

Prompt execution of the enclosed proxy will save the expense of an additional mailing.  
Your immediate attention is appreciated.

March 31, 2008



Dear Shareholder:

On behalf of the Board of Directors, it's my pleasure to invite you to the 2008 Annual Meeting of Shareholders. The doors open at 9:15 a.m. and the Annual Meeting will begin promptly at 10:00 a.m.

Date:	Thursday Morning, May 8, 2008	Place:	Avista Main Office Building
Time:	9:15 a.m. Doors Open		Auditorium
	9:30 a.m. Refreshments		1411 E. Mission Avenue
	10:00 a.m. Annual Meeting Convenes		Spokane, Washington

Information about the nominees for election as members of the Board of Directors and other business of the meeting is set forth in the Notice of Meeting and the Proxy Statement on the following pages.

Please take the opportunity to review the enclosed Proxy Statement and 2007 Annual Report. Your vote is important regardless of the number of shares you own. Whether or not you plan to attend the Annual Meeting in person, we urge you to vote and submit your proxy by mail, telephone, or the Internet as promptly as possible. If you are submitting your proxy by mail, you should complete, sign, and date your proxy card, and return it in the enclosed envelope. If you plan to vote by telephone or the Internet, voting instructions are printed on your proxy card. If you hold shares through an account with a brokerage firm, bank, or other nominee, please follow the instructions you receive from them to vote your shares. Voting your proxy ahead of time will allow for a more efficient and timely meeting.

For your convenience, we are pleased to offer an audio webcast of the Annual Meeting if you cannot attend in person. If you choose to listen to the webcast, go to [www.avistacorp.com](http://www.avistacorp.com) shortly before the meeting time and follow the instructions for the webcast. Or, you can listen to a replay of the webcast, which will be archived at [www.avistacorp.com](http://www.avistacorp.com) for one year.

Thank you for your continued support.

Sincerely,

A handwritten signature in cursive script that reads "Scott L. Morris".

**Scott L. Morris**  
Chairman of the Board, President & Chief Executive  
Officer

Avista Corporation — 1411 E. Mission Ave. — Spokane, Washington 99202  
Investor Relations — (509) 495-4203

If you require special accommodations at the Annual Meeting due to a disability, please call our  
Investor Relations Department by April 18.

**AVISTA CORPORATION**  
1411 East Mission Avenue  
Spokane, Washington 99202

**NOTICE OF ANNUAL MEETING**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE  
SHAREHOLDER MEETING TO BE HELD ON THURSDAY, MAY 8, 2008**

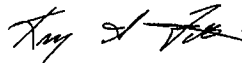
This proxy statement and the 2007 Annual Report are available on the Internet at  
<http://bnymellon.mobular.net/bnymellon/ava>

- Date:** Thursday, May 8, 2008
- Time:** 10:00 a.m., Pacific Time
- Place:** Avista Main Office Building — Auditorium 1411 E. Mission Avenue Spokane, Washington
- Record Date:** March 7, 2008
- Meeting Agenda:**
- 1) Election of two (2) directors. The Board recommends a vote "FOR" each nominee for director.
  - 2) Amendment of the Restated Articles of Incorporation to allow for majority voting in uncontested elections of directors and to eliminate cumulative voting. The Board recommends a vote "FOR" this proposal.
  - 3) Ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for 2008. The Board recommends a vote "FOR" this proposal.
  - 4) Consideration of a shareholder proposal requesting that the shareholders urge the Board to take the necessary steps to require that an independent director serve as Chairman of the Board. The Board recommends a vote "AGAINST" this proposal.
  - 5) Transaction of other business that may come before the meeting or any adjournment(s).

All shareholders are cordially invited to attend the meeting in person. Shareholders who cannot be present at the meeting are urged to vote and submit their proxy by mail, telephone, or the Internet as promptly as possible.

Please sign and date the enclosed proxy card and return it promptly in the enclosed envelope or cast your vote via telephone or the Internet in accordance with the instructions on the proxy card.

By Order of the Board,



Karen S. Feltes  
Senior Vice President & Corporate Secretary

Spokane, Washington  
March 31, 2008

### Retirement Arrangements — G. G. ELY

Mr. Ely retired from his position as Chairman of the Board and CEO effective December 31, 2007. Accordingly, Mr. Ely does not qualify for future benefits under our various Plans as the result of a termination, whether before or after a change in control over the Company.

As the result of Mr. Ely's retirement and under the terms of our Long-Term Incentive Plan, he will receive prorated performance shares (for 2006 and 2007) and all of his unvested restricted stock will be forfeited. Mr. Ely must wait until the end of the performance period to receive a prorated number of any performance shares to which he may become entitled based on the Company's actual performance for the entire measurement period.

Mr. Ely also has one year to exercise his vested stock options.

### Director Compensation

During the first eight months of 2007, directors who were not employees of the Company received an annual retainer of Sixty-eight Thousand Dollars (\$68,000). Directors were also paid One Thousand Five Hundred Dollars (\$1,500) for each meeting of the Board or any Committee meeting of the Board. Directors who served as Board Committee Chairs received an additional Five Thousand Dollar (\$5,000) annual retainer, with the exception of the Audit Committee Chair, who received an additional Nine Thousand Dollar (\$9,000) annual retainer. In addition, any non-employee director who served as director of a subsidiary of the Company received from the Company a meeting fee of One Thousand Five Hundred Dollars (\$1,500) for each subsidiary Board meeting the director attended. Director Blake holds a Board position with a subsidiary of the Company and director Taylor held a Board position with a subsidiary through June 2007.

Each year, the Governance Committee engages Towers Perrin, an outside consulting firm, to review director's compensation. This information is used to compare the current Avista director compensation with peer companies in the utility industry and general industry companies of similar size. The companies comprising the Peer Group are:

AGL Resources, Inc.	Peoples Energy
Aquila, Inc.	Pinnacle West Capital Corp.
Dynegy, Inc.	PNM Resources, Inc.
Energen Corp.	Portland General Electric
Equitable Resources, Inc.	Southern Union
Great Plains Energy, Inc.	UIL Holdings Corp.
Hawaiian Electric Industries, Inc.	UniSource Energy
National Fuel Gas Co.	Vectren Corp.
NRG Energy, Inc.	Westar Energy, Inc.
Otter Tail Corp.	

The comparable data review also includes four regional peers, MDU Resources Group, Inc., Sierra Pacific Resources, Puget Energy, and IDACORP, Inc.

After review of this information, if the Governance Committee believes changes are warranted, they recommend new compensation levels for approval by the full Board. At the Board's August 8, 2007 meeting, survey results from the consulting firm of Towers Perrin were reviewed regarding current pay practices for director compensation. Although the Company has historically targeted compensation for non-employee directors at the average for a utility peer group, the survey indicated that Avista director compensation was below the average. Therefore, the Board approved the following new director compensation program effective September 1, 2007:

Directors who are not employees of the Company now receive an annual retainer of Seventy-eight Thousand Dollars (\$78,000), of which a minimum of Ten Thousand Dollars (\$10,000) is paid in Company common stock. Other increases that went into effect September 1, 2007 include an additional One Thousand Dollar (\$1,000) annual chair retainer for the Audit Committee Chair for a total of Ten Thousand Dollars (\$10,000) and an annual retainer of

Fifteen Thousand Dollars (\$15,000) for the lead director. Since the increased amounts went into effect September 1, 2007, the amounts were pro-rated through the end of the year.

Each director is entitled to reimbursement for his/her reasonable out-of-pocket expenses incurred in connection with meetings of the Board or its Committees and related activities, including director education courses and materials. These expenses include travel to and from the meetings, as well as any expenses they incur while attending the meetings.

At its November 2007 meeting, the Board allowed directors to elect to receive Sixty-eight Thousand Dollars (\$68,000) of their Seventy-eight Thousand Dollar (\$78,000) annual retainer in cash, in Company common stock, or in a combination of both cash and common stock for the coming year.

A minimum stock ownership expectation is set for all Board members. The directors' stock ownership expectation was increased effective September 1, 2007. Directors were expected to achieve a minimum investment of \$200,000 (up from \$150,000) or 6,500 shares (up from 5,000), including shares that have previously been deferred under the former Non-Employee Director Stock Plan whichever is less, in Company common stock within four (4) years of their becoming Board members and are expected to retain at least that level of investment during their tenure as Board members.

At their February 2008 meeting, the Board increased the share ownership requirement from 6,500 to 9,500 shares. The dollar requirement stayed the same. The ownership expectation illustrates the Board's philosophy of the importance of stock ownership for directors in order to further strengthen the commonality of interest between the Board and shareholders. The Governance Committee conducts an annual review to confirm that director holdings meet the ownership expectations. All directors are currently in compliance based on their years of service completed on the Board.

No annual stock option grants or non-stock incentive plan compensation payments were made as compensation for director services in 2007 or are contemplated under our current compensation structure. The Company also does not provide a retirement plan or deferred compensation plan to its directors.

Listed below is compensation paid to each director during 2007.

Director Name	Annual Retainer			Total Compensation (\$)
	Fees Earned or Paid in Cash \$(1)(2)	Director Compensation Paid in Stock \$(1)(2)	All Other Compensation \$(3)	
Erik J. Anderson . . . . .	\$100,013	\$ 3,320	\$ 0	\$103,333
Kristianne Blake . . . . .	\$ 83,847	\$ 37,320	\$1,499	\$122,666
Roy Lewis Eiguren . . . . .	\$ 98,013	\$ 3,320	\$ 0	\$101,333
Jack W. Gustavel . . . . .	\$ 10,534	\$ 92,299	\$ 0	\$102,833
John F. Kelly . . . . .	\$ 75,513	\$ 37,320	\$ 0	\$112,833
Michael L. Noël . . . . .	\$ 70,013	\$ 37,320	\$ 0	\$107,333
Lura J. Powell . . . . .	\$ 54,013	\$ 43,320	\$ 0	\$ 97,333
Heidi B. Stanley . . . . .	\$ 34,513	\$ 71,320	\$ 0	\$105,833
R. John Taylor . . . . .	\$ 67,527	\$ 43,306	\$3,270	\$114,103
<b>Totals . . . . .</b>	<b><u>\$593,986</u></b>	<b><u>\$368,845</u></b>	<b><u>\$4,769</u></b>	<b><u>\$967,600</u></b>

(1/2) Directors have the option of taking \$68,000 of their \$78,000 annual retainer in Company common stock, in cash, or in a combination of stock and cash (a minimum of \$10,000 of their annual retainer is automatically paid in Company common stock). The increase in director compensation granted as of September 1, 2007 was pro-rated through the end of the year. Amounts in these columns include cash retainers, Chair retainers, Board and Committee meeting fees, and fees for directors attending a subsidiary Board meeting — Blake is the only director who currently sits on a subsidiary Board. Mr. Taylor held a Board position with a subsidiary through June 2007.

- (3) Amounts include dividends paid on those shares that were deferred prior to December 31, 2004, under the former Non-Employee Director Stock Plan. Blake and Taylor are the only directors who deferred receipt of stock until a later date. The Company does not provide any perquisites or other personal benefits to its Board members.

#### **Class Action Securities Litigation**

On June 1, 2007, Avista Corp. entered into a settlement agreement with respect to a class action lawsuit filed against Avista Corp., Thomas M. Matthews, a former Chairman of the Board, President and Chief Executive Officer of Avista Corp., Gary G. Ely, a former Chairman of the Board, President and Chief Executive Officer of Avista Corp., and Jon E. Eliassen, a former Senior Vice President and Chief Financial Officer of Avista Corp. The settlement agreement was filed in the United States District Court for the Eastern District of Washington (the Court) on June 4, 2007.

The lawsuit commenced with the filing of several class action complaints in the Court in September through November 2002. These complaints were subsequently consolidated and ultimately dismissed by the Court in October 2005. The order to dismiss was issued without prejudice, however, which allowed the plaintiffs to file an amended complaint. The amended class action complaint was filed on November 10, 2005 and asserted claims on behalf of all persons who purchased, converted, exchanged or otherwise acquired the Company's common stock during the period between November 23, 1999 and August 13, 2002.

The settlement agreement provides for certification of the plaintiff class and a full release by the class and dismissal with prejudice of all claims against Avista Corp. in consideration of payment of \$9.5 million into a settlement fund. The settlement payment and litigation defense costs will be paid by Avista Corp.'s insurance company with the exception of the Company's \$1 million self-insured retention. The settlement agreement further provides that the individual defendants Matthews, Ely and Eliassen will be dismissed from the lawsuit.

The Company vigorously contested this lawsuit since it commenced on September 27, 2002. The Company denied, and continues to deny in their entirety, the allegations of wrongdoing in the lawsuit, including the allegations that Avista Corp. made any false or misleading statements with regard to the Company's business, business practices, risk management or trading activity. The Company denies that it engaged in any improper trading in the California energy market or in any other market, and it denies that the price of its stock was artificially inflated by reason of the misrepresentations and omissions alleged in the lawsuit. There have been no adverse determinations by any court against Avista Corp. or any of the defendants on the merits of the claims asserted by the plaintiffs in the lawsuit, and the Company denies that shareholders were harmed by the conduct alleged in the lawsuit. Neither the settlement agreement nor any of its terms or provisions, nor the Company's decision to settle the lawsuit, should be construed as an admission or concession of any kind of the merit or truth of any of the allegations of wrongdoing in the lawsuit, or of any fault, liability or wrongdoing whatsoever on the part of Avista Corp. The Company believes that throughout the class period alleged in the lawsuit it fully and adequately disclosed all material facts regarding the Company and made no misrepresentations of material facts regarding Avista Corp. The Company nonetheless considers it desirable to settle the lawsuit in order to avoid the cost and risks of further litigation and trial, and to dispose of burdensome and protracted litigation.

In January 2008, the Court granted final approval of the settlement agreement, and entered an order certifying the class and dismissing the claims in the lawsuit with prejudice.