

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NOS. UE-120436 & UG-120437

DOCKET NOS. UE-110876 & UG-110877

EXHIBIT NO. ____ (KON-8)

KELLY O. NORWOOD

REPRESENTING AVISTA CORPORATION

IN SUPPORT OF MULTIPARTY SETTLEMENT



Dear Employees of Avista:

Enclosed is your personal Avista Voluntary Severance Program packet for review. The basic program details were announced to Avista employees last week. You have received this packet as a non-union, active full-time or regular part-time employee and if applicable, would have completed your probationary period by December 31, 2012. The program is designed to provide an incentive to those employees who want to leave Avista by the end of 2012.

The Program is designed to provide Avista with the opportunity to identify sustainable savings and slow the pace of growth in our costs. Therefore, even though you may elect to apply for the Program, it requires a "Double YES" to receive final approval that you have been accepted to receive the severance.

The information in this packet should help you make the decision if this Program is right for you. Your decision to apply by saying yes to the Voluntary Severance Program is a very personal one. I encourage you to read through the packet and take special note of the deadlines that might impact you.

You may be asking why we are offering this program. Over the past several years we've been talking about the changing energy industry and how important it is to control our own destiny. Internal and external forces continue to impact our business. We've faced many challenges in a number of ways, but it's not been enough. We need to slow the pace of growth in our costs and this is one of many ways we expect to identify sustainable savings into the future.

Offering this program is a big step that isn't being taken in isolation. We're also scrubbing budgets, evaluating all operations and maintenance costs and looking at ways to redistribute, reprioritize and reorganize our work.

We're all going to be impacted in one way or another by these changes. It's natural to feel some unease, and I'm thankful that we have tools to manage through the changes. Please review your packet, as it contains a great deal of information that should answer the majority of your questions. There will be additional information available and opportunities for questions and answers as we move forward.

Thank you for taking the time to review the information in this packet and educate yourself on the process in order to make the decision that is right for you

Scott Morris,

Avista Corp. Avista Chairman, President and Chief Executive Officer

In this envelope you will find the Voluntary Severance Incentive Program packet of information*

Voluntary Severance Incentive Program Key Dates and Deadlines*:

DEADLINE	ACTION
October 29, 2012	Official Voluntary Severance Incentive Program packets arrive at employee's homes. (this packet)
November 30, 2012	Retirement Election Forms Due (retirees only)
December 14, 2012	Last day to apply for voluntary severance. Voluntary Severance Incentive Program Agreement Due
December 21, 2012	Employees who are approved receive Notification of Approval By Email
December 21, 2012	Voluntary Severance Release Due from Approved Employees (Exhibit A in your packet)
December 28, 2012	Last day to change your mind- Revocation of Application and Release Forms Due (Exhibit B in your packet)
December 31, 2012	Last day with Avista
Not later than February 1 st , 2013	VSIP Payment

**Subject to Avista Corporation 2012 Voluntary Severance Incentive Program Summary and Plan Document*

For more information or for questions you may:

- 1) Access the Avanet HR Webpage (<http://avanet/departments/hr/>) or
- 2) Send an email to human.resources@avistacorp.com

Please turn over for packet content →

Avista Voluntary Severance Incentive Program* Frequently Asked Questions (FAQ)

**All information provided in this FAQ is subject to provisions of the Avista Corporation 2012 Voluntary Severance Incentive Program Summary & Plan Document, and the rules and provisions of the Avista Benefit Plans.*

If after reading this FAQ and the materials in your packet, and reviewing information provided on Avista's Human Resources AVAnet site, you need additional information, please e-mail your questions to: human.resources@avistacorp.com. You will receive a prompt response.

What Is the Avista Voluntary Severance Incentive Program (VSIP)? The voluntary severance incentive program is a completely voluntary program that involves offering incentives to employees who choose to end their employment with Avista providing that specific eligibility criteria (set out below) are met at the time of application. No employee should feel compelled to apply for this option; however, we ask that each of you carefully consider this based on your own individual circumstances. It is neither the intent nor the design of the program to compromise our operations or safety through the loss of critical skills, institutional knowledge or excessive reductions of staff in specific areas; as a result, our approach will be selective and it's possible that not everyone who may be interested will be selected to participate in the program. Ultimately, voluntary separation will result in full termination of employment with the benefits of severance and related incentives. This program is being offered once and for a limited period of time; in general, involuntary layoffs will not provide the same incentives.

Why is Avista offering a Voluntary Severance Incentive Program?

Given the economic challenges that Avista is facing, a voluntary severance incentive program creates a balance between offering an option that may be the right fit for employees who are thinking about making a career or lifestyle change and addressing the needs of the organization to adjust staffing levels.

Where can I find more information about this program?

Information is posted on AVAnet (the Avista Intranet) on the Human Resources site. Application forms for the voluntary severance program will be mailed to eligible employees by Monday, October 29, 2012 to their home address of record.

Who is eligible to participate in this program?

The voluntary severance program is being offered to all active **Regular Full Time and Regular Part Time non-union Avista employees who have completed their probationary period as of December 31, 2012**. Employees will be notified of their eligibility through a letter sent to the employee's home address of record by October 29, 2012.

Who is not eligible to participate in this program?

- Rehired retirees, temporary employees, occasional employees and students
- Employees hired after October 22, 2012
- Employees still in their probationary period as of December 31, 2012
- Employees covered under a Collective Bargaining Unit Agreement
- Employees terminated for cause or who voluntarily resign prior to December 31, 2012
- Employees who retired prior to October 1, 2012
- Employees who have left and are on Long Term Disability

I haven't received a letter yet. What should I do?

Information packets have been mailed to the homes of all eligible employees. If you believe you are eligible for this voluntary severance program and haven't received your packet at home, please contact Linda Williams, Avista HR at linda.williams@avistacorp.com or 509-495-4340.

How do I submit my application if interested? Applications must be received by December 14, 2012 at 5 PM PST

Completed applications can be submitted beginning October 29, 2012 directly to Human Resources by mailing a hard copy with original signature to Linda Williams, Avista Corporation, 1411 E. Mission Avenue Spokane WA 99202 or MSC 10. Please address all correspondence to: **Voluntary Severance Program**. The deadline for receipt of your application for participation in the program is by **5 PM PST Friday, December 14, 2012**. You may fax or email a PDF of your signed application, followed by hard-copy documents with original signature. Failure to receive your application form by this deadline will disqualify you from being considered. The application form you will need to apply is titled: "Voluntary Severance Incentive Program Agreement". This form is included in your packet.

What's the time frame for the voluntary severance approval process?

The deadline for turning in your application is December 14, 2012. An Administrative Committee, with input from Avista leaders, will work together to review all the applications. You will be notified via the email you provided on your application form on or before December 21, 2012 if your application is approved (2nd Yes of the Double Yes).

How and when will I be notified as to whether I am approved? On your application form, you will be asked to provide a valid email address for notification of approval. If approved, you will be notified by email on or before December 21, 2012.

If approved what forms do I need to return and when/how should I return them? If approved, you must complete and return the Release (Exhibit A in your packet) by **5 PM PST on or before December 21, 2012** to confirm your acceptance and move forward with separation. Once notified of approval, the signed Release (Exhibit A) should be emailed as a PDF attachment to Linda Williams at linda.williams@avistacorp.com and **must be received not later than 5 PM PST on December 21, 2012**. Subject line of your email should be "VSIP Release Form" along with your name. You will also need to mail a hard copy of the Release (Exhibit A) with original signature to follow the email. Send hard copy to Linda Williams, Avista Corporation, 1411 E. Mission Avenue Spokane WA 99202 or MSC 10.

What about those folks who retired earlier in 2012? Why aren't they eligible?

There were no plans to consider offering a voluntary severance program prior to October 2012, so employees who retired prior to October 22, 2012 are not eligible to participate.

Why are only non-union employees eligible?

Most of our union employees work on the generation, transmission and energy delivery system to ensure the safe, reliable delivery of energy to our customers. If we're required to make additional reductions, the Union employees have Collective Bargaining Agreements in place that contain provisions for a work force reduction.

If I am accepted into the program, when will my last day of work be?

Your last day of work will be December 31, 2012.

Is this a one-time offer by Avista for employees to take a voluntary severance option?

Yes. At this point, we have no plans to offer a voluntary severance program again.

What is the Administrative Committee and how does it work? How will decisions be made?

A committee made up of the Avista Officers will review applications, and based on business and operational needs, along with opportunities for sustainable cost savings will decide who will be approved for participation in this program. Officers will gather input from Directors and others to assist them with their decisions. The decisions from the Administrative Committee on those who have been accepted for the program will be communicated on or before December 21, 2012 via email.

Will all applications for the VSIP be approved?

We won't know until the applications are reviewed. The Administrative Committee will review applications and decide which employees will be accepted to participate in this program.

Will the same incentives offered through the voluntary severance program also be offered to employees impacted by involuntary layoffs?

In the event of a later reduction in force or position elimination, we will not be able to offer the same level of severance incentives.

If I don't apply for the voluntary severance program, but later become part of a position elimination or reduction in force, would I still be eligible for the Departure Incentive piece of the Voluntary Severance Incentive Program?

No. In the event of a later reduction in force or position elimination, the employee would not qualify for the Departure Incentive being offered through the VSIP.

What happens if I volunteer for the voluntary severance program but am not accepted?

You will continue with your employment with Avista.

When will I be notified if I am not approved?

The first priority will be to notify employees who have been approved for the program. Once those employees have been notified, we will move quickly to notify those not approved, but it may be after December 21, 2012.

Can I work for Avista in the future?

Employees that take the VSIP cannot be re-employed, or do contract work for, Avista Corporation for a period of 2 years after December 31, 2012. One intent of the Voluntary Severance Program is to generate sustainable cost savings. In the event of an extraordinary business need, rehire exceptions would require CEO approval and would be subject to a terms and conditions requested at that time. In the event an employee is rehired, it will be as a new employee.

If I am out on Short Term Disability or Worker's Compensation, am I eligible for the program?

Yes.

If I am on an approved leave of absence and apply and am accepted, what happens to my worker's compensation benefits?

If you are on a leave of absence due to an occupational injury or illness and voluntarily resign per the guidelines of the voluntary severance program, Avista will continue to provide worker's compensation benefits in accordance with the applicable State Laws governing Industrial Insurance.

Can I talk to my manager about whether this is the best option for me?

Your manager can answer questions about the program, but will not be able to advise what is best for you. That is for you to decide. Remember that this is a voluntary program and may not be the best option for everyone.

Who can I contact for more information about the voluntary severance program?

Please carefully read this FAQ and your eligibility packet, and review materials available on AVAnet on the Human Resources site. If you still have questions, please e-mail HR at human.resources@avistacorp.com. You will receive a prompt response. You may also want to consult with your own legal counsel and/or financial advisor.

If I am accepted into the program, what if I change my mind? Can I rescind my offer?

An employee will have up to 5 PM PST on Friday, December 28, 2012, to withdraw, in writing, his/her application and Release. After this date, an employee who has not rescinded his/her application and Release and whose application has been approved, is committed to irrevocably resign/retire from Avista on December 31, 2012.

An employee accepted into the program, will be required to sign a severance agreement that includes a Release and details the terms of the separation. You will have up to 45 days starting October 29, 2012 to consider the agreement before you sign. Once you have signed the severance agreement, have received notice of approval for the VSIP by December 21, 2012 and have returned a signed Release (Exhibit A in your packet) by December 21, 2012, you will have 7 days to rescind or change your decision and revoke your Agreement and Release. Your 45 day consideration period begins on October 29, 2012 and ends on December 14, 2012. You will be notified of approval on or before December 21, 2012 and must sign and return the Release (Exhibit A in your packet) on or before December 21, 2012 in order to participate. Your last day to rescind the Release is December 28, 2012 and a signed Revocation of Agreement and Release form (Exhibit B in your packet) must be received by Linda Williams on or before 5 PM PST December 28, 2012.

BENEFITS UNDER THE PROGRAM

What is the incentive offered through the program?

Severance: the monetary incentive offered through the program is a one-time payment equal to two (2) weeks of base pay for each full year of benefit service with Avista as of December 31, 2012 and 1 day (8 hours) of base pay for every full two months of partial year of service as of December 31, 2012. You will also be eligible for a payment of 2 additional weeks of base pay for non-exempt employees or four additional weeks of base pay for exempt employees.

Departure Incentive: Employees accepted for this program will also receive a Departure Incentive equal to 12 weeks of base pay.

In no event will the total payment under the VSIP exceed 78 weeks of an employee's base pay.

Medical Benefits- Non Retirement Eligible: A Participant who is participating in AVISTA's group medical plan for active employees on his or her Separation Date and is not eligible to participate in the Avista Corporation Retiree Health Reimbursement Account (HRA) Plan is eligible to continue to participate in the AVISTA group medical benefit plan for six (6) months (January 2013 – Jun 2013) following the Participant's Separation Date on the same coverage level in effect as of December 31, 2012 at the 2013 rates as though the Participant had continued to be employed as an active employee of AVISTA. A Participant will pay his/her active employee portion of the cost of the continued coverage at 2013 rates by a pre-tax deduction for all six months' cost of coverage deducted from the Participant's Severance Pay. A Participant's subsidized coverage under AVISTA's group medical plan pursuant to the terms of this Program shall run concurrently with and not in addition to continuation coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA").

Benefits- Retiring Employees: Individuals eligible for the Avista Corporation Retiree Health Reimbursement Account (HRA) Plan will receive a contribution of \$3,000 in one lump sum (\$250 per month for 12 months) in their HRA account, subject to retiree HRA Plan rules and discrimination testing.

What will you use as my rate of pay for the severance and departure incentive portion of the VSIP?

We will use your base pay rate per hour as of December 31, 2012.

How will you determine my years of service for the VSIP severance?

We will use your Benefit Service as of December 31, 2012 (as calculated under the pension plan).

Who may I contact to discuss my benefits related to this program as I consider the Voluntary Severance Program?

Please carefully read this FAQ and the benefits materials in your eligibility packet, and review materials available on AVAnet. If you still have questions, please e-mail HR at human.resources@avistacorp.com. You will receive a prompt response.

What happens to my voluntary benefits, such as MetLife Optional Life, AD&D, Hyatt Legal, MetLife Auto and Home, etc. if I am approved for the VSIP?

These voluntary benefits will end on December 31, 2012. You will receive additional information upon termination about your rights to continue coverage.

Will I be eligible to receive a payment under the Avista Annual Employee Incentive program if a payment is determined for 2012?

If you remain employed until December 31, 2012 and a payment is declared under the Avista annual employee incentive plan, you will be entitled to a payment in accordance with the terms of the program.

What about my membership in the Avista Employee Credit Union, and any outstanding loans I have?

Your membership with the Avista Credit Union is not impacted by being approved for the voluntary severance program. The Avista Corp. Credit Union provided this message for the FAQ:

“Once a member, always a member” is the philosophy of Avista Corp. Credit Union. That means you can continue your accounts – shares, loans and debit cards. The Credit Union appreciates your membership. Please contact the Credit Union for any changes that need to be made if you have automatic payroll deductions for deposits and loan payments if accepted for the voluntary severance program.

Could there be changes in retiree or active employee medical benefits or costs in the future after I leave?

Avista continues to reserve the right to amend or eliminate any or all terms of its Active and Retiree Medical Plans. Nothing contained in any documents or communications associated with the VSIP alters this reservation of rights.

RETIREMENT

I am eligible for retirement and would want to retire if accepted for this program. What do I need to do?

Please carefully review the Retirement Information provided in the VSIP packet mailed to your home on October 29, 2012. If you are intending to retire, you must turn in the “Intent to Retire” and related forms not later than **Friday, November 30, 2012** to Human Resources, Benefits Department. If you have additional questions about retirement, attend a Q&A session offered in November or email HR at: human.resources@avistacorp.com

Am I still eligible if I have already turned in my “Intent to Retire” forms?

Yes. If you are retirement eligible, you received an eligibility packet for the Voluntary Severance Incentive Program along with Retirement Plan information on October 29, 2012. If you want to volunteer to leave by the end of the year, your “Intent to Retire” forms are due November 30, 2012 and your application for the Voluntary Severance Incentive Program is due on or before December 14, 2012. If approved for the VSIP, you would be retiring from Avista effective December 31, 2012.