costs related to increases in short-term power prices beginning July 1, 2000 and ending June 30, 2001. The specific power costs deferred include the changes in power costs to Avista Utilities from those included in base retail rates, related to three power cost components: the net effect of changes in short-term wholesale market prices on

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short-term wholesale purchases and sales; the effect on power costs from changes in the level of hydroelectric generation; and the net effect on power costs from changes in the level of thermal generation (including changes in fuel prices). The deferrals each month are calculated as the difference between the actual costs to Avista Utilities associated with these three power cost components, and the level of costs included in Avista Utilities' base retail rates. The power costs deferred are related solely to the operation of Avista Utilities' system resources to serve its system retail and wholesale load obligations. Deferrals do not include net losses associated with wholesale trading activity incurred in the first half of 2000. During 2000, Avista Utilities deferred a total of \$33.9 million under this accounting order.

On January 24, 2001, the WUTC approved a modification to the deferral mechanism to recover power supply costs associated with meeting increased retail and wholesale system load requirements, effective December 1, 2000. The WUTC also required Avista Utilities to file a proposal by mid-March 2001 that will address the prudence of the incurred power costs, the optimization of its owned resources to the benefit of retail customers, the appropriateness of recovery of power costs through a deferral mechanism, a proposal for cost of capital offsets to recognize the shift in risk from shareholders to ratepayers and Avista Utilities' plan to mitigate the deferred power costs. Avista Utilities also plans to file for an extension of this deferred accounting treatment through 2001.

Power and Natural Gas Cost Adjustment Provisions

Avista Utilities has a power cost adjustment mechanism (PCA) in Idaho which allows it to modify electric rates to recover or rebate a portion of the difference between actual and allowed net power supply costs. The PCA tracks changes in hydroelectric generation, secondary prices, related changes in thermal generation and Public Utility Regulatory Policies Act of 1978 (PURPA) contracts. Rate changes were triggered when the deferred balance reached \$2.2 million. The new trigger is \$3.0 million. The following surcharges and rebates were in effect during 1998 through 2000: a \$2.4 million (2.0%) rebate effective August 1, 2000 scheduled to expire July 31, 2001; a \$2.8 million (2.5%) rebate effective August 1, 1999 which expired July 31, 2000; a \$3.1 million (2.7%) rebate effective February 1, 1999, which expired January 31, 2000; a \$2.7 million (2.4%) rebate effective June 1, 1998, which expired May 31, 1999; a \$2.6 million (2.3%) rebate effective September 1, 1997, which expired August 31, 1998; and a \$2.6 million (2.4%) rebate effective June 1, 1997, which expired May 31, 1998. Avista Utilities has filed for a \$5.7 million (4.8%) surcharge to be effective February 1, 2001 and expire on January 31, 2002. The rebate balances and the deferred balance are included in the Current Liabilities - Other and Non-Current Liabilities and Deferred Credits - Other Deferred Credits lines, respectively, on the Consolidated Balance Sheets. The surcharge balance is included on the Consolidated Balance Sheets in Current Assets - Accounts and Notes Receivable-Net.

On January 16, 2001, Avista Utilities filed an application with the IPUC seeking proposed modifications to the existing PCA mechanism. Due to extremely high short-term power prices, Avista Utilities is requesting to recover power supply costs associated with meeting increased retail and wholesale system load requirements, as well as to recover replacement power costs associated with possible thermal plant forced outages.

Under established regulatory practices, Avista Utilities is also allowed to adjust its natural gas rates from time to time to reflect increases or decreases in the cost of natural gas purchased. Differences between actual natural gas costs and the natural gas costs allowed in rates are deferred and charged or credited to expense when regulators approve inclusion of the cost changes in rates. In Oregon, regulatory provisions include a sharing of benefits and risks associated with changes in natural gas prices, as well as a sharing of benefits if certain threshold earnings levels are exceeded. The balance is included on the Consolidated Balance Sheets as Non-current Liabilities and Deferred Credits - Other Deferred Credits.

Income Taxes

The Company and its eligible subsidiaries file consolidated federal income tax returns. Subsidiaries are charged or credited with the tax effects of their operations on a stand-alone basis. The Company's federal income tax returns have been examined with all issues resolved, and all payments made, through the 1996 return.

Stock-Based Compensation

The Company measures compensation expense for its stock-based employee compensation using the intrinsic value method and provides pro forma disclosures of net income and net earnings per common share as if the fair value method had been applied in measuring compensation expense.

Equity instruments issued to non-employees for good or services are accounted for at fair value and are marked to market until service is complete or a performance commitment date is reached.

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Other Comprehensive Income

The Company's comprehensive income is comprised of net income, foreign currency translation adjustments and unrealized gains and losses on investments held as available-for-sale investments.

Cumulative Foreign Currency Translation Adjustment

Assets and liabilities of Avista Energy Canada, Ltd. are denominated in Canadian dollars and translated to U.S. dollars at exchange rates in effect on the balance sheet date. Revenues, costs and expenses for the company are translated using an average rate. Cumulative translation adjustments resulting from this process are reflected as a component of other comprehensive income in the shareholders' equity section in the Consolidated Statements of Capitalization.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which requires that all derivative financial instruments (including certain derivative instruments embedded in other contracts) be recognized as either assets or liabilities on a company's balance sheet at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. In June 2000, the FASB issued FAS No. 138, which amends certain provisions of FAS No. 133 to clarify certain issues.

Avista Utilities buys and sells power under forward contracts that are considered to be derivatives. Under forward contracts, Avista Utilities commits to purchase or sell a specified amount of capacity and energy. These contracts are generally entered into to manage Avista Utilities' loads and resources. Avista Energy accounts for derivative commodity instruments entered into for trading purposes using the mark-to-market method of accounting, in compliance with EITF 98-10, "Accounting for Energy Trading and Risk Management Activities", with unrealized gains and losses recognized in the income statement.

The Company adopted FAS No. 133, and the corresponding amendments under FAS No. 138, on January 1, 2001. Based on the Company's current interpretations of FAS No. 133, 138 and the FASB's Derivative Implementation Group (DIG), the Company believes that the majority of its long-term purchases and sales contracts for both capacity and energy qualify as normal purchases and sales under FAS No. 133. Some of the Company's contracts for less than one year in duration (short-term) are subject to booking out, whereby power may not be physically delivered. The Company does not believe that these short-term contracts can be classified as normal purchases and sales. The fair value of these specific short-term contracts will be recorded on the Company's balance sheet as of January 1, 2001. The Company received accounting orders from the WUTC and the IPUC requiring the Company to offset any derivative assets or liabilities with a regulatory asset or liability, thus deferring the unrealized gains or losses.

On January 1, 2001, the Company recorded a derivative asset of \$252.3 million and a derivative liability of \$36.1 million. The difference of \$216.2 million has been recorded as a regulatory liability in accordance with the accounting treatment prescribed by the accounting orders from the WUTC and IPUC discussed above.

Because of the complexity of derivatives and FAS No. 133, the FASB established the DIG, as mentioned above. To date, the DIG has issued more than 100 interpretations to provide guidance in applying FAS No. 133. Certain pending issues and other interpretations that may be issued by the DIG may change the conclusions that the Company has reached and, as a result, the accounting treatment and financial statement impact could change in the future.

In September 2000, the FASB issued FAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", which revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. This statement will be effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The Company does not believe there will be a material financial statement impact resulting from adopting this statement.

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," to provide guidance on the recognition, presentation and disclosure of revenues in financial statements. The Company adopted SAB No. 101 in the fourth quarter of 2000. There was no material impact on the Company's Consolidated Statements of Income.

Reclassifications

Certain prior year amounts have been reclassified to conform to current statement format. These reclassifications were made for comparative purposes and have not affected previously reported total net income or common shareholders' equity.

NOTE 2. ASSET IMPAIRMENT AND RESTRUCTURING CHARGES

In November 1999, Avista Energy began to redirect its focus away from national energy trading toward a more regionally-based energy marketing and trading effort in the West. The downsizing plan called for the shutting down of all of the operations in Houston and Boston and eliminating approximately 80 positions. The Houston operations were closed during the first quarter of 2000, and the Boston operations were closed during the second quarter of 2000. In the fourth quarter of 1999, Avista Energy recorded a charge of \$5.9 million, after taxes, for expenses related to employee terminations. Avista Energy sold its Eastern power book during the first quarter of 2000 for a \$1.0 million after-tax loss, but did not find a buyer for its natural gas or coal contracts in the East. The remaining Eastern natural gas contracts, primarily for transportation and storage, are being managed out of the Spokane office until the last of the contracts expire in 2002. A former employee scheduled the remaining coal contracts until the last of the contracts expired at the end of 2000. In addition to the restructuring charges previously reserved and paid, other transition costs in the amount of \$3.1 million and \$1.8 million, both after taxes, for the first and second quarters of 2000, respectively, were incurred related to closing the Houston and Boston offices and discontinuing operations in the East. Minimal transition costs were recorded in the second half of 2000.

In the 1999 Form 10-K, it was announced that Pentzer would also be redirecting its focus. In the first quarter of 2000, Pentzer recorded a charge of \$1.2 million, after taxes, for expenses related to employee terminations, which was paid during 2000.

NOTE 3. ACCOUNTS RECEIVABLE SALE

In 1997, WWP Receivables Corp. (WWPRC) was incorporated as a wholly owned, bankruptcy-remote subsidiary of the Company for the purpose of acquiring or purchasing interests in certain accounts receivable, both billed and unbilled, of the Company. Subsequently, WWPRC and the Company have entered into an agreement whereby WWPRC can sell without recourse, on a revolving basis, up to \$80.0 million of those receivables. WWPRC is obligated to pay fees that approximate the purchaser's cost of issuing commercial paper equal in value to the interests in receivables sold. On a consolidated basis, the amount of such fees is included in operating expenses of the Company. At December 31, 2000 and 1999, \$80.0 million and \$45.0 million, respectively, in receivables had been sold pursuant to the agreement.

NOTE 4. ENERGY COMMODITY TRADING

The Company's energy-related businesses are exposed to risks relating to changes in certain commodity prices and counterparty performance. In order to manage the various risks relating to these exposures, Avista Utilities utilizes electric, natural gas and related derivative commodity instruments, such as forwards, futures, swaps and options, and Avista Energy engages in the trading of such instruments. Avista Utilities and Avista Energy have adopted policies and procedures to manage the risks, both quantitative and qualitative, inherent in these activities and have established a comprehensive Risk Management Committee, separate from the units that create such risk exposure and overseen by the Audit and Finance Committee of the Company's Board of Directors, to monitor compliance with the Company's risk management policies and procedures.

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Avista Utilities sells and purchases electric capacity and energy at wholesale to and from utilities and other entities under firm long-term contracts having terms of more than one year. In addition, Avista Utilities engages in short-term sales and purchases in the wholesale market as part of an economic selection of resources to serve its retail and firm wholesale loads. Avista Utilities makes continuing projections of (1) future retail and firm wholesale loads based on, among other things, forward estimates of factors such as customer usage and weather as well as historical

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data and contract terms and (2) resource availability based on, among other things, estimates of streamflows, generating unit availability, historic and forward market information and experience. On the basis of these continuing projections, Avista Utilities makes purchases and sales of energy on a quarterly, monthly, daily and hourly basis to match actual resources to actual energy requirements, as it operates the lowest-cost resources to serve its load requirements, and sells any surplus at the best available price. This process includes hedging transactions.

Avista Utilities protects itself against price fluctuations on electric energy by establishing volume limits for the imbalance between projected loads and resources and through the use of derivative commodity instruments for hedging purposes. Any imbalance is required to remain within limits, or management action or decisions are triggered to address larger imbalance situations and limit the exposure to market risk. Avista Energy is responsible for the daily management of gas resources to meet the requirements of Avista Utilities customers. In addition, Avista Utilities utilizes derivative commodity instruments for hedging price risk associated with natural gas. The Risk Management Committee has limited the types of commodity instruments Avista Utilities may trade to those related to electricity and natural gas commodities and those instruments are to be used for hedging price fluctuations associated with the management of resources. Commodity instruments are not generally held by Avista Utilities for speculative trading purposes. Gains and losses related to derivative commodity instruments which qualify as hedges are recognized in the Consolidated Statements of Income when the underlying hedged physical transaction closes (the deferral method) and are included in the same category as the hedged item (natural gas purchased or purchased power expense, as the case may be). At December 31, 2000, the Company had \$1.0 million of derivative commodity instruments outstanding. At December 31, 1999, the Company's derivative commodity instruments outstanding were immaterial.

Energy Trading and Marketing

Avista Energy purchases natural gas and electricity directly from producers and other trading companies, and its customers include commercial and industrial end-users, electric utilities, natural gas distribution companies, and other trading companies. Avista Energy's marketing and energy risk management services are provided through the use of a variety of derivative commodity contracts to purchase or supply natural gas and electric energy at specified delivery points and at specified future dates. Avista Energy also trades natural gas and electricity derivative commodity instruments on national exchanges and through other unregulated exchanges and brokers from whom these commodity derivatives are available, and therefore experiences net open positions in terms of price, volume, and specified delivery point.

The open positions expose Avista Energy to the risk that fluctuating market prices may adversely impact its financial position or results of operations. However, the net open position is actively managed with strict policies designed to limit the exposure to market risk and which require daily reporting to management of potential financial exposure. These policies include statistical risk tolerance limits using historical price movements to calculate daily earnings at risk as well as total Value-at-Risk (VAR) measurement.

Derivative commodity instruments sold and purchased by Avista Energy include: forward contracts, involving physical delivery of an energy commodity; futures contracts, which involve the buying or selling of natural gas, electricity or other energy-related commodities at a fixed price; over-the-counter swap agreements which require Avista Energy to receive or make payments based on the difference between a specified price and the actual price of the underlying commodity; and options, which mitigate price risk by providing for the right, but not the requirement, to buy or sell energy-related commodities at a fixed price.

Foreign currency risks associated with the fair value of the energy commodity portfolio are primarily related to Canadian currency exchange rates and are managed using a variety of financial instruments, including forward rate agreements.

Avista Energy's trading activities are subject to mark-to-market accounting, under which changes in the market value of outstanding electric, natural gas and related derivative commodity instruments are recognized as gains or losses in the period of change. Market prices are utilized in determining the value of the electric, natural gas and related derivative commodity instruments. For longer-term positions, in addition to market prices, a model based on forward price curves is also utilized. Gains and losses on electric, natural gas and related derivative commodity instruments utilized for trading are recognized in income on a current basis (the mark-to-market method) and are included on the Consolidated Statements of Income in operating revenues or resource costs, as appropriate, and on the Consolidated Balance Sheets as current or non-current energy commodity assets or liabilities. Contracts in a receivable position, as well as the options held, are reported as assets. Similarly, contracts in a payable position, as well as options written, are reported as liabilities. Cashflows are recognized during the period of settlement.

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Contract Amounts and Terms Under Avista Energy's derivative instruments, Avista Energy either (i) as "fixed price payor," is obligated to pay a fixed price or amount and is entitled to receive the commodity (or currency) or a fixed amount or (ii) as "fixed price receiver," is entitled to receive a fixed price or amount and is obligated to deliver the commodity (or currency) or pay a fixed amount or (iii) as "index price payor," is obligated to pay an indexed price or amount and is entitled to receive the commodity or a variable amount or (iv) as "index price receiver," is entitled to receive an indexed price or amount and is obligated to deliver the commodity or pay a variable amount. The contract or notional amounts and terms of Avista Energy's derivative commodity investments outstanding at December 31, 2000 are set forth below (volumes in thousands of mmBTUs and MWhs, dollars in thousands):

	<u>Fixed Price Payor</u>	<u>Fixed Price Receiver</u>	<u>Maximum Terms in Years</u>
Energy commodities (volumes)			
Natural gas	92,329	77,033	9
Electric	142,709	132,962	16

	<u>Index Price Payor</u>	<u>Index Price Receiver</u>	<u>Maximum Terms in Years</u>
Energy commodities (volumes)			
Natural gas	674,311	692,794	4
Electric	918	155	4

Contract or notional amounts reflect the volume of transactions, but do not necessarily represent the amounts exchanged by the parties to the derivative commodity instruments. Accordingly, contract or notional amounts do not accurately measure Avista Energy's exposure to market or credit risks. The maximum terms in years detailed above are not indicative of likely future cash flows as these positions may be offset in the markets at any time in response to Avista Energy's risk management needs.

Fair Value The fair value of Avista Energy's derivative commodity instruments outstanding at December 31, 2000, and the average fair value of those instruments held during the year are set forth below (dollars in thousands):

	<u>Fair Value as of December 31, 2000</u>				<u>Average Fair Value for the year ended December 31, 2000</u>			
	<u>Current Assets</u>	<u>Long-term Assets</u>	<u>Current Liabilities</u>	<u>Long-term Liabilities</u>	<u>Current Assets</u>	<u>Long-term Assets</u>	<u>Current Liabilities</u>	<u>Long-term Liabilities</u>
Natural gas	\$ 442,655	\$ 125,306	\$ 432,113	\$ 121,342	\$ 189,652	\$ 61,832	\$ 185,421	\$ 56,888
Electric	7,512,658	1,241,801	7,401,791	1,151,032	2,952,962	781,731	2,935,918	714,271
Emission allowances	916	-	103	-	4,322	343	3,617	46
Total	\$7,956,229	\$1,367,107	\$7,834,007	\$1,272,374	\$3,146,936	\$843,906	\$3,124,956	\$771,205

The weighted average term of Avista Energy's natural gas and related derivative commodity instruments as of December 31, 2000 was approximately six months. The weighted average term of Avista Energy's electric derivative commodity instruments at December 31, 2000 was approximately six months. The change in the fair value position of Avista Energy's energy commodity portfolio, net of the reserves for credit and market risk for the year ended December 31, 2000 was \$176.8 million and is included on the Consolidated Statements of Income in operating revenues.

Market Risk

Avista Utilities and Avista Energy manage, on a portfolio basis, the market risks inherent in their activities subject to parameters established by the Company's Risk Management Committee. Market risks are monitored by the Risk Management Committee to ensure compliance with the Company's stated risk management policies. Avista Utilities measures exposure to market risk through daily evaluation of the imbalance between projected loads and resources. Avista Energy measures the risk in its portfolio on a daily basis utilizing a value-at risk model and monitors its risk in comparison to established thresholds.

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Credit Risk

Credit risk relates to the risk of loss that Avista Utilities and/or Avista Energy would incur as a result of non-performance by counterparties of their contractual obligations to deliver energy and make financial settlements. Credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances which relate to other market participants which have a direct or indirect relationship with such counterparty. Avista Utilities and Avista Energy seek to mitigate credit risk by applying specific eligibility criteria to existing and prospective counterparties and by actively monitoring current credit exposures. However, despite mitigation efforts, defaults by counterparties occur from time to time.

Credit risk also involves the exposure that counterparties perceive related to performance by Avista Utilities and Avista Energy to perform deliveries and settlement of energy resource transactions. These counterparties seek assurance of performance in the form of letters of credit, prepayment or cash deposits, and, in the case of Avista Energy, parent company performance guaranties. In periods of price volatility, the level of exposure can change significantly, with the result that sudden and significant demands may be made against the Company's capital resource reserves (credit facilities and cash).

Other Operating Risks

In addition to commodity price risk, Avista Utilities' commodity positions are also subject to operational and event risks including, among others, increases in load demand, transmission or transport disruptions, fuel quality specifications and forced outages at generating plants. Some of these factors have been addressed in the recent changes to the Washington deferred power accounting adjustment and the Idaho PCA.

NOTE 5. ENERGY TRADING AND MARKETING EQUITY INVESTMENT

Effective November 30, 1998, Avista Energy sold its 50% ownership interest in Howard/Avista Energy LLC to H&H Star Energy, Inc. for \$25 million. Avista Energy's initial equity investment in Howard/Avista Energy, LLC was \$25 million in August 1997. Dividends of \$0.7 million were received from Howard/Avista Energy, LLC in 1998. Avista Energy's pre-tax equity in earnings of Howard/Avista Energy LLC was \$(1.0) million for the eleven months ended November 30, 1998.

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

The year-end balances of the major classifications of property, plant and equipment are detailed in the following table (thousands of dollars):

	<u>At December 31,</u>	
	<u>2000</u>	<u>1999</u>
Avista Utilities:		
Electric production	\$ 672,070	\$ 720,409
Electric transmission	280,271	272,299
Electric distribution	652,966	622,974
CWIP and other	<u>95,219</u>	<u>85,648</u>
Electric total	<u>1,700,526</u>	<u>1,701,330</u>
Natural gas underground storage	18,687	18,418
Natural gas transmission	2,674	3,194
Natural gas distribution	396,100	372,208
CWIP and other	<u>45,884</u>	<u>49,259</u>
Natural gas total	<u>463,345</u>	<u>443,079</u>
Common plant (including CWIP)	<u>74,894</u>	<u>71,201</u>
Total Avista Utilities	2,238,765	2,215,610
Energy Trading and Marketing	68,544	8,304
Information and Technology	49,242	21,613
Avista Ventures	<u>23,842</u>	<u>24,027</u>
Total	<u>\$2,380,393</u>	<u>\$2,269,554</u>

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Property, plant, and equipment under capital leases at Avista Capital's subsidiaries totaled \$12.7 million and \$11.1 million and the associated accumulated depreciation totaled \$6.8 million and \$3.8 million in 2000 and 1999, respectively.

NOTE 7. JOINTLY OWNED ELECTRIC FACILITIES

The Company has an investment in a jointly owned thermal generating plant. The Company provides financing for its ownership in the project. The Company's share of related operating and maintenance expenses for plant in service is included in corresponding accounts in the Consolidated Statements of Income. The following table indicates the Company's percentage ownership and the extent of the Company's investment in the plant at December 31, 2000:

<u>Project</u>	<u>KW of Installed Capacity</u>	<u>Fuel Source</u>	<u>Company's Current Share of</u>				
			<u>Ownership (%)</u>	<u>Plant in Service</u>	<u>Accumulated Depreciation</u> (Thousands of Dollars)	<u>Net Plant In Service</u>	<u>Construction Work in Progress</u>
Colstrip 3 & 4.....	1,556,000	Coal	15%	\$311,651	\$140,295	\$171,356	\$ -

NOTE 8. PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company has a pension plan covering substantially all of its regular full-time employees. Certain of the Company's subsidiaries also participate in this plan. Individual benefits under this plan are based upon years of service and the employee's average compensation as specified in the Plan. The Company's funding policy is to contribute annually an amount equal to the net periodic pension cost, provided that such contributions are not less than the minimum amounts required to be funded under the Employee Retirement Income Security Act, nor more than the maximum amounts which are currently deductible for tax purposes. Pension fund assets are invested primarily in marketable debt and equity securities. The Company also has other plans that cover the executive officers and key managers.

The Company provides certain health care and life insurance benefits for substantially all of its retired employees. The Company accrues the estimated cost of postretirement benefit payments during the years that employees provide services. The Company elected to amortize this obligation of approximately \$34.5 million over a period of twenty years, beginning in 1993.

The following table sets forth the pension and health care plan disclosures:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	(Thousands of Dollars)			
Change in benefit obligation				
Benefit obligation at beginning of year	\$162,097	\$178,589	\$30,637	\$32,345
Service cost	5,347	5,951	601	696
Interest cost	12,711	11,915	2,407	2,178
Amendments	-	(6,463)	-	-
Actuarial (gain)/loss	7,966	(14,679)	1,580	(2,377)
Benefits paid	(11,860)	(12,109)	(2,427)	(2,205)
Expenses paid	(970)	(1,107)	(37)	-
Benefit obligation at end of year	<u>\$175,291</u>	<u>\$162,097</u>	<u>\$32,761</u>	<u>\$30,637</u>

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Change in plan assets

Fair value of plan assets				
at beginning of year	\$185,564	\$178,879	\$15,808	\$12,459
Actual return on plan assets	(1,005)	19,902	(784)	3,228
Employer contributions	3,304	-	1,182	809
Benefits paid	(11,860)	(12,109)	(973)	(688)
Expenses paid	(970)	(1,107)	(37)	-
Fair value of plan assets at end of year	<u>\$175,033</u>	<u>\$185,565</u>	<u>\$15,196</u>	<u>\$15,808</u>
Funded status	\$ (257)	\$23,467	\$(17,566)	\$(14,829)
Unrecognized net actuarial gain	(12,595)	(38,667)	(5,960)	(9,997)
Unrecognized prior service cost	10,679	11,651	-	-
Unrecognized net transition obligation/(asset)	(4,843)	(5,929)	18,399	19,933
Accrued benefit cost	<u>\$(7,016)</u>	<u>\$(9,478)</u>	<u>\$(5,127)</u>	<u>\$(4,893)</u>

Assumptions as of December 31

Discount rate	7.75%	6.75%	7.75%	6.75%
Expected return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	5.00%	4.00%		
Medical cost trend – initial			5.00%	5.00%
Medical cost trend – ultimate			6.00%	5.00%
Year for ultimate medical cost trend			2000	1999

	<u>Pension Benefits</u>			<u>Other Benefits</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(Thousands of Dollars)					
Components of net periodic benefit cost						
Service cost	\$ 5,347	\$ 5,951	\$ 4,982	\$ 600	\$ 696	\$ 585
Interest cost	12,711	11,915	11,247	2,407	2,178	2,100
Expected return on plan assets	(16,243)	(15,681)	(14,768)	(1,372)	(1,075)	(953)
Transition (asset)/obligation recognition	(1,086)	(1,086)	(1,086)	1,534	1,534	1,533
Amortization of prior service cost	971	1,341	1,654	-	-	-
Net gain recognition	(858)	-	(562)	(299)	(159)	(326)
Net periodic benefit cost	<u>\$ 842</u>	<u>\$ 2,440</u>	<u>\$ 1,467</u>	<u>\$2,870</u>	<u>\$3,174</u>	<u>\$2,939</u>

Assumed health cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation as of December 31, 2000 by approximately \$2.5 million and the service and interest cost by approximately \$0.2 million. A one-percentage-point decrease in the assumed health care cost trend rate for each year would decrease the accumulated postretirement benefit obligation as of December 31, 2000 by approximately \$2.3 million and the service and interest cost by approximately \$0.2 million.

The Company also sponsors an employee savings plan that covers substantially all employees. Employer matching contributions of \$3.3 million, \$3.4 million, \$2.8 million were expensed in 2000, 1999 and 1998, respectively.

NOTE 9. ACCOUNTING FOR INCOME TAXES

As of December 31, 2000 and 1999, the Company had recorded net regulatory assets of \$156.7 million and \$166.5 million, respectively, related to the probable recovery of FAS No. 109, "Accounting for Income Taxes," deferred tax liabilities from customers through future rates. Such regulatory assets will be adjusted by amounts recovered through rates.

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) tax credit carryforwards. The net deferred federal income tax liability consists of the following (thousands of dollars):

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	<u>At December 31,</u>	
	<u>2000</u>	<u>1999</u>
Deferred tax assets:		
Reserves not currently deductible	\$31,696	\$10,747
Contributions in aid of construction	8,543	7,878
Centralia sale regulatory liability	9,650	-
Centralia Trust	-	2,897
Gain on sale of office building	1,007	1,098
Other	<u>24,360</u>	<u>14,430</u>
Total deferred tax assets	<u>75,256</u>	<u>37,050</u>
Deferred tax liabilities:		
Differences between book and tax bases of utility plant	411,560	383,729
Loss on reacquired debt	4,872	5,357
Energy commodity gains	85,263	16,871
Other	<u>19,871</u>	<u>8,142</u>
Total deferred tax liabilities	<u>521,566</u>	<u>414,099</u>
Net deferred tax liability	<u>\$446,310</u>	<u>\$377,049</u>

A reconciliation of federal income taxes derived from statutory tax rates applied to income from continuing operations and federal income tax as set forth in the accompanying Consolidated Statements of Income and Retained Earnings is as follows:

	<u>For the Years Ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
		(Thousands of Dollars)	
Computed federal income taxes at statutory rate.....	\$57,450	\$14,970	\$42,516
Increase (decrease) in tax resulting from:			
Accelerated tax depreciation.....	4,835	1,869	1,431
Prior year audit adjustments	72	(1,642)	(1,526)
Other.....	<u>7,392</u>	<u>3,687</u>	<u>(2,343)</u>
Total federal income tax expense*.....	<u>\$69,749</u>	<u>\$18,884</u>	<u>\$40,078</u>
<i>Income Tax Expense Consists of the Following:</i>			
Federal taxes currently provided.....	\$(12,088)	\$ 6,974	\$20,094
Deferred income taxes	<u>81,837</u>	<u>11,910</u>	<u>19,984</u>
Total federal income tax expense.....	69,749	18,884	40,078
State income tax expense	<u>3,712</u>	<u>(2,144)</u>	<u>3,257</u>
Federal and state income taxes.....	<u>\$73,461</u>	<u>\$16,740</u>	<u>\$43,335</u>
*Federal Income Tax Expense:			
Avista Utilities	\$ (1,789)	\$34,757	\$28,582
Energy Trading and Marketing	91,353	(32,680)	7,789
Information and Technology.....	(13,675)	(3,383)	(2,010)
Avista Ventures.....	<u>(6,140)</u>	<u>20,190</u>	<u>5,717</u>
Total Federal Income Tax Expense.....	<u>\$69,749</u>	<u>\$18,884</u>	<u>\$40,078</u>
Federal statutory rate.....	35%	35%	35%

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NOTE 10. LONG-TERM PURCHASED POWER CONTRACTS WITH REQUIRED MINIMUM PAYMENTS

Under fixed contracts with Public Utility Districts (PUD), the Company has agreed to purchase portions of the output of certain generating facilities. Although the Company has no investment in such facilities, these contracts provide that the Company pay certain minimum amounts (which are based at least in part on the debt service requirements of the supplier) whether or not the facility is operating. The cost of power obtained under the contracts, including payments made when a facility is not operating, is included in operations and maintenance expense in the Consolidated Statements of Income. Information as of December 31, 2000, pertaining to these contracts is summarized in the following table:

	<u>Company's Current Share of</u>					Contract Expira- tion Date
	<u>Output</u>	Kilowatt <u>Capability</u>	Annual <u>Costs (1)</u>	Debt Service <u>Costs (2)</u>	Revenue Bonds <u>Outstanding</u>	
			(Thousands of Dollars)			
PUD Contracts:						
Chelan County PUD:						
Rocky Reach Project.....	2.9%	37,000	\$1,742	\$1,218	\$ 6,196	2011
Grant County PUD:						
Priest Rapids Project.....	6.1	55,000	1,799	936	10,088	2005
Wanapum Project.....	8.2	75,000	2,917	1,829	14,732	2009
Douglas County PUD:						
Wells Project.....	3.5	<u>30,000</u>	<u>1,042</u>	<u>591</u>	<u>6,193</u>	2018
Totals		<u>197,000</u>	<u>\$7,500</u>	<u>\$4,574</u>	<u>\$37,209</u>	

- (1) The annual costs will change in proportion to the percentage of output allocated to the Company in a particular year. Amounts represent the operating costs for the year 2000.
 (2) Included in annual costs.

Actual expenses for payments made under the above contracts for the years 2000, 1999 and 1998, were \$7.5 million, \$6.4 million and \$6.2 million, respectively. The estimated aggregate amounts of required minimum payments (the Company's share of debt service costs) under the above contracts for the next five years are \$3.8 million in 2001, \$3.9 million in 2002, \$4.0 million in 2003, \$3.6 million in 2004 and \$3.6 million in 2005 (minimum payments thereafter are dependent on then market conditions). In addition, the Company will be required to pay its proportionate share of the variable operating expenses of these projects.

NOTE 11. LONG-TERM DEBT

The annual sinking fund requirements and maturities for the next five years for long-term debt outstanding (excluding subsidiary debt) at December 31, 2000 are as follows:

<u>Year Ending December 31</u>	<u>Maturities</u>	<u>Sinking Fund Requirements</u>	<u>Total</u>
		(Thousands of Dollars)	
2001	\$ 89,000	\$2,185	\$ 91,185
2002	50,000	2,035	52,035
2003	205,000	1,635	206,635
2004	30,000	1,485	31,485
2005	29,500	1,485	30,985

The sinking fund requirements may be met by certification of property additions at the rate of 167% of requirements. All of the utility plant is subject to the lien of the Mortgage and Deed of Trust securing outstanding First Mortgage Bonds.

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In September 1999, \$83.7 million of Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project), Series 1999A due 2032 and Series 1999B due 2034 were issued by the City of Forsyth, Montana. The proceeds of the bonds were utilized to refund the \$66.7 million of 7 1/8% First Mortgage Bonds due 2013 and the \$17.0 million of 7 2/5% First Mortgage Bonds due 2016. The Series 1999A and Series 1999B Bonds are backed by an insurance policy issued by AMBAC Assurance Corporation and bear interest on a floating rate basis that is reset periodically. The interest rate during 2000 ranged from 3.60% to 4.43%. At December 31, 2000, the rate was 4.43%.

In 2000, the Company issued a total of \$224.0 million of Unsecured MTNs, Series D at rates of 8.000% and 8.625% due in 2001 and 2003. A total of \$44.9 million of Secured MTNs matured during 2000, with rates between 6.13% and 8.20%. In 1999, \$25.0 million of Unsecured Medium-Term Notes (MTNs) were issued, while \$98.1 million of Secured MTNs and \$26.5 million of Unsecured MTNs matured or were redeemed. As of December 31, 2000, the Company had remaining authorization to issue up to \$317.0 million of Unsecured MTNs.

At December 31, 2000, the Company had \$163.2 million in outstanding balances under borrowing arrangements and commercial paper. See Note 12 for details of credit agreements.

Included in other long-term debt are the following items related to subsidiary operations (thousands of dollars):

	<u>Outstanding at December 31,</u>	
	<u>2000</u>	<u>1999</u>
Notes payable.....	\$ 642	\$ 9,598
Capital lease obligations	<u>2,877</u>	<u>6,457</u>
Subsidiary total debt	3,519	16,055
Less: current portion	<u>901</u>	<u>6,147</u>
Subsidiary net long-term debt.....	<u>\$ 2,618</u>	<u>\$ 9,908</u>

NOTE 12. BANK BORROWINGS

At December 31, 2000, the Company maintained lines of credit with various banks under two separate credit agreements. The two lines of credit total \$230 million, and both expire on June 26, 2001. Avista Corp. has pledged its shares of common stock in Avista Capital as security for these agreements. The Company pays commitment fees of up to 0.2% per annum on the average daily unused portion of each credit agreement, and utilization fees of up to 0.5%.

In addition, the Company has a \$50 million regional commercial paper program that is backed by the committed lines of credit. During 2000, under various agreements with banks, the Company could also have up to \$100.0 million in loans outstanding at any one time, with the loans available at the banks' discretion. These arrangements provided, if funds were made available, for fixed-term loans for up to 180 days at a fixed rate of interest. None of these agreements were in place at December 31, 2000.

Balances and interest rates of bank borrowings under these arrangements were as follows:

	<u>Years Ended December 31,</u>	
	<u>2000</u>	<u>1999</u>
	(Thousands of Dollars)	
Balance outstanding at end of period:		
Fixed-term loans	\$ -	\$ 33,500
Commercial paper	11,160	10,000
Revolving credit agreement.....	152,000	75,000
Maximum balance during period:		
Fixed-term loans	\$ 80,000	\$ 93,500
Commercial paper	36,900	10,000
Revolving credit agreement.....	185,000	75,000

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Fixed-term loans	\$ 19,538	\$ 29,110
Commercial paper	16,833	2,604
Revolving credit agreement	84,255	23,767

Average annual interest rate during period:

Fixed-term loans	6.70%	5.48%
Commercial paper	6.82	5.89
Revolving credit agreement	7.26	5.87

Average annual interest rate at end of period:

Fixed-term loans	- %	6.56%
Commercial paper	7.63	6.70
Revolving credit agreement	7.55	6.71

Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, have a credit agreement with two commercial banks in the aggregate amount of \$110 million, decreasing periodically to \$70 million at the end of the agreement, and expiring April 30, 2001. The credit agreement may be terminated by the banks at any time and all extensions of credit under the agreement are payable upon demand, in either case at the banks' sole discretion. The agreement also provides, on an uncommitted basis, for the issuance of letters of credit to secure contractual obligations to counterparties. The facility is guaranteed by Avista Capital and is secured by substantially all of Avista Energy's assets. The maximum amount of credit extended by the banks for cash advances is \$30 million, with availability of up to \$110 million (less the amount of outstanding cash advances, if any) for the issuance of letters of credit. At December 31, 2000 and 1999, there were no cash advances (demand notes payable) outstanding. Letters of credit outstanding under the facility totaled approximately \$71.5 million and \$75.8 million at December 31, 2000 and 1999, respectively.

NOTE 13. LEASES

The Company has entered into several lease arrangements involving various assets, with minimum terms ranging from one to eleven years and expiration dates from 2001 to 2011. Certain of the lease arrangements require the Company, upon the occurrence of specified events, to purchase the leased assets for varying amounts over the term of the lease. The Company's management believes that the likelihood of the occurrence of the specified events under which the Company could be required to purchase the property is remote. Rent expense for the years ended December 31, 2000, 1999 and 1998 was \$16.2 million, \$18.7 million and \$17.6 million, respectively. Future minimum lease payments (in thousands of dollars) required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2000 are estimated as follows:

Year ending December 31:	
2001	\$ 5,616
2002	5,626
2003	5,496
2004	4,974
2005	3,543
Later years	<u>16,109</u>
Total minimum payments required	<u>\$41,364</u>

The Company also has various other cancelable operating leases, which are charged to operating expense, consisting of the Rathdrum combustion turbines, the Company airplane and a large number of small, relatively short-term, renewable agreements for various items, such as office equipment and office space.

The payments under the Avista Capital subsidiaries' capital leases for the next four years are \$1.8 million in 2001, \$1.2 million in 2002, \$0.5 million in 2003 and \$0.2 million in 2004. At December 31, 2000, there were no capital leases at any Avista Capital subsidiaries that extended past 2004.

NOTE 14. PREFERRED STOCK

Cumulative Preferred Stock Not Subject to Mandatory Redemption:

In December 1998, as part of a dividend restructuring plan, the Company issued 1,540,460 shares of its \$12.40 Convertible Preferred Stock, Series L (Series L Preferred Stock). The Company repurchased the equivalent of 32,250 shares of the Series L Preferred Stock in 1999 and converted all remaining outstanding shares to common stock in February 2000. See Note 15 for additional information.

Cumulative Preferred Stock Subject to Mandatory Redemption:

Redemption requirements:

\$6.95, Series K - On September 15, 2002, 2003, 2004, 2005 and 2006, the Company must redeem 17,500 shares at \$100 per share plus accumulated dividends through a mandatory sinking fund. Remaining shares must be redeemed on September 15, 2007. The Company has the right to redeem an additional 17,500 shares on each September 15 redemption date.

There are \$7.0 million in mandatory redemption requirements during the 2001-2005 period.

NOTE 15. CONVERTIBLE PREFERRED STOCK

In December 1998, as part of a dividend restructuring plan, the Company issued 1,540,460 shares of its \$12.40 Convertible Preferred Stock, Series L (Series L Preferred Stock), in exchange for 15,404,595 shares of common stock, on the basis of a one-tenth interest in one share of preferred stock for each share of common stock. The Series L Preferred Stock had a liquidation preference of \$182.8125 per share.

During 1999, the Company repurchased the equivalent of 32,250 shares of the Series L Preferred Stock. On February 16, 2000, the Company exercised its option to convert all the remaining outstanding shares of Series L Preferred Stock back into common stock. One share of Series L Preferred Stock equaled 10 depositary shares, also known as RECONS (Return-Enhanced Convertible Securities). The RECONS were also converted into common stock on the same conversion date.

On the conversion date, each of the RECONS was converted into the following: 0.7205 shares of common stock, representing the optional conversion price; plus 0.0361 shares of common stock, representing the optional conversion premium; plus the right to receive \$0.21 in cash, representing an amount equivalent to accumulated and unpaid dividends up until, but excluding, the conversion date. Cash payments were made in lieu of fractional shares.

NOTE 16. COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES

In 1997, Avista Capital I, a business trust, issued to the public \$60,000,000 of Preferred Trust Securities having a distribution rate of 7 7/8%. Concurrent with the issuance of the Preferred Trust Securities, the Trust issued \$1,855,675 of Common Trust Securities to the Company. The sole assets of the Trust are the Company's 7 7/8% Junior Subordinated Deferrable Interest Debentures, Series A, with a principal amount of \$61,855,675. These debt securities may be redeemed at the Company's option on or after January 15, 2002 and mature January 15, 2037.

In 1997, Avista Capital II, a business trust, issued to the public \$50,000,000 of Preferred Trust Securities having a floating distribution rate of LIBOR plus 0.875%, calculated and reset quarterly. The distribution rate paid during 2000 ranged from 6.976% to 7.715%. At December 31, 2000, the distribution rate was 7.61125%. Concurrent with the issuance of the Preferred Trust Securities, the Trust issued \$1,547,000 of Common Trust Securities to the Company. The sole assets of the Trust are the Company's Floating Rate Junior Subordinated Deferrable Interest Debentures, Series B, with a principal amount of \$51,547,000. These debt securities may be redeemed at the Company's option on or after June 1, 2007 and mature June 1, 2037. On December 18, 2000, the Company purchased \$10.0 million of these Preferred Trust Securities.

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The Company has guaranteed the payment of distributions on, and redemption price and liquidation amount in respect of, the Preferred Trust Securities to the extent that the Trust has funds available for such payment from the debt securities. Upon maturity or prior redemption of such debt securities, the Trust Securities will be mandatorily redeemed. The Company's Consolidated Statements of Capitalization reflect only the \$60 million and \$40 million of Preferred Trust Securities, accordingly all intercompany transactions have been eliminated.

NOTE 17. FAIR VALUE OF FINANCIAL SECURITIES

The fair value of the Company's long-term debt (excluding notes payable and other) at December 31, 2000 and 1999 is estimated to be \$772.5 million, or 101% of the carrying value and \$545.8 million, or 93% of the carrying value, respectively. The fair value of the Company's mandatorily redeemable preferred stock at December 31, 2000 and 1999 is estimated to be \$17.5 million, or 50% of the carrying value and \$35.1 million, or 100% of the carrying value, respectively. The fair value of the Company's preferred trust securities at December 31, 2000 and 1999 is estimated to be \$79.2 million, or 79% of the carrying value and \$94.3 million, or 86% of the carrying value, respectively. These estimates are all based on available market information. The fair value of the Company's convertible preferred securities at December 31, 1999 was estimated to be \$230.0 million, or 87%, of the carrying value. This valuation was based on the closing price of the securities on December 31, 1999. No convertible preferred securities were outstanding at December 31, 2000.

NOTE 18. COMMON STOCK

In April 1990, the Company sold 1,000,000 shares of its common stock to the Trustee of the Investment and Employee Stock Ownership Plan for Employees of the Company (Plan) for the benefit of the participants and beneficiaries of the Plan. In payment for the shares of Common Stock, the Trustee issued a promissory note payable to the Company in the amount of \$14,125,000. Dividends paid on the stock held by the Trustee, plus Company contributions to the Plan, if any, are used by the Trustee to make interest and principal payments on the promissory note. The balance of the promissory note receivable from the Trustee (\$7.0 million at December 31, 2000) is reflected as a reduction to common equity. The shares of Common Stock are allocated to the accounts of participants in the Plan as the note is repaid. During 2000, the cost recorded for the Plan was \$7.0 million. Interest on the note payable to the Company, cash and stock contributions to the Plan and dividends on the shares held by the Trustee were \$0.7 million, \$1.8 million and \$0.2 million, respectively.

In May 1999, the Company's Board of Directors authorized a common stock repurchase program in which the Company may repurchase in the open market or through privately negotiated transactions up to an aggregate of 10 percent of its common stock and common stock equivalents over the next two years. The repurchased shares return to the status of authorized but unissued shares. As of December 31, 2000, the Company had repurchased approximately 4.8 million common shares and 322,500 shares of Return-Enhanced Convertible Securities (which was equivalent to 32,250 shares of Convertible Preferred Stock, Series L). The combined repurchases of these two securities represent 9% of outstanding common stock and common stock equivalents.

In November 1999, the Company adopted a shareholder rights plan pursuant to which holders of Common Stock outstanding on February 15, 1999, or issued thereafter, have been granted one preferred share purchase right (Right) on each outstanding share of Common Stock. Each Right, initially evidenced by and traded with the shares of Common Stock, entitles the registered holder to purchase one one-hundredth of a share of Preferred Stock of the Company, without par value, at a purchase price of \$70, subject to certain adjustments, regulatory approval and other specified conditions. The Rights will be exercisable only if a person or group acquires 10% or more of the outstanding shares of Common Stock or commences a tender or exchange offer, the consummation of which would result in the beneficial ownership by a person or group of 10% or more of the outstanding shares of Common Stock. Upon any such acquisition, each Right will entitle its holder to purchase, at the purchase price, that number of shares of Common Stock or Preferred Stock of the Company (or, in the case of a merger of the Company into another person or group, common stock of the acquiring person) which has a market value at that time equal to twice the purchase price. In no event will the Rights be exercisable by a person which has acquired 10% or more of the Company's Common Stock. The Rights may be redeemed, at a redemption price of \$0.01 per Right, by the Board of Directors of the Company at any time until any person or group has acquired 10% or more of the Common Stock. The Rights will expire on March 31, 2009. This plan replaced a similar shareholder rights plan that expired in February 2000.

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The Company has a Dividend Reinvestment and Stock Purchase Plan under which the Company's stockholders may automatically reinvest their dividends and make optional cash payments for the purchase of the Company's Common Stock at current market value.

In March 2000, the Company began issuing new shares of common stock to the Employee Investment Plan rather than having the Plan purchasing shares of common stock on the open market. In the fourth quarter of 2000, the Company also began issuing new shares of common stock for the Dividend Reinvestment and Stock Purchase Plan. Through December 31, 2000, a total of 125,636 new shares of common stock were issued to both plans.

NOTE 19. EARNINGS PER SHARE

On February 16, 2000, all outstanding shares of Series L Preferred Stock were converted into 11,410,047 shares of common stock. The weighted-average number of shares of common stock outstanding during the twelve months ended December 31, 2000 related to the converted shares was 9,975,997. The costs of converting the Series L Preferred Stock into common stock totaled \$21.3 million during the first quarter of 2000, with \$18.1 million representing the optional conversion premium and \$3.2 million attributable to the regular dividend on the stock. At December 31, 1999 and 1998, 1,508,210 and 1,540,460 shares of \$12.40 Convertible Preferred Stock, Series L, which were convertible into 15,082,100 and 15,404,595 million shares of common stock, respectively, were outstanding. All of these potential common shares and the associated dividends were excluded from the computation of diluted EPS for 1999 and 1998 because their inclusion had an antidilutive effect on EPS.

The computation of basic and diluted earnings per common share is as follows (in thousands, except per share amounts):

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net income	\$91,679	\$26,031	\$78,139
Less: Preferred stock dividends	<u>23,735</u>	<u>21,392</u>	<u>8,399</u>
Income available for common stock-basic and diluted	<u>\$67,944</u>	<u>\$4,639</u>	<u>\$69,740</u>
Weighted-average number of common shares outstanding-basic	45,690	38,213	54,604
Restricted stock	101	112	-
Stock options	<u>312</u>	<u>-</u>	<u>54</u>
Weighted-average number of common shares outstanding-diluted	<u>46,103</u>	<u>38,325</u>	<u>54,658</u>
Earnings per common share			
Basic	\$1.49	\$0.12	\$1.28
Diluted	\$1.47	\$0.12	\$1.28

For additional information regarding the convertible preferred stock and stock option plans, see Notes 15 and 21, respectively.

AVISTA CORPORATION**NOTE 20. INFORMATION AND TECHNOLOGY SEGMENT INFORMATION**

The Information and Technology line of business includes the results of Avista Advantage, Avista Labs and Avista Communications. Avista Fiber and Avista Communications merged operations in 2000, so Avista Fiber's financial information has been included with Avista Communications. Additional information for each of these three separate companies is provided as follows (thousands of dollars):

	<u>Years Ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Avista Advantage			
Operating Revenues	\$ 4,971	\$ 1,518	\$ 1,186
Operating Loss (pre-tax)	\$ (14,481)	\$ (5,042)	\$ (2,904)
Net Loss	\$ (11,022)	\$ (3,428)	\$ (2,052)
Avista Labs			
Operating Revenues	\$ 761	\$ 748	\$ 132
Operating Loss (pre-tax)	\$ (11,942)	\$ (3,924)	\$ (2,076)
Net Loss	\$ (8,010)	\$ (2,561)	\$ (1,169)
Avista Communications			
Operating Revenues	\$ 5,913	\$ 2,585	\$ 677
Operating Income (Loss) (pre-tax)	\$ (13,661)	\$ (4,036)	\$ (212)
Net Income (Loss)	\$ (9,376)	\$ (2,631)	\$ (177)

NOTE 21. STOCK COMPENSATION PLANS**Avista Corp.**

In 1998, the Company adopted and shareholders approved an incentive compensation plan, the Long-Term Incentive Plan (1998 Plan). Under the 1998 Plan, certain key employees, directors and officers of the Company and its subsidiaries may be granted stock options, stock appreciation rights, stock awards (including restricted stock) and other stock-based awards and dividend equivalent rights. The Company has made available a maximum of 2.5 million shares of its common stock for grant under the 1998 Plan. The shares issued under the 1998 Plan will be purchased by the trustee on the open market. Non-employee Directors were added to this plan in 2000.

In addition, in 2000, the Company adopted a Non-Officer Employee Long-Term Incentive Plan (2000 Plan). The provisions of the 2000 Plan are essentially the same as those under the 1998 Plan, except for the exclusion of directors and officers of the Company.

The following summarizes stock options activity for 2000, 1999 and 1998 under the Plan:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Number of shares under stock options:			
Outstanding at beginning of year	1,360,325	589,800	-
Granted	623,200	780,700	589,800
Exercised	(44,975)	-	-
Canceled	(94,650)	(10,175)	-
Unexercised options outstanding at end of year	<u>1,843,900</u>	<u>1,360,325</u>	<u>589,800</u>
Exercisable options	<u>581,025</u>	<u>147,200</u>	<u>-</u>
Weighted average exercise price:			
Granted	\$ 23.03	\$ 17.21	\$20.14
Exercised	\$ 18.53	-	-
Canceled	\$ 18.15	\$ 18.63	-
Outstanding at end of year	\$ 19.80	\$ 18.29	\$ 20.14
Exercisable at end of year	\$ 18.72	\$ 19.63	-

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Weighted average fair value of options granted during the year	\$ 12.02	\$ 5.02	\$ 4.74
Principal assumptions used in applying the Black-Scholes model:			
Risk-free interest rate	5.87% - 6.87%	5.57% - 6.63%	4.81% - 5.53%
Expected life, in years	7	7	7
Expected volatility	58.47%	27.92%	22.19%
Expected dividend yield	2.34%	3.11%	3.01%

Information with respect to stock options outstanding and stock options exercisable at December 31, 2000 is as follows:

Stock options outstanding	
Range of exercise prices	\$16.91 - \$29.22
Weighted average remaining contractual life, in years	9
Weighted average exercise price	\$19.80
Stock options exercisable	
Range of exercise prices	\$16.66 - \$22.62
Number exercisable	581,025
Weighted average exercise price	\$18.72

The Company granted 1,000 and 20,000 shares of restricted common stock under the Plan in 2000 and 1999, respectively. Plan participants are entitled to dividends and to vote their respective shares. The sale or transfer of restricted stock is prohibited during the vesting period except as specified in the award agreements. The value of restricted stock awards is established by the average market price on the date of grant. Restricted stock awarded in 2000 and 1999 have vesting periods from four to five years.

Common equity was reduced in the accompanying Consolidated Balance Sheets by the cost of restricted shares acquired by the Plan trustee on the open market. Accordingly, the Company is recording compensation expense ratably over the restriction periods based on the reduction to common equity.

The Company accounts for stock based compensation using APB Opinion No. 25, "Accounting for Stock Issued to Employees." Under this method, compensation cost is recognized on the excess, if any, of the market price of the stock at grant date over the exercise price of the option. As the exercise price for options granted under the Plan was equal to the market price at grant date, no compensation expense has been recorded by the Company in connection with the Plan. In accordance with FAS No. 123, "Accounting for Stock-Based Compensation," compensation expense is determined based on the fair value of the award and recognizes that cost over the service period. Had compensation costs for these plans been determined based on the fair value at the grant dates with FAS No. 123, the Company's net income would have been reduced to the pro forma amounts indicated below. The pro forma amounts include the pro forma effect of subsidiary companies' stock option plans.

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net income (in thousands):			
As reported	\$ 91,679	\$ 26,031	\$ 78,139
Pro forma	\$ 89,850	\$ 24,636	\$ 76,891
Basic EPS as reported	\$ 1.49	\$ 0.12	\$ 1.28
Proforma Basic EPS	\$ 1.45	\$ 0.08	\$ 1.25
Diluted EPS as Reported	\$ 1.47	\$ 0.12	\$ 1.28
Proforma Diluted EPS	\$ 1.43	\$ 0.08	\$ 1.25

Avista Capital Companies

Certain subsidiaries under Avista Capital have adopted employee stock incentive plans under which key employees and directors were granted the opportunity to purchase shares of subsidiary common stock at prices equal to the fair

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market value as determined by each subsidiary's Board of Directors. Restricted shares are subject to transfer agreements and vest over various periods as defined in the plans.

Certain subsidiaries under Avista Capital have adopted employee stock incentive plans under which certain employees and directors of the Company and the subsidiaries are granted options to purchase subsidiary shares at prices no less than the fair market value on the date of grant. Options outstanding under these plans usually become fully exercisable between three and five years from the date granted and terminate ten years from the date granted. Upon termination of employment, vested options may be exercised and the related subsidiary shares may be, but are not required to be, repurchased by the applicable subsidiary at fair value.

NOTE 22. COMMITMENTS AND CONTINGENCIES

The Company believes, based on the information presently known, that the ultimate liability for the matters discussed in this note, individually or in the aggregate, taking into account established accruals for estimated liabilities, will not be material to the consolidated financial position of the Company, but could be material to results of operations or cash flows for a particular quarter or annual period. No assurance can be given, however, as to the ultimate outcome with respect to any particular lawsuit.

Securities Litigation

On July 27, 2000, John Bain filed a lawsuit in the U.S. District Court for the Eastern District of Washington against the Company and Thomas M. Matthews, the former Chairman of the Board, President and Chief Executive Officer of the Company, and Jon E. Eliassen, a Senior Vice President and the Chief Financial Officer of the Company. On August 2, 2000, Wei Cao and William Dalton filed separate lawsuits in the same Court against the Company and Mr. Matthews. On August 7, 2000, Martin Capetz filed a lawsuit in the same Court against the Company, Mr. Matthews and Mr. Eliassen. On November 9, 2000, the court entered an order consolidating the cases, appointing the lead stockholder-plaintiff, and appointing lead stockholders-plaintiffs' counsel to prosecute the litigation. On February 13, 2001, plaintiffs filed their First Amended and Consolidated Class Action asserting claims on behalf of a purported class of persons who purchased Company common stock during the period April 14, 2000 through June 21, 2000. In their consolidated complaint, plaintiffs assert violations of Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 thereunder, arising out of various alleged misstatements and omissions in the Company's Annual Report on Form 10-K for the year 1999, its Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, and in other information made publicly available by the Company, and, further, claim that plaintiffs and the purported class suffered damages as a result thereof. Such alleged misstatements and omissions are claimed to relate to the Company's trading activities in wholesale energy markets, the Company's risk management policies and procedures with respect thereto, and the Company's trading losses in the second quarter of 2000. The plaintiffs request, among other things, compensatory damages in unspecified amounts and other relief as the Court may deem proper. The Company denies liability and intends to defend the consolidated lawsuit vigorously.

The staff of the Securities and Exchange Commission has requested from the Company certain information regarding Avista Utilities' wholesale trading activities and its risk management policies and procedures with respect thereto. The Company is complying with this request.

Commodity Futures Trading Commission Investigation

Avista Energy and one or more of its former employees are the subject of an investigation by the Commodity Futures Trading Commission (CFTC) into futures trading, including certain electricity futures contracts, in July of 1998. As part of its investigation, the CFTC is examining the placement of orders on three separate dates in 1998 to purchase Palo Verde and California-Oregon Border (COB) futures contracts traded on the New York Mercantile Exchange and whether the trading in question amounted to a manipulation of the price of those contracts.

State of Washington Business and Occupation Tax

The State of Washington's Business and Occupation Tax generally applies to gross receipts from business activities. Exceptions apply for financial trading activities involving stocks, bonds and futures contracts. For those activities, the gain from the transactions is the taxable basis. On an audit for the years 1997 through June of 2000, the Department of Revenue (DOR) made a distinction between certain types of energy trades entered into by Avista

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Energy. As a result, the DOR is attempting to apply tax to the gross receipts rather than the trading gains on about 20% of Avista Energy's trading volume for the audit period. Avista Energy has received a notice of assessment that contains a deficiency of about \$13.5 million related to the disputed issue. Avista Energy believes that all of its trading activity should be subject to tax on the trading gains only, and taxes have been accrued and paid based on this position. An administrative appeal is currently being prepared for submittal to the DOR. No estimate of the timing for an administrative resolution is available. In the event a satisfactory determination is not received from the administrative process, Avista Energy is prepared to seek recourse through the courts.

Spokane Gas Plant

The Spokane Natural Gas Plant site (which was operated as a coal gasification plant for approximately 60 years until 1948) was acquired by the Company through a merger in 1958. The Company no longer owns the property. Initial core samples taken from the site indicate environmental contamination at the site. On January 15, 1999, the Company received notice from the State of Washington's Department of Ecology (DOE) that it had been designated as a potentially liable party (PLP) with respect to any hazardous substances located on this site, stemming from the Company's past ownership of the former Gas Plant. In its notice, the DOE stated that it intended to complete an on-going remedial investigation of this site, complete a feasibility study to determine the most effective means of halting or controlling future releases of substances from the site, and implement appropriate remedial measures.

The Company responded to the DOE acknowledging its listing as a PLP, but requested that additional parties also be listed as PLPs. In the spring of 1999, the DOE named two other parties as additional PLPs. The Company completed additional characterization of the site for the remedial investigation (RI).

The DOE issued a Draft Agreed Order to the Company on January 17, 2000, and solicited public comment. The Agreed Order was signed by the DOE, the Company and Burlington Northern & Santa Fe Railway Co. (another PLP) on March 13, 2000. The work to be performed under the Agreed Order includes three major technical parts: completion of the RI; performance of a focused Feasibility Study (FS); and implementation of an interim groundwater monitoring plan. During the second quarter, the Company received comments from the DOE on its initial RI, then submitted another draft of the RI, which has been accepted as final by the DOE. The Company also received comments from the DOE pertaining to the FS, which outlines cleanup alternatives. Another FS, which responded to the DOE comments, was submitted to the DOE on October 13. The Company received final comments and submitted another draft of the FS in November, which was accepted. The public comment period ran from December 15, 2000 through January 18, 2001. After the comment period, the DOE will issue a draft Clean-up Action Plan (CAP), which is expected by the end of March.

Eastern Pacific Energy

On October 9, 1998, Eastern Pacific Energy (Eastern Pacific), an energy aggregator participating in the restructured retail energy market in California, filed suit against the Company and its affiliates, Avista Advantage and Avista Energy, in the United States District Court for the Central District of California. Eastern Pacific alleges, among other things, a breach of an oral or implied joint venture agreement whereby the Company agreed to supply not less than 300 megawatts of power to Eastern Pacific's California customers and that Avista Advantage agreed to provide energy-related products and services. The complaint seeks an unspecified amount of damages and also seeks to recover any future profits earned from sales of the aforementioned amount of power to California consumers.

On December 4, 1998, Avista Advantage, Avista Energy and the Company jointly filed a motion to dismiss the complaint for failure to state a claim upon which relief can be granted. On May 4, 1999, the Court granted the Company's and its affiliates' motion to dismiss the case and granted the plaintiff the opportunity to file and serve an Amended Complaint, which it did. The Company and its affiliates renewed their motion to dismiss and on October 22, 1999, the Court again granted the motion to dismiss, this time with prejudice. Plaintiff appealed this adverse determination to the Ninth Circuit Court of Appeals. A settlement agreement was reached among the parties, whereby the suit would be dismissed with prejudice and without any payment to Eastern Pacific, up vacation by the Federal District Court of its earlier judgment of dismissal of Eastern Pacific's claims. On February 8, 2001, the Court entered its Order Granting the Joint Motion to Vacated Judgment and Dismissing the Action with Prejudice. The Ninth Circuit Court of Appeals had previously entered an Order on October 29, 2000, dismissing the appeal pursuant to a stipulation of the parties.

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Sale of Certain Pentzer Corporation Subsidiaries

On February 26, 2001, IDX Corporation, formerly known as Store Fixtures Group, Inc., filed a complaint against Pentzer in the United States District Court for the District of Massachusetts, alleging breach of contract and negligent misrepresentation relating to a stock purchase agreement. Pursuant to this agreement, Pentzer sold the capital stock of a group of companies on August 31, 1999. Plaintiff alleges that Pentzer breached various representations and warranties concerning financial statements and inventory, contending that reliance on such representations and warranties caused them to pay more for the group of companies than they were worth. In total, plaintiff claims damages in the approximate amount of \$9 million. Pentzer has retained legal counsel and intends to vigorously defend against this action.

On April 7, 2000, Creative Solutions Group, Inc. and Form House Holdings, Inc. filed a complaint against Pentzer Corporation in the United States District Court for the District of Massachusetts, alleging misrepresentations and breach of representations and warranties made under a stock purchase agreement. Pursuant to this agreement, Pentzer sold the capital stock of a group of companies on March 31, 1999. Plaintiffs allege that Pentzer breached various representations and warranties concerning financial statements, cost of goods sold and inventory, contending that reliance on such representations and warranties caused them to pay more for the group of companies than they were worth. In total, plaintiffs allege damages in the approximate amount of \$27 million. Pentzer has retained legal counsel and intends to vigorously defend against this action. The Court denied Pentzer's request that the matter be sent to arbitration and Pentzer has appealed that determination to the First Circuit Court of Appeals.

Other Contingencies

The Company routinely assesses, based on in-depth studies, expert analyses and legal reviews, its contingencies, obligations and commitments for remediation of contaminated sites, including assessments of ranges and probabilities of recoveries from other responsible parties who have and have not agreed to a settlement and recoveries from insurance carriers. The Company's policy is to immediately accrue and charge to current expense identified exposures related to environmental remediation sites based on estimates of investigation, cleanup and monitoring costs to be incurred.

The Company has potential liabilities under the Federal Endangered Species Act (ESA) for species of fish that have either already been added to the endangered species list, been listed as "threatened" or been petitioned for listing. Thus far, measures that have been adopted and implemented have had minimal impact of the Company. The new operating license for the Clark Fork Projects describes the approach to restore bull trout populations in the project areas. Using the concept of adaptive management, the Company will evaluate the feasibility of fish passage, and, depending upon the results of these experimental studies, determine the applications of funds toward continuing fish passage efforts or other population enhancement measures.

The Company continues to study the issue of high dissolved gas levels downstream of Cabinet Gorge during spill periods, as agreed to in the Settlement Agreement of the new license for Cabinet Gorge. To date, intensive biological studies in the lower Clark Fork River and Lake Pend Oreille have documented minimal biological effects of high dissolved gas levels on free ranging fish. Under the terms of the Settlement Agreement, the Company will develop an abatement and/or mitigation strategy by 2002.

Under the federal licenses for its hydroelectric projects, the Company is obligated to protect its property rights, including water rights. The State of Montana is examining the status of all water right claims within state boundaries, which could potentially adversely affect the generating capacity of the Company's Cabinet Gorge and Noxon Rapids hydroelectric facilities. The Company is participating in this extended process, which is unlikely to be concluded in the foreseeable future.

The Company must be in compliance with requirements under the Clean Air Act Amendments (CAAA) at the Colstrip thermal generating plant, in which the Company maintains an ownership interest. The anticipated share of costs at Colstrip is not expected to have a major economic impact on the Company.

The Company has long-term contracts related to the purchase of fuel for thermal generation, natural gas and hydroelectric power. Terms of the natural gas purchase contracts range from one month to five years and the majority provide for minimum purchases at the then effective market rate. The Company also has various agreements for the purchase, sale or exchange of electric energy with other utilities, cogenerators, small power producers and government agencies.

As of December 31, 2000, the Company's collective bargaining agreement with the International Brotherhood of Electrical Workers represented approximately 53% of employees. The current agreement with the union local representing the majority of the bargaining unit employees expires on March 25, 2002. A local agreement in the South Lake Tahoe area, which represents 5 employees, expires on March 25, 2002.

NOTE 23. ACQUISITIONS AND DISPOSITIONS

On May 5, 2000, the owners of the Centralia Power Plant sold the plant to TransAlta, a Canadian company. Avista Utilities recorded an after-tax gain totaling \$9.0 million from the sale of its 17.5% ownership interest in the plant. Of the total after-tax gain of \$37.2 million from the sale of Centralia, \$28.2 million was deferred, to be returned to Avista Utilities' customers through rates over established periods of time. Washington customers received \$20.7 million of the after-tax gain through pre-tax credits to their electric bills over the two-month period of December 2000 and January 2001. Idaho customers will receive the remaining \$7.5 million of the after-tax gain, which translates into a pre-tax reduction of 1.8% over an eight-year period.

During the first quarter of 1999, Pentzer sold its Creative Solutions Group, a group of five portfolio companies that provide point-of-purchase displays and other merchandising and packaging services to retailers and consumer product companies. The sale resulted in a gain of \$10.1 million, net of taxes. During the third quarter of 1999, Pentzer sold its Store Fixtures Group, a group of six portfolio companies that design, manufacture and deliver store fixture products to major retailers. The sale resulted in a gain of \$27.6 million, net of taxes. During the first quarter of 1998, Pentzer sold Systran Financial Services, resulting in an after-tax gain of \$5.5 million. In November 1999, Pentzer purchased the International Retail Services Group, a company that provides backroom supplies for retail stores; this company was sold in November 2000.

In February 1999, Avista Energy purchased Vitol Gas & Electric, LLC (Vitol), based in Boston, Massachusetts. Vitol traded natural gas, electricity, coal and SO₂ allowances in markets in the eastern half of the United States. The acquisition was funded through the issuance of additional shares of common stock to Avista Capital.

In January 1999, Avista Corp. acquired a majority ownership in One Eighty Communications, a competitive local exchange carrier that provided local dial tone and data services to commercial accounts in local communities. The new company was renamed Avista Communications.

AVISTA CORPORATION
NOTE 24. SELECTED QUARTERLY INFORMATION (Unaudited)

The Company's energy operations are significantly affected by weather conditions. Consequently, there can be large variances in revenues, expenses and net income between quarters based on seasonal factors such as temperatures and streamflow conditions. A summary of quarterly operations (in thousands of dollars except per share amounts) for 2000 and 1999 follows:

	Three Months Ended			
	March 31	June 30	September 30	December 31
2000				
Operating revenues	\$1,381,974	\$1,353,414	\$2,864,305	\$2,311,797
Operating income.....	29,073	(27,743)	67,899	134,199
Net income	10,525	(21,493)	34,540	68,107
Income available for common stock	(11,385)	(22,101)	33,932	67,498
Outstanding common stock (000s):				
Weighted average	41,297	47,113	47,147	47,172
Actual	47,078	47,128	47,159	47,209
Earnings per share:				
Avista Utilities.....	\$(0.05)	\$(1.33)	\$(0.02)	\$0.03
Energy Trading and Marketing.....	(0.09)	1.00	0.89	1.74
Information and Technology	(0.14)	(0.13)	(0.14)	(0.21)
Avista Ventures	-	(0.01)	(0.01)	(0.04)
Earnings per share, basic	\$(0.28)	\$(0.47)	\$0.72	\$1.52
Earnings per share, diluted	\$(0.28)	\$(0.47)	\$0.72	\$1.50
Dividends paid per common share	\$0.12	\$0.12	\$0.12	\$0.12
Trading price range per share:				
High.....	\$68.000	\$41.125	\$30.440	\$23.500
Low	\$14.625	\$15.750	\$16.813	\$17.880
1999				
Operating revenues	\$1,212,822	\$1,411,736	\$3,718,109	\$1,562,317
Operating income.....	30,363	17,380	18,197	(34,583)
Net income	19,388	8,509	27,613	(29,479)
Income available for common stock	14,004	3,125	22,273	(34,763)
Outstanding common stock (000s):				
Weighted average	40,454	40,185	36,634	35,648
Actual	40,454	38,881	35,645	35,648
Earnings per share:				
Avista Utilities.....	\$0.35	\$0.39	\$(0.13)	\$0.39
Energy Trading and Marketing.....	(0.18)	(0.27)	0.02	(1.16)
Information and Technology	(0.03)	(0.04)	(0.06)	(0.14)
Avista Ventures	0.21	-	0.78	(0.01)
Earnings per share, basic	\$0.35	\$0.08	\$0.61	\$(0.92)
Earnings per share, diluted	\$0.34	\$0.08	\$0.52	\$(0.92)
Dividends paid per common share	\$0.12	\$0.12	\$0.12	\$0.12
Trading price range per share:				
High.....	\$19.563	\$18.188	\$18.063	\$18.125
Low	\$15.938	\$14.625	\$16.250	\$15.000

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding the directors of the Registrant has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 10, 2001.

Executive Officers of the Registrant

<u>Name</u>	<u>Age</u>	<u>Business Experience During Past 5 Years</u>
Larry A. Stanley	72	Chairman of the Board since November 2000.
Gary G. Ely	53	President and Chief Executive Officer since October 2000; Executive Vice President February 1999 - October 2000; Senior Vice President and General Manager August 1996 - February 1999; Vice President - Natural Gas February 1991- August 1996.
Jon E. Eliassen	53	Senior Vice President and Chief Financial Officer since November 1998; Senior Vice President, Chief Financial Officer and Treasurer December 1997 - November 1998; Senior Vice President and Chief Financial Officer August 1996 - December 1997; Vice President - Finance and Chief Financial Officer February 1986 - August 1996.
David J. Meyer	47	Senior Vice President and General Counsel since September 1998; prior to employment with the Registrant: Attorney - Paine Hamblen Coffin Brooke & Miller 1974 - September 1998.
David A. Brukardt	46	Chief Communication Officer and Vice President of Investor and Corporate Relations since August 2000; Vice President - Investor Relations July 1999 - August 2000; prior to employment with the Registrant: Director - Investor and Corporate Relations - Harnischfeger Industries, Inc. and Vice President - Harnischfeger Foundation July 1995 - July 1999.
Christy M. Burmeister-Smith	44	Vice President and Controller since June 1999; Controller - Energy Delivery and various other positions with the Company since 1980.
Robert D. Fukai	51	Vice President - External Relations since August 1996; Vice President - Human Resources, Corporate Services and Marketing January 1993 - August 1996.
Scott Morris	43	Vice President since November 2000; President - Avista Utilities since August 2000; General Manager - Avista Utilities October 1991 - August 2000.
Kelly Norwood	42	Vice President since November 2000; Vice President and General Manager of Energy Resources - Avista Utilities since August 2000; various other staff and management positions with the Company since 1981.
Ronald R. Peterson	48	Vice President and Treasurer since November 1998; Vice President and Controller February 1998 - November 1998; Controller August 1996 - February 1998; Treasurer February 1992 - August 1996.
Terry L. Syms	52	Vice President and Corporate Secretary since February 1998; Corporate Secretary March 1988 - February 1998.

Roger D. Woodworth	44	Vice President - Corporate Development since November 1998; Director of Corporate Development and various other positions with the Company since 1979.
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All of the Company's executive officers, with the exception of Messrs. Fukai, Norwood and Woodworth and Mme. Burmeister-Smith were officers or directors of one or more of the Company's subsidiaries in 2000.

Executive officers are elected annually by the Board of Directors.

Item 11. Executive Compensation

Information regarding executive compensation has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 10, 2001.

Item 12. Security Ownership of Certain Beneficial Owners and Management

(a) Security ownership of certain beneficial owners (owning 5% or more of Registrant's voting securities):

Information regarding security ownership of certain beneficial owners (owning 5% or more of Registrant's voting securities) has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 10, 2001.

(b) Security ownership of management:

Information regarding security ownership of management has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 10, 2001.

(c) Changes in control:

None.

Item 13. Certain Relationships and Related Transactions

Information regarding certain relationships and related transactions has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 10, 2001.

PART IV

Item 14. Financial Statements, Financial Statement Schedules, Exhibits and Reports on Form 8-K

(a) 1. Financial Statements (Included in Part II of this report):

Independent Auditors' Report

Consolidated Statements of Income, Comprehensive Income and Retained Earnings for the Years Ended December 31, 2000, 1999 and 1998

Consolidated Balance Sheets, December 31, 2000 and 1999

Consolidated Statements of Capitalization, December 31, 2000 and 1999

Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2000, 1999 and 1998

Schedule of Information by Business Segments for the Years Ended December 31, 2000, 1999 and 1998

Notes to Financial Statements

(a) 2. Financial Statement Schedules:

None

(a) 3. Exhibits:

Reference is made to the Exhibit Index commencing on page 80. The Exhibits include the management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(10)(iii) of Regulation S-K.

(b) Reports on Form 8-K:

Dated January 6, 2000, regarding lower utility revenues due to warm weather and fourth quarter charges due to restructuring at Avista Energy and impairment of utility assets.

Dated January 28, 2000, announcing the conversion of the Series L Convertible Preferred Stock into common stock.

Dated June 21, 2000, reporting significant increases in energy expenses and the impact on Company earnings.

Dated July 26, 2000, announcing earnings for the second quarter of 2000.

Dated August 25, 2000, announcing executive changes within Avista Corp. and Avista Utilities.

Dated October 25, 2000, announcing earnings for the third quarter of 2000 and the resignation of T. M. Matthews, the Company's Chairman of the Board, President and Chief Executive Officer.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AVISTA CORPORATION

March 8, 2001
Date

By /s/ Gary G. Ely
Gary G. Ely
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Gary G. Ely</u> Gary G. Ely President and Chief Executive Officer	Principal Executive Officer	March 8, 2001
<u>/s/ J. E. Eliassen</u> J. E. Eliassen (Senior Vice President and Chief Financial Officer)	Principal Financial and Accounting Officer	March 8, 2001
<u>/s/ Erik J. Anderson</u> Erik J. Anderson	Director	March 8, 2001
<u>/s/ Kristianne Blake</u> Kristianne Blake	Director	March 8, 2001
<u>/s/ David A. Clack</u> David A. Clack	Director	March 8, 2001
<u>/s/ Sarah M. R. Jewell</u> Sarah M. R. Jewell	Director	March 8, 2001
<u>/s/ John F. Kelly</u> John F. Kelly	Director	March 8, 2001
<u>/s/ Eugene W. Meyer</u> Eugene W. Meyer	Director	March 8, 2001
<u>/s/ Bobby Schmidt</u> Bobby Schmidt	Director	March 8, 2001
<u>/s/ Larry A. Stanley</u> Larry A. Stanley	Director	March 8, 2001
<u>/s/ R. John Taylor</u> R. John Taylor	Director	March 8, 2001
<u>/s/ Daniel J. Zaloudek</u> Daniel J. Zaloudek	Director	March 8, 2001

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 2-81697, 2-94816, 33-54791, 33-32148, 333-33790, and 333-47290 on Form S-8, and in Registration Statement Nos. 33-53655, 333-39551, 333-82165, 333-16353, and 333-16353-03 on Form S-3 of our report dated February 2, 2001, (February 26, 2001 as to Note 22), appearing in this Annual Report on Form 10-K of Avista Corporation for the year ended December 31, 2000.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Seattle, Washington
March 6, 2001

EXHIBIT INDEX

<u>Exhibit</u>	<u>Previously Filed*</u>		
	<u>With Registration Number</u>	<u>As Exhibit</u>	
3(a)	1-3701 (with 1998 Form 10-K)		Restated Articles of Incorporation of Avista Corporation as restated February 25, 1999.
3(b)	1-3701 (with 2000 2nd Quarter 10-Q)		Bylaws of Avista Corporation, as amended July 1, 2000.
4(a)-1	2-4077B-3		Mortgage and Deed of Trust, dated as of June 1, 1939.
4(a)-2	2-98124(c)		First Supplemental Indenture, dated as of October 1, 1952.
4(a)-3	2-60728	2(b)-2	Second Supplemental Indenture, dated as of May 1, 1953.
4(a)-4	2-13421	4(b)-3	Third Supplemental Indenture, dated as of December 1, 1955.
4(a)-5	2-13421	4(b)-4	Fourth Supplemental Indenture, dated as of March 15, 1967.
4(a)-6	2-60728	2(b)-5	Fifth Supplemental Indenture, dated as of July 1, 1957.
4(a)-7	2-60728	2(b)-6	Sixth Supplemental Indenture, dated as of January 1, 1958.
4(a)-8	2-60728	2(b)-7	Seventh Supplemental Indenture, dated as of August 1, 1958.
4(a)-9	2-60728	2(b)-8	Eighth Supplemental Indenture, dated as of January 1, 1959.
4(a)-10	2-60728	2(b)-9	Ninth Supplemental Indenture, dated as of January 1, 1960.
4(a)-11	2-60728	2(b)-10	Tenth Supplemental Indenture, dated as of April 1, 1964.
4(a)-12	2-60728	2(b)-11	Eleventh Supplemental Indenture, dated as of March 1, 1965.
4(a)-13	2-60728	2(b)-12	Twelfth Supplemental Indenture, dated as of May 1, 1966.
4(a)-14	2-60728	2(b)-13	Thirteenth Supplemental Indenture, dated as of August 1, 1966.
4(a)-15	2-60728	2(b)-14	Fourteenth Supplemental Indenture, dated as of April 1, 1970.
4(a)-16	2-60728	2(b)-15	Fifteenth Supplemental Indenture, dated as of May 1, 1973.
4(a)-17	2-60728	2(b)-16	Sixteenth Supplemental Indenture, dated as of February 1, 1975.
4(a)-18	2-60728	2(b)-17	Seventeenth Supplemental Indenture, dated as of November 1, 1976.
4(a)-19	2-69080	2(b)-18	Eighteenth Supplemental Indenture, dated as of June 1, 1980.
4(a)-20	1-3701 (with 1980 Form 10-K)	4(a)-20	Nineteenth Supplemental Indenture, dated as of January 1, 1981.
4(a)-21	2-79571	4(a)-21	Twentieth Supplemental Indenture, dated as of August 1, 1982.

*Incorporated herein by reference.

**Filed herewith.

EXHIBIT INDEX (continued)

<u>Exhibit</u>	<u>Previously Filed*</u>		
	<u>With Registration Number</u>	<u>As Exhibit</u>	
4(a)-22	1-3701 (with Form 8-K dated September 20, 1983)	4(a)-22	Twenty-First Supplemental Indenture, dated as of September 1, 1983.
4(a)-23	2-94816	4(a)-23	Twenty-Second Supplemental Indenture, dated as of March 1, 1984.
4(a)-24	1-3701 (with 1986 Form 10-K)	4(a)-24	Twenty-Third Supplemental Indenture, dated as of December 1, 1986.
4(a)-25	1-3701 (with 1987 Form 10-K)	4(a)-25	Twenty-Fourth Supplemental Indenture, dated as of January 1, 1988.
4(a)-26	1-3701 (with 1989 Form 10-K)	4(a)-26	Twenty-Fifth Supplemental Indenture, dated as of October 1, 1989.
4(a)-27	33-51669	4(a)-27	Twenty-Sixth Supplemental Indenture, dated as of April 1, 1993.
4(a)-28	1-3701 (with 1993 Form 10-K)	4(a)-28	Twenty-Seventh Supplemental Indenture, dated as of January 1, 1994.
4(a)-29	333-82165	4(a)	Indenture dated as of April 1, 1998 between Avista Corp. Corporation and The Chase Manhattan Bank, as Trustee.
4(b)-1	1-3701 (with 1999 Form 10-K)		Loan Agreement between City of Forsyth, Montana, and the Company, dated as of September 1, 1999 (Series 1999A).
4(b)-2	1-3701 (with 1999 Form 10-K)		Indenture of Trust, Pollution Control Revenue Refunding Bonds (Series 1999A) between City of Forsyth, Montana, and Chase Manhattan Bank and Trust Company, N.A., dated as of September 1, 1999.
4(b)-3	1-3701 (with 1999 Form 10-K)		Loan Agreement between City of Forsyth, Montana, and the Company, dated as of September 1, 1999 (Series 1999B).
4(b)-4	1-3701 (with 1999 Form 10-K)		Indenture of Trust, Pollution Control Revenue Refunding Bonds (Series 1999B) between City of Forsyth, Montana, and Chase Manhattan Bank and Trust Company, N.A., dated as of September 1, 1999.
4(c)-1	1-3701 (with 1988 Form 10-K)	4(h)-1	Indenture between the Company and Chemical Bank dated as of July 1, 1988 (Series A and B Medium-Term Notes).
4(d)-2	**		Amended and Restated Revolving Credit Agreement among Avista Corporation, Toronto Dominion (Texas), Inc., Bank of America, N. A. and The Bank of New York, dated June 26, 2000.

*Incorporated herein by reference.

**Filed herewith.

EXHIBIT INDEX (continued)

<u>Exhibit</u>	<u>Previously Filed*</u>		
	<u>With Registration Number</u>	<u>As Exhibit</u>	
4(e)	1-3701 (with Form 8-K dated November 15, 1999)	4	Rights Agreement, dated as of November 15, 1999, between the Company and the Bank of New York as successor Rights Agent.
10(a)-1	2-13788	13(e)	Power Sales Contract (Rocky Reach Project) with Public Utility District No. 1 of Chelan County, Washington, dated as of November 14, 1957.
10(a)-2	2-60728	10(b)-1	Amendment to Power Sales Contract (Rocky Reach Project) with Public Utility District No. 1 of Chelan County, Washington, dated as of June 1, 1968.
10(b)-1	2-13421	13(d)	Power Sales Contract (Priest Rapids Project) with Public Utility District No. 2 of Grant County, Washington, dated as of May 22, 1956.
10(b)-2	2-60728	5(d)-1	Second Amendment to Power Sales Contract (Priest Rapids Project) with Public Utility District No. 2 of Grant County, Washington, dated as of December 19, 1977.
10(c)-1	2-60728	5(e)	Power Sales Contract (Wanapum Project) with Public Utility District No. 2 of Grant County, Washington, dated as of June 22, 1959.
10(c)-2	2-60728	5(e)-1	First Amendment to Power Sales Contract (Wanapum Project) with Public Utility District No. 2 of Grant County, Washington, dated as of December 19, 1977.
10(d)-1	2-60728	5(g)	Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of September 18, 1963.
10(d)-2	2-60728	5(g)-1	Amendment to Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of February 9, 1965.
10(d)-3	2-60728	5(h)	Reserved Share Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of September 18, 1963.
10(d)-4	2-60728	5(h)-1	Amendment to Reserved Share Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of February 9, 1965.
10(e)	2-60728	5(i)	Canadian Entitlement Exchange Agreement executed by Bonneville Power Administration Columbia Storage Power Exchange and the Company, dated as of August 13, 1964.
10(f)	2-60728	5(j)	Pacific Northwest Coordination Agreement, dated as of September 15, 1964.

*Incorporated herein by reference.

**Filed herewith.

EXHIBIT INDEX (continued)

<u>Exhibit</u>	<u>Previously Filed*</u>		
	<u>With Registration Number</u>	<u>As Exhibit</u>	
10(h)-2	2-60728	5(m)-1	Amendment No. 1 to the Agreement between the Company between the Company, Bonneville Power Administration and Washington Public Power Supply System for purchase and exchange of power from the Nuclear Project No. 1 (Hanford), dated as of May 8, 1974.
10(h)-3	1-3701 (with Form 10-K for 1986)	10(i)-3	Agreement between Bonneville Power Administration, the Montana Power Company, Pacific Power & Light, Portland General Electric, Puget Sound Power & Light, the Company and the Supply System for relocation costs of Nuclear Project No. 1 (Hanford) dated as of July 9, 1986.
10(i)-1	2-60728	5(n)	Ownership Agreement of Nuclear Project No. 3, sponsored by Washington Public Power Supply System, dated as of September 17, 1973.
10(i)-2	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	1	Settlement Agreement and Covenant Not to Sue executed by the United States Department of Energy acting by and through the Bonneville Power Administration and the Company, dated as of September 17, 1985, describing the settlement of Project 3 litigation.
10(i)-3	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	2	Agreement to Dismiss Claims and Covenant Not to Sue between the Washington Public Power Supply System and the Company, dated as of September 17, 1985, describing the settlement of Project 3 litigation with the Supply System.
10(i)-4	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	3	Agreement among Puget Sound Power & Light Company, the Company, Portland General Electric Company and PacifiCorp, dba Pacific Power & Light Company, agreeing to execute contemporaneously an irrevocable offer, to and for the benefit of the Bonneville Power Administration, dated as of September 17, 1985.
10(j)-1	2-66184	5(r)	Service Agreement (Natural Gas Storage Service), dated as of August 27, 1979, between the Company and Northwest Pipeline Corporation.
10(j)-2	2-60728	5(s)	Service Agreement (Liquefaction-Storage Natural Gas Service), dated as of December 7, 1977, between the Company and Northwest Pipeline Corporation.
10(j)-3	1-3701 (with 1989 Form 10-K)	10(k)-4	Amendment dated as of January 1, 1990, to Firm Transportation Agreement, dated as of June 15, 1988, between the Company and Northwest Pipeline Corporation.

*Incorporated herein by reference.

**Filed herewith.

EXHIBIT INDEX (continued)

Exhibit	Previously Filed*		
	With Registration Number	As Exhibit	
10(j)-4	1-3701 (with 1992 Form 10-K)	10(k)-6	Firm Transportation Service Agreement, dated as of April 25, 1991, between the Company and Pacific Gas Transmission Company.
10(j)-5	1-3701 (with 1992 Form 10-K)	10(k)-7	Service Agreement Applicable to Firm Transportation Service, dated June 12, 1991, between the Company and Alberta Natural Gas Company Ltd.
10(k)-1	1-3701 (with Form 8-K for August 1976)	13(b)	Letter of Intent for the Construction and Ownership of Colstrip Units No. 3 and 4, sponsored by The Montana Power Company, dated as of April 16, 1974.
10(k)-2	1-3701 (with 1981 Form 10-K)	10(s)-7	Ownership and Operation Agreement for Colstrip Units No. 3 and 4, sponsored by The Montana Power Company, dated as of May 6, 1981.
10(k)-3	1-3701 (with 1981 Form 10-K)	10(s)-2	Coal Supply Agreement for Colstrip Units No. 3 and 4 between The Montana Power Company, Puget Sound Power & Light Company, Portland General Electric Company, Pacific Power & Light Company, Western Energy Company and the Company, dated as of July 2, 1980.
10(k)-4	1-3701 (with 1981 Form 10-K)	10(s)-3	Amendment No. 1 to Coal Supply Agreement for Colstrip Units No. 3 and 4, dated as of July 10, 1981.
10(k)-5	1-3701 (with 1988 Form 10-K)	10(l)-5	Amendment No. 4 to Coal Supply Agreement for Colstrip Units No. 3 and 4, dated as of January 1, 1988.
10(l)-1	1-3701 (with 1986 Form 10-K)	10(n)-2	Lease Agreement between the Company and IRE-4 New York, Inc., dated as of December 15, 1986, relating to the Company's central operating facility.
10(m)	1-3701 (with 1983 Form 10-K)	10(v)	Supplemental Agreement No. 2, Skagit/Hanford Project, dated as of December 27, 1983, relating to the termination of the Skagit/Hanford Project.
10(n)	1-3701 (with 1986 Form 10-K)	10(p)-1	Agreement for Purchase and Sale of Firm Capacity and Energy between Puget Sound Power & Light Company and the Company, dated as of August 1, 1986.
10(o)	1-3701 (with 1991 Form 10-K)	10(q)-1	Electric Service and Purchase Agreement between Potlatch Corporation and the Company, dated as of January 3, 1991.
10(p)	1-3701 (with 1992 Form 10-K)	10(s)-1	Agreements for Purchase and Sale of Firm Capacity between the Company and Portland General Electric Company dated March and June 1992.

*Incorporated herein by reference.

**Filed herewith.

EXHIBIT INDEX (continued)

<u>Exhibit</u>	<u>Previously Filed*</u>		
	<u>With Registration Number</u>	<u>As Exhibit</u>	
10(q)-1	1-3701 (with 1992 Form 10-K)	10(t)-8	Executive Deferral Plan of the Company. (***)
10(q)-2	1-3701 (with 1992 Form 10-K)	10(t)-10	The Company's Unfunded Supplemental Executive Retirement Plan. (***)
10(q)-3	1-3701 (with 1992 Form 10-K)	10(t)-11	The Company's Unfunded Supplemental Executive Disability Plan. (***)
10(q)-4	1-3701 (with 1992 Form 10-K)	10(t)-12	Income Continuation Plan of the Company. (***)
10(q)-5	1-3701 (with 1998 Form 10-K)		Long-Term Incentive Plan. (***)
10(q)-6	1-3701 (with 1998 Form 10-K)		Employment Agreement between the Company and T. M. Matthews. (***)
10(q)-7	1-3701 (with 1999 Form 10-K)		Employment Agreement between the Company and David J. Meyer. (***)
12	**		Statement re computation of ratio of earnings to fixed charges and preferred dividend requirements.
21	**		Subsidiaries of Registrant.

* Incorporated herein by reference.

** Filed herewith.

*** Management contracts or compensatory plans filed as exhibits by reference per Item 601(10)(iii)
of Regulation S-K.

AVISTA CORPORATION

Computation of Ratio of Earnings to Fixed Charges and Preferred Dividend Requirements
Consolidated
(Thousands of Dollars)

	Years Ended December 31				
	2000	1999	1998	1997	1996
Fixed charges, as defined:					
Interest on long-term debt	\$ 65,314	\$ 62,032	\$ 66,218	\$ 63,413	\$ 60,256
Amortization of debt expense and premium - net	3,409	3,044	2,859	2,862	2,998
Interest portion of rentals	4,324	4,645	4,301	4,354	4,311
Total fixed charges	<u>\$ 73,047</u>	<u>\$ 69,721</u>	<u>\$ 73,378</u>	<u>\$ 70,629</u>	<u>\$ 67,565</u>
Earnings, as defined:					
Net income	\$ 91,679	\$ 26,031	\$ 78,139	\$ 114,797	\$ 83,453
Add (deduct):					
Income tax expense	73,461	16,740	43,335	61,075	49,509
Total fixed charges above	<u>73,047</u>	<u>69,721</u>	<u>73,378</u>	<u>70,629</u>	<u>67,565</u>
Total earnings	<u>\$ 238,187</u>	<u>\$ 112,492</u>	<u>\$ 194,852</u>	<u>\$ 246,501</u>	<u>\$ 200,527</u>
Ratio of earnings to fixed charges	3.26	1.61	2.66	3.49	2.97
Fixed charges and preferred dividend requirements:					
Fixed charges above	\$ 73,047	\$ 69,721	\$ 73,378	\$ 70,629	\$ 67,565
Preferred dividend requirements (1)	<u>42,753</u>	<u>35,149</u>	<u>13,057</u>	<u>8,261</u>	<u>12,711</u>
Total	<u>\$ 115,800</u>	<u>\$ 104,870</u>	<u>\$ 86,435</u>	<u>\$ 78,890</u>	<u>\$ 80,276</u>
Ratio of earnings to fixed charges and preferred dividend requirements	2.06	1.07	2.25	3.12	2.50

(1) Preferred dividend requirements have been grossed up to their pre-tax level.

Avista Corporation

SUBSIDIARIES OF REGISTRANT

<u>Subsidiary</u>	<u>State of Incorporation</u>
Avista Capital, Inc.	Washington
Avista Advantage, Inc.	Washington
Avista Communications, Inc.	Washington
Avista Development, Inc.	Washington
Avista Energy, Inc.	Washington
Avista Laboratories, Inc.	Washington
Avista Power, Inc.	Washington
Avista Services, Inc.	Washington
Avista Turbine Power, Inc.	Washington
Avista Ventures, Inc.	Washington
Pentzer Corporation	Washington
WWP Receivables Corp.	Washington