AVISTA CORP
Form DEF 14A
March 30, 2007

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

SCHEDULE 14A

Proxy Statement Pursuant To Section 14(a) of
The Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
ý Definitive Proxy Statement
o Definitive Additional Materials

Avista Corp.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý Fee not required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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

March 30, 2007

Dear Shareholder:

On behalf of the Board of Directors, it s my pleasure to invite you to the 2007 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 10, 2007	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. This year, you are asked to elect five (5) directors, to amend the Restated Articles of Incorporation and Bylaws to allow for annual election of directors and to ratify the appointment of an independent registered public accounting firm for 2007.

Please take the opportunity to review the enclosed Proxy Statement and 2006 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 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 for one year.

Thank you for your continued support.

Sincerely,

Gary G. Ely
Chairman of the Board & 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 20.

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AVISTA CORPORATION
1411 East Mission Avenue
Spokane, Washington 99202

NOTICE OF THE 2007 ANNUAL MEETING OF SHAREHOLDERS

Date:	Thursday, May 10, 2007
Time:	10:00 a.m., Pacific Time
Place:	Avista Main Office Building Auditorium 1411 E. Mission Avenue Spokane, Washington
Record Date:	March 9, 2007
Meeting Agenda:	1) Election of five (5) directors; 2) Amendment of the Company s Restated Articles of Incorporation and Bylaws to provide for the annual election of the Board of Directors; 3) Ratification of the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for 2007; 4) 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.

By Order of the Board,

Karen S. Feltes
Senior Vice President & Corporate Secretary

Spokane, Washington
March 30, 2007

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SUMMARY

This summary is presented solely to furnish limited introductory information regarding Avista Corporation, a Washington corporation, (hereafter referred to as Avista or the Company) and the matters to be considered at Avista s 2007 Annual Meeting of Shareholders. Shareholders should read the entire proxy statement, including exhibits, before casting their votes. Proxies executed by shareholders may be revoked at any time prior to the Annual Meeting.

Proposal 1

Election of Directors

Five (5) directors are to be elected to the Board of Directors of the Company (the Board); four (4) to hold office for a term of three (3) years until 2010 and one (1) to hold office for a term of two (2) years until 2009, and in each case until their successors are elected and qualified. See PROPOSAL 1 ELECTION OF DIRECTORS.

The Board recommends a vote FOR each nominee for director.

Proposal 2

Amendment of the Restated Articles of Incorporation and Bylaws to Provide for the Annual Election of Directors

The holders of Avista common stock are being asked to approve the amendment and restatement of the Articles of Incorporation and Bylaws of the Company to provide for the annual election of directors. See PROPOSAL 2 AMENDMENT OF THE RESTATED ARTICLES OF INCORPORATION AND BYLAWS TO PROVIDE FOR THE ANNUAL ELECTION OF DIRECTORS.

The Board makes no recommendation either FOR or AGAINST the proposal to amend Avista s Restated Articles and Bylaws to provide for the annual election of directors.

Proposal 3

Ratification of Appointment of Independent Registered Public Accounting Firm

The holders of Avista common stock are being asked to ratify the appointment of Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates, as Avista s independent registered public accounting firm for continuing audit work in 2007. See PROPOSAL 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

The Board recommends a vote FOR the proposal to ratify the appointment of Deloitte & Touche LLP as Avista s independent registered public accounting firm for 2007.

VOTING PROCEDURES

General

Your vote is important. 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 your shares through an account with a brokerage firm, bank, or other nominee, please follow the instructions you receive from them to vote your shares.

At the close of business on the record date, March 9, 2007, there were 52,724,612 shares of Avista common stock outstanding and entitled to vote at the Annual Meeting. Shares represented at the meeting by properly

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executed proxies will be voted at the meeting. If the shareholder specifies voting instructions, the shares will be voted as indicated. A proxy may be revoked at any time prior to the Annual Meeting.

Voting Rights; Votes Required

Holders of Avista common stock, the Company s only class of securities with general voting rights, will be entitled to one vote per share, subject to cumulative voting rights in the election of directors as described below. Under Washington law, action may be taken on matters submitted to shareholders only if a quorum is present at the meeting. The presence at the Annual Meeting in person or represented by proxy of holders of a majority of the shares of the Company s common stock outstanding on the record date will constitute a quorum. Subject to certain statutory exceptions, once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting.

With respect to the election of directors, each record holder of Avista common stock will be entitled to vote cumulatively. The shareholder may give one nominee for election as many votes as the number of directors to be elected multiplied by the number of shares held by that shareholder; or the shareholder may distribute that number of votes among any two (2) or more of such nominees. The directors elected at the 2007 Annual Meeting will be those five (5) nominees receiving the largest number of votes cast by holders of Avista common stock. The outcome of the vote will be determined by reference to the number of votes cast. Unless authority to vote is withheld as to any nominee, the individuals named as proxies on the proxy card will vote for the election of the nominees listed below or, in the discretion of such individuals, will vote cumulatively for the election of one (1) or more of the nominees.

The proposal for amending Article FIFTH of the Restated Articles of Incorporation will be approved upon the affirmative vote of the holders of 80% of the issued and outstanding shares of common stock. Abstention from voting on this proposal, including non-votes (i.e. shares held by brokers, fiduciaries, or other nominees which are not permitted to vote due to the absence of instructions from beneficial owners), will have the same impact as negative votes. If no instructions are given on a proxy with respect to this proposal, the holders of the shares represented by that proxy will be deemed to abstain from voting on this proposal.

The proposal for ratifying the appointment of the firm of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for 2007 will be approved if the number of votes duly cast in favor of this proposal exceeds the number of votes duly cast against the proposal. Abstention from voting on this proposal will have no impact on the outcome of this proposal. If no instructions are given on a proxy with respect to this proposal, the shares represented by that proxy will be voted for this proposal.

PROPOSAL 1

ELECTION OF DIRECTORS

General

Five (5) directors are to be elected to hold office for a term specified, and in each case until their successors are elected and qualified. The Company s Restated Articles of Incorporation provide for up to eleven (11) directors divided into three (3) classes. The Bylaws currently provide that the number of directors will be fixed from time to time by resolution of the Board, not to exceed eleven (11). The Board has fixed the number at eleven (11). Upon recommendation from the Governance/Nominating Committee (Governance Committee), the Board has nominated Erik J. Anderson, Kristianne Blake, Jack W. Gustavel, and Michael L. Noël to be re-elected as directors for three (3)-year terms to expire at the Annual Meeting of Shareholders in 2010. Upon recommendation from the Governance Committee, Scott L. Morris was appointed to the Board, but has not previously been elected by shareholders.

Therefore, the Board has nominated Mr. Morris to be elected as a director for a two (2)-year term to expire at the Annual Meeting of Shareholders in 2009. Each of the nominees has consented to serve as a director, and the Board has no reason to believe that any nominee will be unable to serve. If any of the nominees should become unavailable, your shares will be voted for a Board-approved substitute.

Nominees and Continuing Directors

The following has been prepared from information furnished to the Company by the nominees and the continuing directors.

*** Indicates Nominees for Election**

ERIK J. ANDERSON* **Director since 2000 (For a term expiring in 2010)**

Mr. Anderson, age 48, has been, since 2002, President of WestRiver Capital, a private investment company, Chairman of Tachyon Networks, Inc., an advanced satellite-based internet solutions company, and vice-Chairman of Montgomery & Co., LLC, an investment bank serving growth companies in technology, media, and healthcare. He is also Chairman of Zula, LLC, a science education company, and a Board member of GEI, a leisure business based on golf entertainment. From 1998 to 2002, Mr. Anderson was Chief Executive Officer of Matthew G. Norton, Co., a private investment company. Prior to 1998, he was Chief Executive Officer of Trillium Corporation. In addition, his experience includes tenures as both a partner at the private equity firm of Frazier & Company, LP, and as a Vice President of Goldman, Sachs & Co. Mr. Anderson serves on the Advisory Boards for Northwest Venture Partners and Northwest Capital Partners II. Mr. Anderson is Founder of America s Foundation for Chess. He holds a master s and bachelor s degree in Industrial Engineering from Stanford University and a bachelor s degree (Cum Laude) in Management Engineering from Claremont McKenna College.

KRISTIANNE BLAKE* **Director since 2000 (For a term expiring in 2010)**

Ms. Blake, age 53, is a certified public accountant and has been President of the accounting firm of Kristianne Gates Blake, P.S., since 1987. Previously she was a partner with Deloitte, Haskins & Sells. Ms. Blake is currently serving as Board Chairman for the Russell Investment Company and the Russell Investment Funds. She also serves on the boards of the Principal Investors Funds, the Principal Variable Contract Funds, and Laird Norton Wealth Management. Ms. Blake currently serves as a Regent at the University of Washington and on the board of Greater Spokane Incorporated. She is past Board Chair for Saint George s School, the YMCA of the Inland Northwest, and Spokane County United Way. In addition, Ms. Blake serves on the Board of Advantage IQ, Inc.

ROY LEWIS EIGUREN **Director since 2002 (Current term expires in 2008)**

Mr. Eiguren, age 55, is a Senior Partner at Givens Pursley LLP, one of Idaho s largest law firms. He has been with the firm since 1993. Prior to entering private practice in 1984, Mr. Eiguren worked as Special Assistant to the Administrator of the Bonneville Power Administration, and also served as Chief of the Legislative and Administrative Affairs Division of the Idaho Attorney General s Office. Mr. Eiguren is currently a Board member of Idaho Independent Bank and also serves as a Director of the Cenarrusa Center for Basque Studies. He is a co-Founder and Director of The City Club of Boise. He is also a past Chairman of the Boise Metro Chamber of Commerce and the Idaho State Capitol Commission.

Mr. Eiguren advised the Board that his law firm had been engaged in 2001 to represent the University of Idaho Foundation and Civic Partners, two parties in a commercial transaction. Civic Partners is a business entity and the University of Idaho Foundation is a non-profit organization on whose Board Mr. Eiguren served. Both of these parties waived any conflict of interest arising from the joint representation and each was also represented by its own counsel. Mr. Eiguren further advised that proceedings have since been initiated by the Idaho State Bar Association to determine whether, notwithstanding the parties conflict waivers and additional separate representation, Mr. Eiguren complied with rules of professional conduct applicable to Idaho attorneys. The matter is pending.

GARY G. ELY **Director since 2001 (Current term expires in 2008)**

Mr. Ely, age 59, is Chairman of the Board and Chief Executive Officer of the Company. He has been Chief Executive Officer since November 10, 2000, and was appointed Chairman of the Board on May 11, 2001. He also served as President from November 2000 to May 2006. He has been employed by the Company since 1967 and his experience includes management positions in engineering, operations, marketing, and natural gas. He was appointed Vice President of Marketing in 1986, Vice President of Natural Gas in 1991, Senior Vice President of Generation in 1996, Executive Vice President in 1999, and acting President and Chief Executive Officer in October 2000. Mr. Ely also serves as Chairman of the Board of the Company s subsidiaries, including Advantage IQ and Avista Energy. Mr. Ely currently serves on the Boards of Edison Electric Institute and the Inland Northwest Council of Boy Scouts of America. He is also a Board member of the Washington Roundtable where he serves as chair of the Economic Climate/Fiscal Responsibility Committee, and is a Board member of the American Gas Association where he serves as Chair of the Security, Integrity & Reliability Committee and is on the Board Executive Committee. Mr. Ely has announced his intention to retire from the Company and the Board effective December 31, 2007.

JACK W. GUSTAVEL* **Director since 2003 (For a term expiring in 2010)**

Mr. Gustavel, age 67, is Chairman and Chief Executive Officer of Idaho Independent Bank, which he founded in 1993. He also served as President from 1993 to 2004. Mr. Gustavel has 44 years of experience in the banking industry and previously served as the President and Chief Executive Officer of The First National Bank of North Idaho from 1974 until its merger with First Security Bank in 1992. Prior to that, Mr. Gustavel was a Vice President with Idaho First National Bank, now U.S. Bank. Active in civic and professional organizations, Mr. Gustavel is currently Chairman of the Board of Directors of Blue Cross of Idaho. He has also served as President and is now a Director Emeritus of North Idaho College Foundation and served as a Director of the Portland Branch of the Federal Reserve Bank of San Francisco from 1978 to 1984. In addition, he has been a Director of the Idaho Association of Commerce and Industry, a Director of Mines Management, Inc., President of the Kootenai County Division of the American Heart Association, Treasurer of the Idaho Bankers Association, and a member of the Comptroller of the Currency Regional Advisory Committee for the Thirteenth National Bank Region.

JOHN F. KELLY **Director since 1997 (Current term expires in 2009)**

Mr. Kelly, age 62, has been the President & Chief Executive Officer of John F. Kelly & Associates, a management and brand perception consulting company headquartered in Paradise Valley, Arizona since 2004. Mr. Kelly is a retired Chairman, President, and Chief Executive Officer of Alaska Air Group, where he also served as a Board member from 1989 to May 2003. He was Chairman of Alaska Airlines from 1995 to February 2003, Chief Executive Officer from 1995 to 2002, and President from 1995 to 1999. He served as Chairman of the Board of Horizon Air from February 1991 to November 1994, and from February 1995 until May 2003. Mr. Kelly is an Executive Advisory Group member of Sigue Corporation, a money remittance services provider headquartered in the City of San Fernando, California.

SCOTT L. MORRIS* **Director since 2007 (For a term expiring in 2009)**

Mr. Morris, age 49, has been President & Chief Operating Officer of the Company since May 2006. He also serves as President of Avista Utilities, the Company s regulated operating division, a position he has held since August 2000. Mr. Morris has been with Avista since 1981 and his experience includes management positions in construction and customer service and general manager of the Company s Oregon and California utility business. Mr. Morris was appointed as a Vice President in November 2000 and in February 2002 he was appointed as a Senior Vice President. He is a graduate of Gonzaga University and received his master s degree from Gonzaga in organizational leadership. He also attended the Stanford Business School Financial Management Program and the Kidder Peabody School of Financial Management. Mr. Morris is a deputy director of the Washington Roundtable and a board member of Providence Health Care and Greater Spokane Incorporated. He is on the board of trustees for Gonzaga University, serves on the leadership council of the American Gas Association, and is a board member and treasurer of the Western Energy Institute. He also chaired the Washington Economic Development Commission for four years, a position he was appointed to by former Governor Gary Locke in 2002. In addition, Mr. Morris serves on the Boards of Advantage IQ, Inc. and ReliOn, Inc.

MICHAEL L. NOËL* **Director since 2004 (For a term expiring in 2010)**

Mr. Noël, age 65, is President of Noël Consulting Company, Inc., a financial consulting firm which he founded in 1998. His firm currently serves as an independent financial consultant to Saber Partners, a financial advisory services firm of which Mr. Noël is a member. Mr. Noël has assisted Saber Partners in advising the Texas, Wisconsin,

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New Jersey, Florida, and West Virgina public utility commissions on corporate financings. Mr. Noël spent 30 years as an executive with Edison International, an international electric power company. He served as Senior Vice President and Chief Financial Officer of Edison International, as well as in the same capacity for its Southern California Edison Company subsidiary. Additionally, he held officer and Board positions with Edison Mission Energy Company and Mission Land Company, also subsidiaries of Edison International. Mr. Noël serves on the Boards of SCAN Health Plan, where he is Chairman of the Board, and the HighMark family of mutual funds, where he is a member of the Governance Committee. He is a member of the National Association of Corporate Directors and a named Audit Committee Financial Expert under the Sarbanes-Oxley Act. Mr. Noël also has served on the Boards of Current Income Shares, a bond mutual fund, Amervest Company, a financial management firm, Hancock Bank, and Software Toolworks.

LURA J. POWELL, Ph.D. **Director since 2003 (Current term expires in 2008)**

Dr. Powell, age 56, has been President and Chief Executive Officer of Advanced Imaging Technologies, a medical diagnostic company, since 2002. From 2000 to 2002, she was a Senior Vice President of Battelle Memorial Institute and Director of the Pacific Northwest National Laboratory in Richland, Washington. Dr. Powell is Chair of the Board of Trustees of the Washington Life Sciences Discovery Fund Authority, appointed by Governor Gregoire, and is on the Board of Directors of the Washington Technology Alliance and the Tri-Cities Development Council (TRIDEC). She is a member of the National Board of Advisors of Washington State University s College of Business and Economics and serves on the Strategic Directions Committee of the Fred Hutchinson Cancer Research Center.

HEIDI B. STANLEY **Director since 2006 (Current term expires in 2009)**

Ms. Stanley, age 50, has served as Director, Vice Chair and Chief Operating Officer of Sterling Savings Bank since October 2003. Ms. Stanley also serves as Director of Sterling s Subsidiary Companies INTERVEST Mortgage Investment Company, Action Mortgage Company and Harbor Financial. Ms. Stanley has 20 years of experience in the banking industry. Her experience includes management positions throughout Sterling serving as Vice President from 1986 to 1990, Senior Vice President-Corporate Administration from 1990 to 1997, and Executive Vice President-Chief Administrative Officer from 1997 to 2003. In 2006, she was named one of the 25 Most Powerful Women in Banking by U.S. Banker Magazine. Prior to joining Sterling in 1985, Ms. Stanley worked for IBM in San Francisco, California and Tucson, Arizona. Ms. Stanley is currently Chair of Greater Spokane Incorporated, past Chair of the Association of Washington Business (AWB), past Chair of the Spokane Area YMCA, and Vice Chair of Washington Public Affairs Network (TVW). She serves on the Board of Governors of the Washington State University Foundation. Ms. Stanley also serves on the Eastern Washington Advisory Board of the Washington Policy Center and America s Community Bankers (ACB) Strategic Planning Committee, Governmental Affairs Committee, and is Vice Chair of the ACB Membership Committee. Ms. Stanley graduated from Washington State University with a Bachelor of Arts degree in Business Administration.

R. JOHN TAYLOR **Director since 1985 (Current term expires in 2009)**

Mr. Taylor, age 57, has been Chairman and Chief Executive Officer of AIA Services Corporation since 1995 and has also been the Chairman and Chief Executive Officer of CropUSA Insurance Agency, Inc. since 1999. Both companies are insurance agencies with operations throughout the United States, which place various forms of health, life, crop, and multi-peril insurance for members of sponsoring farm commodity associations. Previously, Mr. Taylor served as President of AIA Services and was its Chief Operating Officer. In addition, he is Chairman of Pacific Empire Radio Corporation of Lewiston, Idaho, a fifteen station Northwest radio group, a member of the Board of Trustees of The Idaho Heritage Trust, and a member of the State of Idaho Endowment Fund Investment Board. Mr. Taylor also serves on the Board of Avista Energy, Inc.

The Board recommends a vote FOR each nominee for director.

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Corporate Governance Matters

Director Independence

The New York Stock Exchange requires that listed companies have a majority of independent directors. It is the policy of the Board that a majority of the directors will be independent from management and that the Board will not engage in transactions that would conflict with the Company s business.

Independence determinations are made on an annual basis at the time the Board approves nominees for inclusion in the annual proxy statement and, if a director joins the Board between Annual Meetings, at such time. To assist in this determination, the Board adopted Categorical Standards for Independence of Directors, which is attached to this proxy as Exhibit A.

During its annual review, the Board considered transactions and relationships between each director or any member of his/her family and the Company and its subsidiaries and affiliates, including those reported under Related Party Transactions below. The Board also considered whether there were any transactions or relationships between directors or any member of their immediate family (or any entity of which a director or an immediate family member is an executive officer, general partner, or significant equity holder) and members of the Company s senior management or their affiliates. The purpose of the review was to determine whether any such relationships or transactions existed that were inconsistent with a determination that the director is independent.

As a result of this review, the Board affirmatively determined that all of the directors nominated for election at the Annual Meeting are independent of the Company and its management under the categorical standards, with the exception of Scott L. Morris. Mr. Morris is considered an inside director because of his employment as a senior executive of the Company.

The Board also determined that each of the continuing directors is independent, with the exception of Gary G. Ely, who is considered an inside director because of his employment as a senior executive of the Company.

In making its determination, the Board considered the following relationships, which it determined were immaterial to the director s independence. The Board considered that the Company and its subsidiaries in the ordinary course of business have during the last three years sold services to, and/or purchased products and services from, companies at which some of our directors were officers during fiscal year 2006. In each case, the amount paid to or received from these companies did not approach the 2% of total revenue threshold in the categorical standards. The Board determined that none of the relationships it considered impaired the independence of the directors.

Board Meetings

The Board held seven (7) meetings in 2006. The attendance during 2006 at all meetings of the Board and at all Board Committee meetings was 100%. The Board strongly encourages its members to attend all Annual Meetings of Shareholders. All directors attended the prior year s Annual Meeting of Shareholders and are planning to attend the 2007 Annual Meeting.

Committees

Each Committee of the Board has adopted a Charter that has been approved by the Board. The Charters are reviewed on a periodic basis and amendments are made as needed. Each Committee also performs an annual self-assessment relative to its purpose, duties, and responsibilities. The Committee Charters are located on the Company s website at www.avistacorp.com. We will provide, free of charge to any person, a hard copy of our Committee Charters upon request to the General Counsel s office at 1411 East Mission Avenue, P.O. Box 3727 (MSC-12), Spokane, Washington 99220.

Audit Committee Assists the Board in overseeing the integrity of the Company s financial statements, the Company s compliance with legal and regulatory requirements, the qualifications and independence of the independent registered public accounting firm, the performance of the Company s internal audit function and independent registered public accounting firm, and the Company s systems of internal controls regarding accounting, financial reporting, disclosure, legal compliance, and ethics that management and the Board have established,

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including without limitation all internal controls established and maintained pursuant to the Securities Exchange Act of 1934 (the Exchange Act) and by the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). Only independent directors sit on the Audit Committee. The Audit Committee consists of directors Noël, Stanley, and Blake Chair. The Board has determined that Mr. Noël is an Audit Committee Financial Expert, as defined in the rules of the Securities & Exchange Commission (SEC). Eight (8) meetings were held in 2006.

Corporate Governance/Nominating Committee (Governance Committee) Advises the Board on corporate governance matters. Such matters include recommending guidelines for the composition and size of the Board, as well as evaluating Board effectiveness and organizational structure. This Committee also develops Board membership criteria and reviews potential director candidates. Recommendations for director nominees are presented to the full Board for approval. Director nominations by shareholders may be submitted in accordance with the procedures set forth under Director Nominations below. Only independent directors sit on this Committee. The Governance Committee consists of directors Stanley, Taylor, and Kelly Chair. Four (4) meetings were held in 2006.

Compensation & Organization Committee (Compensation Committee) Is composed of independent directors as defined by the rules of the NYSE, and, in addition, complies with the outside director requirements of Section 162(m) of the Internal Revenue Code, and the non-employee director requirements of Rule 16b-3 under the Exchange Act.

The Compensation Committee is responsible for considering and approving compensation and benefits of executive officers of the Company. It is also responsible for overseeing the organizational structure of the Company and succession planning for executive officers.

The Compensation Committee has the authority to delegate such of its authority and responsibilities as the Compensation Committee deems proper to members of the Committee or to a subcommittee. The Compensation Committee also engages and terminates compensation consultants, independent counsel, and such other advisers as the Compensation Committee determines necessary to carry out its responsibilities. Authority to select, retain, terminate, and approve the fees or other retention term of any such consultant or adviser is vested solely in the Compensation Committee.

During the Compensation Committee s annual self-assessment, the review confirmed that the tasks enumerated in the Committee Charter had been fulfilled and successfully carried out. For a discussion of the Company s processes and procedures for the consideration and determination of executive officer and director compensation (including the role of executive officers and compensation consultants in determining or recommending the amount or form of compensation) see Director Compensation and Compensation Discussion and Analysis in this proxy statement.

The Compensation Committee consists of directors Eiguren, Kelly, and Taylor Chair. Four (4) meetings were held in 2006.

Finance Committee Strives to ensure that corporate management has in place strategies, budgets, forecasts, and financial plans and programs to enable the Company to meet its goals and objectives. The Finance Committee s activities and recommendations include reviewing management s qualitative and quantitative financial plans and objectives for both the short and long-term; approving strategies with appropriate action plans to help ensure that financial objectives are met; having in place a system to monitor progress toward financial objectives and taking any necessary action; and overseeing and monitoring employee benefit plan investment performance and approving changes in investment policies, managers, and strategies. Only independent directors sit on this Committee. The Finance Committee consists of directors Gustavel, Noël, and Anderson Chair. Ten (10) meetings were held in 2006.

Environmental, Safety & Security Committee (Environmental Committee) Assists the Board in overseeing the Company s environmental compliance, employee safety performance, and corporate security, and provides appropriate policy guidance to executive management on environmental issues. This Committee is responsible to the Board and reports regularly to the Board on its activities. Only independent directors sit on this Committee. The Environmental Committee consists of directors Blake, Eiguren, and Powell Chair. Four (4) meetings were held in 2006.

Executive Committee Has and may exercise, when the Board is not in session, all the powers of the Board which may be lawfully delegated, subject to such limitations as may be provided in the Bylaws, by resolutions of the Board, or by law. Generally, such action would only be taken to expedite Board authorization for certain corporate business matters when circumstances do not allow the time, or when it is otherwise not practicable, for the entire Board to meet. The Executive Committee consists of directors Blake, Gustavel, Taylor, and Ely Chair. No meetings were held in 2006.

Meetings of Independent Directors

The independent directors meet at each regularly scheduled Board meeting in executive session without management present. The Chair of the Governance Committee, who is the lead director for these meetings, chairs the executive sessions. The Governance Committee Chair, as 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 be available for each such meeting.

Corporate Governance Guidelines

The Board adopted Corporate Governance Guidelines in 1999. These guidelines were amended in 2005 and 2007 to incorporate NYSE and other requirements.

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to all of our employees, including our CEO (the principal executive officer) and our Chief Financial Officer (CFO) (the principal financial and accounting officer).

Information on Company Website

The Company s Corporate Governance Guidelines and the Code of Business Conduct and Ethics are available on the Company s website at www.avistacorp.com. We will provide, free of charge to any person, a hard copy of our Corporate Governance Guidelines and Code of Business Conduct and Ethics upon request to the General Counsel s office at 1411 East Mission Avenue, P.O. Box 3727 (MSC-12), Spokane, Washington 99220.

Communications With Directors

Shareholders and other interested parties may send correspondence to our Board or to any individual director to the Corporate Secretary s office at 1411 East Mission Avenue, P.O. Box 3727 (MSC-10), Spokane, Washington 99220. Concerns about accounting, internal accounting controls or auditing matters should be directed to the Chair of the Audit Committee at the same address. All communications will be forwarded to the person(s) to whom they are addressed, unless it is determined that the communication:

- does not relate to the business or affairs of the Company or the functioning or constitution of the Board or any of its Committees;
- relates to routine or insignificant matters that do not warrant the attention of the Board;
- is an advertisement or other commercial solicitation or communication;
- is frivolous or offensive; or

is otherwise not appropriate for delivery to directors.

The director or directors who receive any such communication will have discretion to determine whether the subject matter of the communication should be brought to the attention of the full Board or one or more of its Committees and whether any response to the person sending the communication is appropriate. Any such response will be made through the Company s Corporate Secretary or General Counsel and only in accordance with the Company s policies and procedures and applicable laws and regulations relating to the disclosure of information.

Director Nominations

The Governance Committee will consider written recommendations for members of the Board that are made by shareholders. Recommendations must include detailed biographical material indicating the qualifications the candidate would bring to the Board, and must include a written statement from the candidate of willingness and availability to serve. While recommendations may be considered at any time, recommendations for a specific Annual Meeting must be received by December 1 of the preceding year. Recommendations should be directed to the General Counsel of the Company, 1411 East Mission Avenue, P.O. Box 3727 (MSC-12), Spokane, Washington 99220. Shareholders may only nominate directors for election at meetings of shareholders in accordance with the following procedures as set forth in the Company s Bylaws:

Shareholders may nominate one or more persons for election as directors at a meeting only if written notice of such shareholder s intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Corporate Secretary no later than (i) with respect to an election to be held at an Annual Meeting of Shareholders, ninety (90) days in advance of such meeting and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the seventh day following the date on which notice of such meeting is first given to shareholders.

Each such notice must set forth:

- the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated;
- a representation that such shareholder is a holder of record of shares of the common stock of the Company and intends to appear in person or by proxy at the meeting to nominate the person or persons identified in the notice;
- a description of all arrangements or understandings between such shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such shareholder;
- such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement under the Exchange Act and the rules and regulations thereunder (or any subsequent revisions replacing such Act, rules, or regulations) if the nominee(s) had been nominated, or were intended to be nominated, by the Board; and
- the consent of each nominee to serve as a director of the Company if so elected.

The Chair of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedures.

Process For Selecting Board Candidates

The Board or the Governance Committee will consider any candidate proposed in good faith by a shareholder. In evaluating director nominees, the Governance Committee considers the following, among other criteria:

- the appropriate size of the Board;

the needs of the Company with respect to the particular talents and experience of its directors;

the knowledge, skills, and executive leadership experience of nominees, as well as working experience at the executive leadership level in his/her field of expertise;

familiarity with the energy/utility industry;

recognition by other leaders as a person of integrity and outstanding professional competence with a proven record of accomplishments;

experience in the regulatory arena;

knowledge of the business of, and/or facilities for, the generation, transmission, and/or distribution of electric energy;

enhance the diversity and perspective of the Board; and

knowledge of the customers, community, and employee base.

The Governance Committee s goal is to assemble a Board that brings together a variety of perspectives and skills derived from high quality business and professional experience. The Governance Committee may also consider such other factors as it may deem to be in the best interests of the Company and its shareholders. It has been deemed appropriate for at least one, and preferably several, members of the Board to meet the criteria for an Audit Committee Financial Expert as defined by SEC rules.

The Governance Committee identifies nominees by first evaluating the current members of the Board willing to continue in service. Current members of the Board with skills and experience that are relevant to the Company s business and who are willing to continue in service are considered for re-nomination. If any member of the Board does not wish to continue in service or if the Governance Committee decides not to nominate a member for re-election, the Committee then identifies the desired skills and experience of a new nominee in light of the criteria set forth above. Current members of the Board are polled for suggestions as to individuals meeting the criteria described above. The Governance Committee may also consider candidates recommended by management, employees, or others. The Governance Committee may also, at its discretion, engage executive search firms to identify qualified individuals.

Related Party Transactions

The Board recognizes that related party transactions present a heightened risk of conflicts of interest and/or improper valuation (or the perception thereof) and, therefore, has adopted a Related Party Transaction Policy, which will be followed in connection with all related party transactions involving the Company and specified related persons that include directors (including nominees) and executive officers, certain family members and certain shareholders, all as defined in applicable SEC rules. The Company s Related Party Transaction Policy can be accessed on the Company s website at www.avistacorp.com and is also attached as Exhibit B to this proxy statement.

SEC rules require that the Company disclose any related party transaction in which the amount involved exceeds $120,000 in the last fiscal year. The Governance Committee has determined that the following is a related party transaction:

Director Erik Anderson is President of WestRiver Capital, a private investment company. WestRiver Capital made an investment in Ascentium, a company that designs and develops websites. Prior to the time WestRiver Capital made its investment in Ascentium, Avista had entered into a contract with Ascentium to provide web design services. Pursuant to the contract with the Company, Ascentium received $432,390 for services during fiscal year 2006.

Audit Committee Report

In accordance with its written Charter adopted by the Board, the Audit Committee assists the Board in fulfilling its responsibility for oversight of the Company s systems of internal controls, including, without limitation, those established and maintained pursuant to the Exchange Act, as amended, and the Sarbanes-Oxley Act. The Audit Committee also assists the Board in overseeing the integrity of the Company s financial statements, the Company s compliance with legal and regulatory requirements, and the independent auditor s qualifications and independence.

The Audit Committee is composed of independent directors as defined by the rules of the New York Stock Exchange. In 2006, the Audit Committee met eight (8) times.

The Audit Committee reviewed the Company s unaudited quarterly financial statements and management s discussion and analysis of financial condition and results of operation for the first three quarters of 2006 and discussed them with management and Deloitte & Touche LLP (Deloitte), the Company s independent registered public accounting firm, prior to their inclusion in the Quarterly Reports on Form 10-Q filed with the SEC. The Audit Committee reviewed with the CEO and CFO their certifications as to the accuracy of the financial statements and

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the establishment and maintenance of internal controls and procedures. It also reviewed with management all earnings press releases relating to 2006 annual and quarterly earnings.

The Audit Committee reviewed and discussed the Company s audited financial statements and management s discussion and analysis of financial condition and results of operations for the fiscal year ended December 31, 2006, with management, which has primary responsibility for the financial statements, and with Deloitte, which is responsible as the Company s registered public accounting firm for the examination of those statements. Based on its review and discussions, the Audit Committee recommended to the Board that the Company s audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, for filing with the SEC. The Board approved the recommendation.

The Audit Committee also reviewed and discussed with management and Deloitte Management s Report on Internal Control over Financial Reporting, Deloitte s report on management s assessment of the effectiveness of internal control over financial reporting, and Deloitte s report on the effectiveness of internal control over financial reporting.

The Audit Committee reviewed and discussed with Deloitte all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61 Communication with Audit Committees and SEC Rule 2-07, as amended and supplemented, and, with and without management present, discussed and reviewed the results of the independent auditor s examination of the financial statements. The Audit Committee also discussed the results of the internal audit examinations and received and reviewed quarterly risk management updates.

Deloitte provided the Audit Committee with the written disclosures and letter as required by the Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. The Audit Committee discussed with Deloitte its internal quality-control reviews and procedures, the results of its external reviews and inspections, and any relationships that might impact its objectivity and independence. The Audit Committee also discussed with management, the internal auditors, and Deloitte, the quality and adequacy of the Company s systems of internal controls, and the internal audit functions, responsibilities, and staffing. The Audit Committee reviewed the audit plans, audit scopes, and identification of audit risks of the independent and internal auditors.

The Audit Committee reviewed and approved Deloitte s fees. The Audit Committee also recommended to the Board, after reviewing the performance of Deloitte, its reappointment in 2007 as the Company s independent registered public accounting firm. The Board concurred in such recommendation. The Audit Committee also reviewed and approved the non-audit services performed by Deloitte and concluded that such services were consistent with the maintenance of independence.

The Audit Committee revised its Charter and performed the mandated tasks included in its Charter. The Board approved the Charter revisions. The Audit Committee also recommended to the Board the continued designation of Michael L. Noël as Audit Committee Financial Expert solely for the purposes of compliance with applicable SEC disclosure rules as defined in the rules and regulations of the SEC implementing Section 407 of the Sarbanes-Oxley Act. The Board approved such recommendation.

Members of the Audit Committee of the Board

Kristianne Blake Chair	Michael L. Noël	Heidi B. Stanley

Director Compensation

During 2006, directors who were not employees of the Company received an annual retainer of $68,000. Directors were also paid $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 $5,000 annual retainer, with the exception of the Audit Committee Chair, who received an additional $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 $1,500 for each subsidiary Board meeting the director attended. Directors Blake and Taylor hold Board positions with subsidiaries of the Company.

Each year, the Governance Committee engages an outside consulting firm, Towers Perrin, 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. After review of this information, if the Governance Committee believes changes are warranted, they recommend new compensation levels for approval by the full Board. As of August 2006, Avista s total director compensation was positioned just above the 50th percentile of utility peer companies and below the 50th percentile of similar-sized general industry companies.

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.

The Board, at its November 2006 meeting, allowed directors to elect for the coming year to receive their annual retainer in cash, in Company common stock, or in a combination of both cash and common stock.

In keeping with the overall compensation philosophy set by the Board, a minimum stock ownership expectation is set for all Board members. Directors are expected to achieve a minimum investment of $150,000 or 5,000 shares (including shares that have previously been deferred under the 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. This 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 upon 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 2006 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 2006.

Director Name	Fees Earned or Paid in Cash ($)(1)(2)	Director Compensation Paid in Stock ($)(1)(2)	All Other Compensation ($)(3)	Total Compensation ($)
Erik J. Anderson	$ 70,515	$ 33,985	$ 0	$ 104,500
Kristianne Blake	$ 80,515	$ 33,985	$ 1,436	$ 115,936
David A. Clack(4)	$ 40,917	$ 0	$ 0	$ 40,917
Roy Lewis Eiguren	$ 92,000	$ 0	$ 0	$ 92,000
Jack W. Gustavel	$ 33,587	$ 67,997	$ 0	$ 101,584
John F. Kelly	$ 60,431	$ 33,986	$ 0	$ 94,417
Jessie J. Knight, Jr.(5)	$ 49,417	$ 0	$ 0	$ 49,417
Michael L. Noël	$ 42,003	$ 67,997	$ 0	$ 110,000
Lura J. Powell	$ 50,433	$ 39,984	$ 0	$ 90,417
Heidi B. Stanley	$ 27,002	$ 45,331	$ 0	$ 72,333

R. John Taylor	$	56,682	$	39,984	$	3,133	$	99,799
Totals	$	603,502	$	363,249	$	4,569	$	971,320

(1/2) Directors have the option of taking their retainer in stock, in cash, or in a combination of stock and cash. Includes cash retainers, Chair retainers, Board and Committee meeting fees, and fees for directors attending a subsidiary Board meeting Blake and Taylor are the only directors who sit on a subsidiary Board.

(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.

(4) Mr. Clack retired from the Board on May 11, 2006.

(5) Mr. Knight resigned as a member of the Board on June 22, 2006 due to accepting a position at another utility.

Compensation Discussion and Analysis (CD&A)

Overview of Compensation Program

The Compensation Committee of the Board has responsibility for establishing, implementing, and continually monitoring adherence with the Company s compensation philosophy. The Compensation Committee carefully reviews and considers all aspects of the Company s executive compensation programs to ensure they are fair, appropriate, and reasonable, taking into consideration the Company s economics and relevant practices of comparable companies. Throughout this proxy statement, the individuals who served as the CEO and COO during fiscal year 2006, as well as the other individuals included in the Summary Compensation Table on page 24 are referred to as the Named Executive Officers (NEOs).

Compensation Philosophy and Objectives

The Compensation Committee s goal has been to design a compensation program that focuses the executives on the achievement of specific annual, long-term, and strategic goals set by the Company that align executives interests with those of shareholders by rewarding performance that maintains and improves shareholder value. The plans are created so that executives receive cash bonuses or shares of common stock when specific, measurable goals of each plan are achieved.

The Compensation Committee makes all compensation decisions for the CEO and COO, and approves recommendations from the CEO and COO regarding compensation levels, including the level of equity awards, for all other elected officers. The CEO and COO annually review the performance of each executive officer and present their conclusions to the Compensation Committee to consider with respect to salary adjustments, annual incentive opportunity, and annual equity award amounts. The Compensation Committee has discretion to modify any recommended compensation adjustments to executives.

The Compensation Committee believes that all aspects of executive compensation should be clearly, comprehensibly, and promptly disclosed in plain English. The Compensation Committee believes that compensation disclosures should provide all of the information necessary to permit shareholders to understand our compensation philosophy, our compensation-setting process, and how much our executives are paid.

Setting Executive Compensation

The Compensation Committee believes that an effective total compensation plan should be structured to focus executives on the achievement of specific business goals set by the Company and to reward executives for achieving those goals. Therefore, management and the Compensation Committee established the following key compensation principles to guide the design and ongoing administration of the Company s overall compensation program:

Clearly communicate the desired outcomes and use incentive pay programs to reward the achievement of performance goals to:

Achieve operational targets;

Achieve customer service targets;

Achieve earnings per share targets;

Achieve relative stock performance levels compared to peers;

Create shareholder value;

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- Promote a one company perspective among all Company employees;
- Maintain total compensation at market competitive levels; and
- Provide a range of payout opportunities based on achieving performance goals.

Competitive Analysis

The Compensation Committee works with an external compensation consultant to conduct an annual competitive review of its total compensation program for the CEO and COO, as well as all other executive officers.

When determining the types and amounts of compensation to be paid to executives of the Company, the Compensation Committee and management consider it important to provide a plan that reflects compensation paid to similarly situated executives of our peer companies to maintain a competitive footing within the energy/utility industry and to assure the Company retains and attracts when necessary quality employees in key positions to lead the Company. To achieve this end, the Compensation Committee establishes base salaries, short-term annual incentives, and long-term incentive levels generally targeted to be near the median of the competitive data. However, the Compensation Committee exercises its discretion to set any one or more of the components at levels higher or lower than the median depending on an individual s role, responsibilities, and performance with regard to internal equity within the Company. We believe this target positioning is effective to attract and retain our executive talent.

The Compensation Committee annually compares each element of total direct compensation, which includes base salary, annual cash incentives, and the annualized value of long-term incentive grants, against the specific peer group of publicly-traded companies within the energy/utility industry. The companies in the survey universe generally recruit individuals to fill senior management positions who are similar in skills and background to those we recruit, and are the companies with which Avista competes for talent and for shareholder investment. In 2006, the Compensation Committee engaged Towers Perrin, a nationally recognized consulting firm, to perform a study of the compensation of 30 comparable diversified energy companies in Towers Perrin s Energy Services Executive Compensation database with revenues between $1 billion and $3 billion to assure the data presented to the Compensation Committee reflected Avista s general size and scope within the market.

Peer Group Companies

The companies comprising the Compensation Peer Group are:

AGL Resources, Inc.	Allegheny Energy, Inc.
Aquila, Inc.	Atmos Energy Corporation
Black Hills Energy	Equitable Resources, Inc.
Great Plains Energy, Inc.	Hawaiian Electric Industries, Inc.
LG&E Energy Corp.	MidAmerican Energy Company
MDU Resources Group, Inc.	Nicor, Inc.
New York Power Authority	NorthWestern Energy
NSTAR	Oglethorpe Power Corporation
Peoples Energy	Pinnacle West Capital Corporation
PNM Resources, Inc.	Portland General Electric Company
Puget Energy	Salt River Project (SRP)
TECO Energy, Inc.	Texas Genco Holdings, Inc.

UIL Holdings Corporation	UniSource Energy Corporation
United States Enrichment Corporation	Vectren Corporation
Washington Gas	Westar Energy

Other Comparative Data

The Compensation Committee also reviews proxy data on the top five (5) highest paid officers for the companies making up the S&P s 400 Utilities Index. This is the same group that we use to measure relative performance in our Long-Term Incentive Plan (see description on page 18). The review includes an evaluation of base salary, annual incentive opportunities, and long-term incentives.

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

The Compensation Committee is also provided with benchmark information regarding the competitive level of health benefits and retirement benefit levels on a periodic basis. External consultants are utilized to benchmark the benefit programs offered to regular employees in similarly situated peer companies within the energy/utility industry.

Performance Management

Avista s practice is to provide rewards for the achievement of specific performance goals. Management uses an annual performance review process for its executives to assess individual performance. In the annual performance process, each executive establishes his/her performance goals at the beginning of the year in consultation with their senior manager. The CEO and the COO create specific performance targets based on strategic goals set by the Company. These goals are reviewed and approved by the Compensation Committee at their annual February Compensation Committee meeting and presented to the full Board for their information. These performance targets are reviewed quarterly by the Compensation Committee. At the end of the year, the Compensation Committee reviews the CEO and COO year-end results as part of their overall annual performance review process.

Key performance goals for 2006 generally related to safety targets, financial performance, regulatory strategy, succession planning, governance, and customer value delivery. The Compensation Committee also reviews the results of Avista s 360-degree survey for each member of the senior team. This is a standardized performance survey conducted every other year that includes feedback from peers, direct reports, and the direct manager on multiple leadership performance categories.

The Compensation Committee annually reviews the performance of executives. As part of that review, the Compensation Committee evaluates the appropriate circumstances for approving annual incentives as well as long-term incentives. If during such an evaluation, or at any other time if circumstances were created, there was misconduct that caused or partially caused a restatement of financial results, the Compensation Committee would consider requiring the employee(s) to forfeit awards and may rescind vesting, or seek to recall appropriate portions of the executive officer s compensation for the relevant period.

Executive Compensation Components

The Compensation Committee compensates senior management through a mix of:

- base salary;
- short-term performance-based cash incentive compensation;
- long-term equity incentive compensation;

Performance Shares

Restricted Stock

retirement and other benefits.

Perquisites

Because the Compensation Committee believes that the total compensation program provided to executive officers is fair and market competitive, they have not deemed it necessary to provide any additional benefits in the form of perquisites. Therefore, there are no perquisites provided to the CEO, COO, or any other Avista officer.

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Allocation Among Components

The Company s mix of base salary, short-term cash incentive, and equity compensation varies depending on the level of the position held by the executive. Over 60% of the CEO s target total direct compensation is performance-based, with approximately 20% allocated to the annual cash incentive and 40% allocated to the long-term equity portion. For the COO and the other NEOs approximately 50% is performance-based, with about 15% allocated to the annual cash incentive and 35% allocated to the long-term equity portion.

In allocating compensation among these components, the Compensation Committee believes that the compensation of our senior-most levels of management the levels of management having the greatest ability to influence Avista s performance should be weighted toward performance-based goals, putting a greater portion of their compensation at risk based on achieving specific goals, while levels below senior management should receive a greater portion of their total compensation in a non-risk manner of base salary. This is also consistent with practices of the peer group we review for market comparison purposes.

Base Salary

The Company provides NEOs with base salary to compensate them for services rendered during the fiscal year. Base salary ranges for executive officers are determined according to his/her position and responsibility by using the market data provided by the external consultant and by considering other data points referenced earlier, including publicly disclosed information regarding the top ranks in similar positions.

The Compensation Committee reviews the base salary of all executive officers at least annually. The factors that influence the Compensation Committee s decisions regarding base salary include: levels of pay among executives in the utility and diversified energy industry, level of responsibilities and job complexity, experience, breadth of knowledge, and job performance, including the Compensation Committee s subjective judgment as to individual contribution in relation to the strategic goals of the Company.

The Compensation Committee considers some or all of these factors as appropriate; there are no formal weightings given to any factor. The Compensation Committee also takes into account that each NEO has responsibilities that include both electric and natural gas utility operations, as well as diverse subsidiary operations. In addition, the Company operates in several states, thereby requiring quality relationships and interaction with multiple regulatory agencies. For 2006, the Compensation Committee noted the Company had continued its solid financial progress of 2005 and had met the key strategic objectives outlined for the year, both of which were positive factors considered when setting the 2006 base salary for the CEO, COO, and other NEOs.

For 2006, the average pay adjustment for all NEOs was 3.4%, ranging from 0% to 7.6%. The COO and the CFO both received additional increases on May 15, 2006, to reflect their promotions to President and Executive Vice President, respectively. The COO received a 15.4% promotional increase and the CFO received a 7.7% promotional increase. These increases reflected the market level for their new positions.

Performance-Based Annual Cash Incentive

The annual cash incentive plan is designed to align the interests of senior management with shareholder interests, as well as customer service levels to achieve overall positive financial performance for the Company. At its November meeting each year, the Compensation Committee considers whether an annual incentive plan should be established for the succeeding year. The Compensation Committee, in partnership with management, sets clear annual performance objectives for all executives, and measures annual performance against those objectives as stated in the plan. For the past five (5) years, payout levels have followed the actual performance of the Company. Over the last five years since the inception of the plan, annual cash incentive payments averaged 66% of target and ranged from a low of 40% of target to a high of 114% of target. Individual annual cash incentive awards are set as a percentage of base salary. As described more fully below, the actual amounts paid could increase (up to 150% of target) or decrease (as low as 0% of target) depending on the Company s actual performance during 2006.

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2006 Annual Cash Incentive Target Award Opportunity

In accordance with the approach described above, for 2006 the Compensation Committee decided that the CEO would have a target annual cash incentive award equal to 90% of base salary, and that the remaining NEOs would have target annual cash incentive awards equal to 60% of base salary.

Annual Cash Incentive Plan Design

The annual cash incentive plan has two levels of performance targets, both of which must be satisfied in whole or in part, before the Company pays annual cash incentive amounts. The first level consists of Standard Performance Triggers (SPTs). The second level consists of additional financial and operating goals. If none of the SPTs are satisfied, the Company does not pay NEOs any annual cash incentive amounts. If one or more of the SPTs are satisfied, the Company will allocate funds to the annual cash incentive pool, but will pay annual cash incentive amounts to the NEOs only if the Company also satisfies one or more of the additional financial and operating targets. The SPTs, the additional financial and operating targets, and the 2006 annual cash incentive plan results are discussed below.

Standard Performance Triggers. The SPTs for the executive annual cash incentive plan are based on factors that are essential for the long-term success of the Company, and, with one exception discussed below, are identical to performance triggers used in the Company s annual incentive plan for non-executive employees. The Compensation Committee believes that having similar triggers for both the executive plan and the non-executive plan encourage employees at all levels of the Company to focus on common objectives.

For 2006, there were four SPTs for the executive annual cash incentive plan. Those SPTs were:

Customer Satisfaction Rating. This is derived from our Voice of the Customer survey, which is conducted each quarter. This survey is used to track satisfaction levels of customers that have had recent contact with our call center or service center.

Customer Average Interruption Duration Index (CAIDI). Providing reliable energy to our customers is the backbone of the Company s business, and the Company tracks the average restoration time for sustained outages that affect our customers.

System Average Interruption Frequency Index (SAIFI). The Company also tracks the average number of sustained outages per customer.

Capital Spending. Long-term decisions about the level of capital needed by the Company to assure system reliability and proper maintenance of critical plant and equipment are vital to operating a well-run utility. Because the senior executive group is responsible for appropriate oversight and management of the capital budget, this SPT was included in the annual cash incentive plan for executives but not for the annual cash incentive plan for non-executive employees.

The performance threshold and the relative weight given to each are:

Standard Performance Triggers (SPT)

Standard Performance Triggers	Performance Expectation	Weight Factor
Customer Satisfaction Rating (Satisfied/Very Satisfied)	90%	35%
CAIDI Average Restoration Time	2 hours and 15 minutes	20%
SAIFI Average Outage per Customer	0.92 outages	15%
Capital Spending Budget	$125.8M	30%

Financial and Operating Incentive Goals. The second level of the annual cash incentive consists of financial and operating performance goals. In 2006, these financial and operating goals consisted of earnings per share (EPS), both for the Company as a whole and for the utility operations, and Utility operating and maintenance costs per customer (O&M costs). Seventy percent of the award depends on attaining the EPS goals and the remaining 30% depends on keeping O&M costs below the specified level. The O&M cost is a measure that is directly related to maintaining reliable, cost-effective service levels to run the Company s business efficiently. Each year, the Compensation Committee sets threshold, target and exceeds performance levels for each of these financial and operating goals. Amounts allocated to the annual cash incentive pool will be paid only if the Company achieves at least one of these goals.

Setting the Financial and Operating Incentive Goals. The 2006 cash incentive plan was designed to focus each executive on the Company s financial strategic goals. Continuing to gain financial strength, increasing shareholder value, and maintaining reliable cost-effective service levels to run our business efficiently are all key considerations when setting the goals.

To determine the Corporate and Utility EPS goals for the plan, the Compensation Committee, in conjunction with management, considers and incorporates the EPS target spread contained in the Company s publicly disclosed earnings guidance ($1.30 to $1.45 Corporate EPS and $1.00 to $1.15 Utility EPS) and reviews this in light of the budgeted EPS numbers. For 2006, they set threshold, target, and exceeds levels based upon a range as shown in the table below. **The earnings guidance for 2006 is referred to above in the limited context of the Company s compensation programs for 2006 and should not be understood to be statements of management s expectations or estimates of results of operations or compensation targets for 2007 or any other year.**

The O&M Cost per Customer measure reflects operating efficiency and customer growth. The 2006 cash incentive plan places an emphasis on aggregate utility costs per customer targets to encourage company-wide teamwork and consistent results. The Utility O&M Cost per Customer target is based on the projected number of customers and O&M expense for 2006. These components are combined to create the O&M Cost per Customer measure. To determine the target, O&M expense (less estimated incentive payout) is divided by the projected customer count (customer growth increment based on 12 months of actual growth from the prior year added to the actual year-end December customer count).

The 2006 goals were:

Incentive Goals for 2006

	Corporate and Utility EPS 30% of Total		**70% of Award 40% of Total**		**O&M Cost per Customer 30% of Award 30% of Total**	
Levels	**Corp. EPS**	**% of Target Award**	**Utility EPS**	**% of Target Award**	**Utility Cost per Customer**	**% of Target Award**
Threshold	$ 1.15	50%	$ 0.95	50%	$ 277.25	50%
Target	$ 1.30	100%	$ 1.05	100%	$ 264.76	100%
Exceeds	$ 1.45	150%	$ 1.15	150%	$ 256.58	150%

2006 Results for the Annual Cash Incentive Plan

Upon completion of the fiscal year, the Compensation Committee assesses the performance of the Company for each objective of the plan comparing the actual fiscal year results to the pre-determined threshold, target, and exceeds levels for each objective, and an overall percentage amount for meeting the objectives is calculated and audited.

Based on this review, at its February 2007 meeting, the Compensation Committee determined that the Company satisfied 85% of the SPTs because it achieved the targets for customer satisfaction, average interruption duration (CAIDI) and capital spending, but did not achieve the target for average interruption frequency (SAIFI). The Compensation Committee determined that the Company exceeded the maximum target for Corporate and Utility EPS and fell slightly short of the target for O&M costs. As a result and at the same meeting, the Compensation Committee authorized payment of bonuses of 103% of base salary for the CEO, 46% of base salary for Mr. Meyer and 68% of base salary for the remaining NEOs.

Long-Term Equity Compensation

The Compensation Committee believes that equity compensation is the most effective means of creating a long-term link between the compensation provided to officers and other key management with gains realized by the

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shareholders. This program encourages participants to focus on long-term Company performance and provides an opportunity for executive officers and designated key employees to increase their ownership in the Company through grants of Company stock based on a three-year performance cycle. Through the use of long-term performance share and restricted stock grants, the Company is able to compensate executives for sustained increases in the Company s stock performance, as well as long-term growth relative to its peer group for the relevant cycle.

The Company s current Long-Term Incentive Plan authorizes various types of equity awards. The Compensation Committee reviews and approves any grants at their regularly scheduled quarterly meeting each February based upon various data, including analysis and recommendations from an external compensation consultant. The consultant reviews annual total direct compensation competitive with utility peer groups. The Company does not have a program, plan, or practice to coordinate the release of material non-public information with the actual delivery of shares at the end of the performance period.

From 2003 until 2005, performance shares were the only form of long-term equity compensation used by the Company. Performance share awards entitled recipients to receive shares at the end of the performance period if the specified performance targets were achieved. If the performance goals were achieved and the shares delivered, the participants also received a cash payment equal to the dividends that would have been paid on the delivered shares since the beginning of the performance period.

In 2005, the Compensation Committee asked Towers Perrin to conduct a study to compare the Company s long-term equity compensation practices with those of the peer group. That study showed that most of the Companies in the peer group used more than one form of equity compensation, and that the most typical plan design in the utility industry was a combination of restricted shares with vesting based on the passage of time and performance share awards payable, if at all, at the end of a three-year performance period. In 2006, based on the Towers Perrin study, and because the Compensation Committee wanted to be competitive and believed that a combination of two types of awards was more likely to encourage retention than performance share awards alone, the Compensation Committee began granting restricted stock awards. As described more fully below, awards to NEOs, other than Mr. Ely, would vest over three years provided the recipient remained employed by the Company. Mr. Ely s award would vest only upon attainment of performance goals.

For 2006, this plan design maintained the same target value as in the previous year, but 25% of the total value of the award was delivered through restricted stock and the remaining 75% consisted of a grant of performance shares. When making its individual decisions regarding long-term incentives, the Compensation Committee considers many factors. In addition to competitive market data, the Compensation Committee considers the amount of equity incentives currently outstanding and the number of shares available for future grants under the Long-Term Incentive Plan. As with the Company s annual cash incentive plan, award opportunities are higher for those executives who have the greatest ability to directly influence overall Company performance.

As with all the components of executive compensation, the Compensation Committee determines all material aspects of the long-term incentive awards who receives an award, the amount of the award, the timing of the award, as well as any other aspect of the award it may deem material. It can also determine the prorating or forfeiting of an award due to terminating employment for any reason other than retirement, disability or death, and assigning or transferring the participants award to a designated beneficiary as long as the award is subject to the same terms and conditions contained in the original agreement. The awards are reviewed and granted every year at the February Compensation Committee meeting. The Compensation Committee, in conjunction with the CEO, sets the awards for all NEOs. The Compensation Committee follows the plan document when certifying the attainment of performance goals and authorizing final payout of long-term incentive awards based upon actual stock performance relative to the peer group within the S&P 400 Utilities Index.

Performance Shares

The performance share awards are designed to provide a clear link to the long-term interests of shareholders by assuring that awards will be paid only if the Company attains positive shareholder return performance relative to our

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peers over a three-year period. The peer group for performance purposes consists of companies comprising the S&P 400 Utilities Index.

The amount of the payment with respect to any award is determined at the end of the three-year performance cycle based on the Company s percentile ranking compared to the index, and is payable at the Compensation Committee s option in either cash or Company common stock, or both. Dividend equivalents earned over the cycle based on the shares earned are paid in cash.

Range of Performance Share Opportunity

The number of performance shares delivered to executive officers at the end of the three-year cycle will range from 0 to 150% of the number awarded. Shareholder return must be positive and at least at the 45th percentile of the S&P 400 Utilities Index over the performance period to generate a threshold payout of 50% of the target number of shares allocated to each individual. If the relative shareholder return is below the 45th percentile of the peer group, then no participant will receive performance shares under the Long-Term Performance Share Plan. To receive 100% of the award, the Company must perform at the 55th percentile among the S&P 400 Utilities Index. Awards can be achieved up to the 150% level if the Company performs above the 85th percentile. Awards are interpolated for performance results. For example: if Avista s total shareholder return ranking is in the 68th percentile, then the payout would result in 122% of target.

The following graph represents the relationship between the Company s relative three-year total shareholder return (stock price appreciation plus reinvested dividends) and the award opportunity:

Performance Share Settlement

Every year, the Compensation Committee meets to settle and certify any issuance of shares upon the settlement of performance share awards. For performance shares granted in 2004 for the performance period ending December 31, 2006, the Compensation Committee held a special meeting on January 5, 2007 to review, certify, and settle the issuance of shares to executive officers under the Company s Long-Term Incentive Plan. During the performance cycle from January 1, 2004 to December 31, 2006, the Company s total market capitalization grew from a market cap of $875,993,443 on December 31, 2003 to a market cap of $1,330,053,307 on December 31, 2006, which placed the Company at the 68th percentile among the S&P 400 Utilities Index. Based on these results, the CEO and the COO, as well as all other NEOs, received 122% of the total number of performance shares covered by the 2004 awards.

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Restricted Stock

The Company introduced restricted stock in 2006 to provide an incentive focused solely on growth of our Company stock. For all officers other than the CEO, the vesting of restricted stock is time-based, and the shares vest in three equal annual increments, provided the executive remains employed by the Company. If the employment of an executive officer terminates, all unvested shares are forfeited.