

Revised February 2009

**AVISTA CORP.
CORPORATE GOVERNANCE GUIDELINES**

Responsibility of the Board of Directors

Avista Corporation (the "Company") is incorporated under the laws of the State of Washington. Under Washington law, all corporate powers of the Company are exercised by or under the authority of, and the business and affairs of the Company are managed under the direction of, the Board of Directors (the "Board"). The directors are elected by the shareholders.

In accordance with Washington law, the Board has adopted Bylaws which contain provisions for managing the business and regulating the affairs of the Company, including provisions relating to (a) meetings of shareholders, (b) the number of directors, nomination and election, meetings, Committees and (c) the officers, appointment by the Board, powers and duties.

Among other things, the Board, with the assistance of senior management, develops the business objectives (financial and other) of the Company, as well as the strategies for the achievement thereof, and periodically assesses the Company's performance in relation to these objectives.

The Board does not conduct the day-to-day operations of the Company, the authority for which is delegated to management. However, the Board does have the responsibility to ensure that the Company has established and maintains appropriate internal controls, compliance programs, and/or information and reporting systems with respect to accounting, financial reporting and disclosure matters, compliance with applicable laws and regulations and the efficiency of the Company's operations, all to the extent required under federal and state law or otherwise deemed necessary or appropriate by the Board.

Under Washington law, each member of the Board must discharge his or her duties as a director, including duties as a member of a Committee:

- in good faith;
- with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and
- in a manner he/she reasonably believes to be in the best interest of the Company.

Board Selection and Composition**Board Leadership**

The Board selects the Chairman of the Board ("Chairman") in a manner that it determines to be in the best interests of the Company and its shareholders. The Board does not have a policy as to whether the role of Chief Executive Officer ("CEO") should be separate from that of Chairman, nor, if the roles are separate, whether the Chairman should be selected from the independent directors or should be an employee of the Company. This is a matter to be considered each time a new Chairman is selected, based upon the circumstances existing at that time. The Chair of the Governance/Nominating Committee shall serve as the Lead Director.

Composition of the Board

As set forth in the Articles of Incorporation, the Board will consist of no more than eleven directors, as determined by the Board from time to time, and generally only one employee—the CEO—will be a director. The majority of the Board will consist of directors who meet applicable independence requirements of the New York Stock Exchange ("independent directors"). The Board will affirmatively determine on an annual basis, and will disclose as required, whether each Board member is independent.

Selection of Directors

The Board nominates directors for election at the annual meeting of shareholders and selects directors to fill vacancies that occur between annual meetings. The Board has established guidelines, as well as a position profile, for the recruitment and selection of directors. Candidates for nomination to the Board will be selected by the Corporate Governance/Nominating Committee ("Governance/Nominating Committee") in accordance with the guidelines, taking into consideration the overall composition and diversity of the Board and areas of expertise that new Board members are able to offer. When formulating its Board membership recommendations, the Governance/Nominating Committee considers recommendations offered by the Chairman and CEO, other directors, senior management, and/or shareholders of the Company. The Governance/Nominating Committee reviews the qualifications of the directors and presents recommendations to the full Board for action.

Board Membership Criteria

The Governance/Nominating Committee annually reviews with the Board the appropriate skills and characteristics required of Board members in the context of the current composition of the Board. In conducting this assessment, the Committee considers diversity, retirement age, skills, and such other factors as it deems appropriate given the current needs of the Board and the Company.

Directors Who Change Responsibilities

Independent directors should notify the Chairman if there is a material change in their principal employment or affiliation.

Director Retirement Age/Term Limits

The Bylaws of the Company provide that no person may be elected or re-elected as a director if at the time of their election or re-election, such person shall have attained the age of seventy (70) years. Any director who attains such age while in office shall retire from the Board of Directors effective at the Annual Meeting of Shareholders held in the year in which their then current term expires, and any such director shall not be nominated or re-elected as a director. The Board has no evidence to suggest that setting term limits has a significant potential to enhance the individual performance/quality of directors.

Compensation of Directors

Directors' compensation will be determined by the Board, based on recommendations of the Governance/Nominating Committee. Members of management who are also directors will not receive additional compensation for their service as Directors. The Board believes that it is important to align the interests of the Board with the Company's shareholders and, accordingly, a portion of directors' compensation will be provided and held in Company stock.

Other Board Service

The Board does not believe that its members should be prohibited from serving on the boards of other companies so long as those commitments do not create material conflicts and do not interfere with the directors' ability to fulfill his/her duties as a member of the Board. The Governance/Nominating Committee will take into account the nature and time involved in the director's service on other boards in assessing director nominees. Directors will advise the CEO in advance of accepting an invitation to serve on another company board. Directors will also advise the CEO if they own 5% or more of stock in another utility.

Board Operation**Meetings of the Board**

Regular meetings of the Board will be held at least quarterly. Each year, directors are provided with a schedule of next year's regular Board meeting dates. Special and telephonic meetings shall be held as needed. Board members are expected to prepare for, attend, and participate in all Board and applicable Committee meetings. Each Board member is expected to ensure that other existing and planned future

commitments do not materially interfere with the member's service as a director. The Board recognizes that occasional meetings may need to be scheduled on short notice when the participation of a director is not possible. A significant conflict may also arise from time to time that might prevent a director from attending a quarterly meeting. However, it is expected that each director will make every effort to keep such absences to a minimum.

Board Agenda Items

The Chairman of the Board and the Lead Director are actively engaged in setting meeting agendas and board members are given an opportunity to provide input on the agenda. In addition, a preliminary agenda is provided to directors in advance of Board and Committee meetings for their review and input. Directors are also provided with pertinent background material for their review in advance of meetings.

Board Materials and Presentations

Senior management provide presentations at each Board meeting for the purpose of allowing directors the opportunity to gain additional understanding and insight into the Company's businesses and related issues.

Meetings of Independent Directors

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

Assessing the Board's Performance

The Governance/Nominating Committee has the responsibility to ensure that an assessment of the performance of the full Board is conducted annually. The Committee provides the results to the full Board for discussion, further examination and final assessment. The assessment includes evaluation of the Board's performance of its responsibilities as a whole and specific areas in which the Board and/or management believes improvements could be made. The purpose of the review is to increase the effectiveness of the Board as a whole, not to discuss the performance of individual directors.

Board Contact with Senior Management

Directors have full and free access to senior management and employees of the Company. Directors and executives strive to ensure that there is a sharing of information between each other that builds an effective partnership. Any such contact should be done in a way that is not disruptive to the business operations of the Company. The Chairman should be advised of any significant contacts between directors and management.

Board Interaction with Shareholders, Media, and Customers

The Board believes that management should generally handle all communications with the media, the financial community, or other external entities pertaining to the affairs of the Company. Directors should refer any inquiries from such entities to the Company for handling.

Access to Independent Advisors

The Board of Directors and its Committees may have the right to retain independent outside financial, legal, or other advisors, as necessary and appropriate to exercise and discharge their duties as directors.

Director Orientation and Continuing Education

The Company provides an orientation program for new directors. This program includes background material, meetings with senior management, and visits to Company facilities. For continuing education, directors receive periodic reports with respect to development in the Company's business, related industry information, applicable Federal and State regulations, accounting, financial reporting and disclosure requirements, corporate governance, and other emerging items of significant interest. The Company will allow directors to engage in periodic workshops, if approved by the CEO.

Board Committees

Number, Structure, and Charters

Committees have been established to assist the Board in overseeing the affairs of the Corporation. Currently, there are six Committees – Audit; Corporate Governance/Nominating; Finance; Compensation & Organization; Environmental, Safety & Security; and Executive. With the exception of the Executive Committee, the members of each Committee will be independent directors. The Board has adopted Charters for each of its Committees (with the exception of the Executive Committee, which operates in accordance with the Company's Bylaws), which set forth among other things, the purpose, specific duties, responsibilities, and reporting obligations of each Committee in compliance with applicable requirements. Other Committees may be established from time to time by a resolution of the Board.

Appointment of Committee Members

The Board of Directors determines the composition of each Committee. The Governance/Nominating Committee, after consultation with the Chairman and with consideration of the wishes of the individual directors, as well as in compliance with applicable laws, rules, and regulations, recommends to the full Board the membership and Chair of each Committee.

Committee Meetings

Committee members are expected to prepare for, attend, and participate in all Committee meetings. In general, Committee members also meet in executive session without management present at each regularly scheduled Committee meeting.

Committee Agenda Items

The Chair of each Committee, in consultation with the appropriate members of management, establishes the agenda for each meeting. Each Committee has established a calendar for regular action items to be discussed during the year, to the extent such subjects can be foreseen. Copies of these annual calendars are provided to all Committee members.

Assess Committee Performance

Each Committee will conduct an annual assessment of the performance of their Committee and provide the results to the full Board for discussion. The assessment includes evaluation of the Committee's contribution as a whole and specific areas in which the Committee believes a better contribution could be made. The purpose of the review is to increase the overall effectiveness of the Committee.

Leadership Development

Formal Evaluation of the Chief Executive Officer

The Compensation & Organization Committee is charged with overseeing an annual evaluation of the CEO. The Committee facilitates the evaluation discussion with the full Board, and provides feedback to the CEO with respect to said evaluation. The CEO is charged with overseeing annual evaluations of senior management and apprising the Board of senior management performance.

Management Development and Succession Planning

The Board has charged the Compensation & Organization Committee with establishing succession plans for the CEO and other senior management. The CEO is expected to update the Board at least annually with respect to leadership development and succession plans for executives and other key positions.