AVISTA CORP
Form PRE 14A
February 23, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant ¨

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement	¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
¨ Definitive Proxy Statement	
¨ Definitive Additional Materials	
¨ Soliciting Material under §240.14a-12	

AVISTA CORPORATION

(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):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

(3) Per unit price or other underlying value of the 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 the transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Avista Corp. intends to commence mailing definitive copies of this proxy statement to security holders on March 31, 2011.

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Prompt execution of the enclosed proxy will save the expense of an additional mailing.

Your immediate attention is appreciated.

March 31, 2011

Dear Shareholder:

On behalf of the Board of Directors, it s my pleasure to invite you to the 2011 Annual Meeting of Shareholders. The doors open at 7:30 a.m. and the meeting will begin promptly at 8:15 a.m.

Date	Thursday, May 12, 2011	Place:	Avista Main Office Building
Time	7:30 a.m. Doors Open		Auditorium
	7:45 a.m. Refreshments		1411 E. Mission Avenue
	8:15 a.m. Annual Meeting Convenes		Spokane, Washington

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

Please take the opportunity to review the Proxy Statement and 2010 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 envelope provided. If you plan to vote by telephone or the Internet, voting instructions are printed on your proxy card and/or proxy notice. 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. You can also 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,

Scott L. Morris

Chairman of the Board,

President & Chief Executive Officer

Avista Corporation 1411 E. Mission Ave. Spokane, Washington 99202

Investor Relations (509) 495-4203

If you require special accommodations at the Annual Meeting due to a disability, please call our Investor Relations Department by April 15.

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AVISTA CORPORATION

1411 East Mission Avenue

Spokane, Washington 99202

NOTICE OF ANNUAL MEETING

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE

SHAREHOLDER MEETING TO BE HELD ON THURSDAY, MAY 12, 2011

This proxy statement and the 2010 Annual Report are available on the Internet at

http://proxyvote.com

Date:	Thursday, May 12, 2011
Time:	8:15 a.m., Pacific Time
Place:	Avista Main Office Building Auditorium
	1411 E. Mission Avenue, Spokane, Washington
Record Date:	March 11, 2011
Meeting Agenda:	1) Election of one director.
	2) Ratification of the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for 2011.
	3) Amendment of the Company s Restated Articles of Incorporation and Bylaws to provide for the annual election of the Board of Directors. The Board recommends a vote FOR this proposal.
	4) Advisory (non-binding) vote on executive compensation. The Board recommends a vote FOR this proposal.
	5) Advisory (non-binding) vote on the frequency of an advisory vote on executive compensation. The Board recommends a vote to conduct such future advisory votes every year.
	6) If presented, consideration of a shareholder proposal to request the Board to take the steps necessary so that each shareholder voting requirement in the Articles of Incorporation and Bylaws that calls for a greater than a simple majority vote be changed to a majority of votes cast for or against the proposal in compliance with applicable laws. The Board recommends a vote AGAINST this proposal.
	7) Transaction of other business that may come before the meeting or any adjournment(s).

All shareholders are cordially invited to attend the meeting in person. Shareholders who cannot be present at the meeting are urged to vote and submit their proxy by mail, telephone, or the Internet as promptly as possible. Please sign and date the proxy card and return it promptly or cast your vote via telephone or the Internet in accordance with the instructions on the proxy card and/or proxy notice.

By Order of the Board,

Karen S. Feltes

Senior Vice President & Corporate Secretary

Spokane, Washington

March 31, 2011

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AVISTA CORPORATION

1411 East Mission Avenue

Spokane, Washington 99202

PROXY STATEMENT

FOR THE ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 12, 2011

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 envelope provided. If you plan to vote by telephone or the Internet, voting instructions are printed on your proxy card and/or proxy notice. 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.

Please note that under the New York Stock Exchange (NYSE) rules, brokerage firms generally have the authority to vote shares when their customers do not provide voting instructions. However, with respect to certain specified matters, when the brokerage firm does not receive instructions from its customers, the brokerage firm cannot vote shares on those matters. This is called a broker non-vote. Matters on which brokers may not vote without instructions include the election of directors and matters relating to executive compensation. This means that brokers may not vote shares on Proposals 1, 4 and 5 if you have not given your broker instructions on how to vote. Please be sure to give specific voting instructions to your broker so that your vote can be counted.

At the close of business on the record date, March 11, 2011, there were shares of Company common stock outstanding and entitled to vote at the Annual Meeting. Shares represented at the meeting by properly 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

Holders of Company common stock, the Company s only class of securities with general voting rights, will be entitled to one vote per share. 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.

In the election of directors, a nominee will be elected if the number of votes cast for exceeds the number of votes against. Abstentions or broker non-votes will have no effect on the election of that director. 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. Shareholders may not cumulate votes in the election of directors. If an incumbent director does not receive a majority of votes cast with respect to his/her re-election in an uncontested election, he/she would continue to serve a term that would terminate on the date that is the earliest of (i) the date of the commencement of the term of a new director selected by the Board of Directors (Board) to fill the office held by such director, (ii) the effective date of the resignation of such director or (iii) the date of the 2012 Annual Meeting of Shareholders (or, if Proposal 3 is approved, December 31, 2011).

Proposal 2, the proposal for ratifying the appointment of the firm of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for 2011, will be approved if the number of votes duly cast in

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favor of this proposal exceeds the number of votes cast against the proposal. Abstentions from voting 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 3, the proposal for amending Article FIFTH of the Restated Articles of Incorporation to allow for the annual election of directors, will be approved upon the affirmative vote of the holders of 80% of the issued and outstanding shares of common stock. Abstentions from voting will have the same impact as negative votes. 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 4, the advisory (non-binding) vote on executive compensation, will be approved if the number of votes cast in favor of this proposal exceeds the number of votes cast against the proposal. Abstentions from voting and broker non-votes will have no impact on the outcome of Proposal 4. 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.

With respect to Proposal 5, relating to the frequency of the advisory (non-binding) vote on executive compensation, the frequency (every one, two or three years) receiving the greatest number of votes will be the frequency recommended by shareholders. Abstentions from voting and broker non-votes will have no impact on the outcome of Proposal 5. If no instructions are given on a proxy with respect to this proposal, the shares represented by that proxy will be voted for an annual advisory (non-binding) vote on executive compensation.

Proposal 6, the shareholder proposal requesting that the Board take the necessary action so that each shareholder voting requirement in the Articles of Incorporation and Bylaws that calls for a greater than a simple majority vote be changed to a majority of votes cast for or against the proposal in compliance with applicable laws, will be approved if the number of votes cast in favor of this proposal exceeds the number of votes cast against the proposal. Abstention from voting will have no impact on the outcome of this proposal. If no instructions are given on a proxy with respect to this proposal, the holders of the shares represented by that proxy will be voted against this proposal.

CORPORATE GOVERNANCE MATTERS

Corporate Governance Principles

The Board has long adhered to governance principles designed to assure the continued vitality of the Board in the execution of its duties. The Board has responsibility for management oversight and providing strategic guidance to the Company. The Board believes that it must continue to renew itself to ensure that its members understand the industries and the markets in which the Company operates. The Board also believes that it must remain well-informed about the positive and negative issues, problems and challenges facing the Company and markets so that the Board members can exercise their fiduciary responsibilities to the Company s shareholders.

Board Leadership Structure

For most of the Company s history, the Chief Executive Officer (CEO) has also served as Chairman of the Board (Chairman). The Board does not have a policy as to whether the role of CEO should be separate from that of Chairman, nor, if the roles are separate, whether the Chairman should be selected from the independent directors or should be an employee of the Company. The Board selects the Chairman in a manner that it determines to be in the best interests of the Company and its shareholders. This flexibility has allowed the Board to determine whether the role should be separated based on the individuals and the circumstances existing at that time.

During the past 60 years, the positions of CEO and Chairman have not been separated except for on one occasion during 2000-2001. The Board believes that the Company has been well served by this leadership structure. The

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separation of the Chairman and the CEO could introduce a complex new relationship into the center of the Company s corporate governance structure. Having a single leader for both the Company and the Board eliminates the potential for confusion or duplication of efforts and provides clear leadership for the Company, the Board and the markets. Having a single person serve as Chairman and CEO, at this time, provides unified and responsible leadership and is the right form of leadership for the Company and the Board.

The Board has examined the questions of the separation of the positions of the Chairman and the CEO and the independence of the Chairman. The Board concluded that it should not have a rigid policy as to these issues but, rather, should consider them, together with other relevant factors, to determine the right leadership structure. The Board believes that it needs to retain the ability to balance the independent Board structure with the flexibility to appoint as Chairman someone with hands-on knowledge of and experience in the operations of the Company. The Board periodically examines its governance practices, including the separation of the offices of Chairman and CEO.

The Company is led by Scott L. Morris, who has served as its Chairman, President and CEO since 2008. The Board is strengthened by the presence of Mr. Morris. Given the issues facing the Company and the possible technological, regulatory and legislative changes that may occur in the industry, the Board believes that Mr. Morris provides strategic, operational, and technical expertise and context for the matters considered by the Board.

The Board has also established the position of an independent Lead Director. John F. Kelly was re-elected by the independent directors in 2010 to serve as Lead Director for a three-year term. The Lead Director s duties include:

- maintaining an active, ongoing, positive and collaborative relationship with the Chairman and the CEO and keeping an open line of communication that provides for dissemination of information to the Board and discussion before actions are finalized;
- serving as primary liaison between independent directors and the Chairman and CEO;
- presiding at all meetings at which the Chairman is not present, including executive sessions of the independent directors held at each regularly scheduled Board meeting;
- calling meetings of the independent directors when necessary and appropriate; and
- collaborating with the Chairman regarding the meeting schedules and agendas for the Board meetings, including adding or changing the agenda and soliciting input from the other independent directors on items for the Board agendas, to ensure that appropriate agenda items are included and that there is adequate time for discussion of agenda items.

The Lead Director is available for communications and consultation with major shareholders. The Company has a mechanism for shareholders to communicate with the Lead Director, non-management directors as a group, or on an individual basis. (See Communications with Shareholders on page 7.)

The Board has been, and continues to be, a strong proponent of Board independence. As a result, the Company s corporate governance structures and practices provide for a strong, independent Board and include several independent oversight mechanisms. The Board believes this governance structure and these practices ensure that strong and independent directors will continue to effectively oversee the Company s management and key issues related to its long-range business plans, long-range strategic issues, risks and integrity. The Board is comprised of

Mr. Morris and eight independent directors. The Board has five standing independent Committees with separate independent Chairs Audit Committee, Compensation & Organization Committee (Compensation Committee), Corporate Governance/Nominating Committee (Governance Committee), Finance Committee and Energy, Environmental & Operations Committee (Environmental Committee) see Committee descriptions below. All members of these Board Committees are independent. In addition, all Board Committees may seek legal, financial or other expert advice from a source independent from management.

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Director Independence

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 election at the next Annual Meeting 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 (Categorical Standards).

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 the director nominated for election at the Annual Meeting and each of the continuing directors are independent of the Company and its management under the Categorical Standards, adopted by the Board, with the exception of Mr. Morris, who is considered an inside director because of his employment as President and CEO of the Company.

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 outlined in the applicable Securities and Exchange Commission (SEC) rules.

SEC rules require that the Company disclose any related party transaction in which the amount involved exceeds $120,000 in the last year. The Governance Committee has determined that the Company has no related party transactions that were reportable for 2010.

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 purchased products and services from companies at which some of our directors were officers or investors during 2010.

Mr. Anderson s company has an investment in a company that provides web design services. Prior to the time Mr. Anderson s company made its investment, the Company had entered into a contract with the web design company. There were no payments made to the web design company in 2010 and the amounts paid in prior years when Mr. Anderson s company held its investment were disclosed appropriately when the threshold amount in the Categorical Standards was exceeded.

Mr. Racicot is a Board member of The Washington Companies and one of its subsidiaries, Modern Machinery, sells and rents high quality heavy equipment and provides product support to the construction, mining, and forestry industries. The Company has contracted with Modern Machinery to provide machinery to the Company. The amount paid to that company in 2010 or in any of the prior three years did not exceed the threshold amount in the Categorical Standards.

Ms. Stanley is co-owner and Chair of the Board of a company that had for many years prior to the date Ms. Stanley became a director, sold hardware supplies to the Company in arm s length transactions. The amount paid to that company in 2010 or in any of the prior three years did not exceed the threshold amount in the Categorical Standards.

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Mr. Taylor is a Board member of a corporation, which owns and operates radio stations in Idaho, Washington and Oregon. In 2010, the Company s ad agency purchased radio advertisements on those stations. The amount paid to that company in 2010 or in any of the prior three years did not exceed the threshold amount in the Categorical Standards.

Board Meetings

The Board held six meetings in 2010. The attendance at all Board meetings and at all Board Committee meetings was 96.7%. 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 2011 Annual Meeting.

Meetings of Independent Directors

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

Duties of Chairman of the Board

The Chairman s duties include chairing all meetings of the Board in a manner that effectively utilizes the Board s time and which takes full advantage of the expertise and experience that each director has to offer; establishing an agenda for each Board meeting in collaboration with the Lead Director, with input from other directors and management; and providing input and support to the Chair of the Governance Committee on the selection of members and Chairs of the various Board Committees, on the establishment of the Governance Committee meeting agendas, on compensation philosophy for the Board, and candidates for Board membership. The Chairman is also accountable to, and provides leadership for, all issues of corporate governance that should come to the attention of the Chair of the Governance Committee and the full Board. He also ensures that the Board is provided with full information on the condition of the Company, its businesses, the risks facing the Company, and the environment in which it operates; and facilitates and encourages constructive and useful communication between the Board and management. The Chairman also recommends an agenda to the Board for its approval for each shareholder meeting; provides leadership to the Board in the establishment of positions that the Board should take on issues to come before the Annual Meeting; and presides at all shareholder meetings.

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. A written copy of our Committee Charters will be provided free of charge to any person 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 and the risks related to the Company s financial statements, the Company s compliance program dealing 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, 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). The Audit Committee oversees the Company s risk assessment and risk management processes and the business continuity process. Only independent directors sit on the Audit Committee. During 2010, the Audit Committee consisted of directors Eiguren, Noël, Stanley, and Blake Chair. The Board has determined that Mr. Noël is an Audit Committee Financial Expert, as defined in the SEC rules. Eight meetings were held in 2010. Mr. Eiguren submitted his resignation from the Board effective February 5, 2011.

Governance Committee Advises the Board on corporate governance matters and oversees the risks relating to such matters including recommending guidelines for the composition and size of the Board, evaluating Board effectiveness and organizational structure and setting director compensation (see the section on Director Compensation on page 49 for further information). 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 Qualifications and Process for Selecting Board Nominees below. Only independent directors sit on this Committee. The Governance Committee consists of directors Blake, Taylor and Kelly Chair. Five meetings were held in 2010.

Compensation Committee Is responsible for considering and approving, as well as overseeing the risks associated with, 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 the CEO and the executive officers.

For a discussion of the Company s processes and procedures for the consideration and determination of executive officer compensation (including the role of executive officers and compensation consultants in determining or recommending the amount or form of compensation) see Compensation Discussion and Analysis starting on page 19.

The 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 of 1986, as amended (the Code), and the non-employee director requirements of Rule 16b-3 under the Exchange Act.

The Compensation Committee consists of directors Kelly, Klein, Noël and Taylor Chair. Five meetings were held in 2010.

Finance Committee Strives to ensure that corporate management has in place strategies, budgets, forecasts, and financial plans and programs, including adequate liquidity, to enable the Company to meet its goals and objectives and oversees the associated risks. 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 goals, including monitoring commodity price and counterparty credit risk, as well as 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 Racicot, Stanley and Anderson Chair. Five meetings were held in 2010.

Environmental Committee Assists the Board in overseeing risks associated with the Company s legal and regulatory compliance in its operations including environmental compliance, energy resources, transmission and distribution operations, employee safety performance, and corporate security. Only independent directors sit on this Committee. During 2010, the Environmental Committee consisted of directors Anderson, Klein, Racicot and former director Roy L. Eiguren Chair. Mr. Eiguren submitted his resignation from the Board effective February 5, 2011. Four meetings were held in 2010.

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Executive Committee Has and may exercise, when the Board is not in session, all the powers of the Board that 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, Kelly, Taylor, and Morris Chair. No meetings were held in 2010.

Corporate Governance Guidelines

The Board has established Corporate Governance Guidelines which are reviewed annually.

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 officer) and the Board of Directors.

Information on Company Website

The Company s Corporate Governance Guidelines, the Code of Business Conduct and Ethics, Categorical Standards for Independence of Directors and the Related Party Transaction Policy are available on the Company s website at www.avistacorp.com. A written copy of any of these documents will be provided free of charge to any person upon request to the General Counsel s office at 1411 East Mission Avenue, P.O. Box 3727 (MSC-12), Spokane, Washington 99220.

Communications with Shareholders

The Company reached out to a number of major shareholders in 2010 to solicit information regarding issues of concern to the shareholders with respect to corporate governance and executive compensation. A number of those shareholders spoke with representatives of the Company or provided input in writing. The Company will continue to solicit shareholder input on issues of concern to them.

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 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.

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Board Risk Oversight

The Board has an active role in overseeing the risks affecting the Company. The Board s risk oversight process includes receiving reports from members of senior management on areas of material risk to the Company, including operational, financial, legal and regulatory, strategic and reputational risks. The Board s oversight is conducted primarily through the Committees of the Board as set out above in the descriptions of each Committee and as set out in their Charters, but the full Board retains responsibility for general oversight of risks. Management is responsible for the day-to-day management of risks, and the appropriate officer within the organization reports on risk to the appropriate Board Committee or to the full Board. For example, quarterly, the Director of Risk Management reports on the Company s risk analysis and risk management processes to the Audit Committee and, annually, the CFO reports to the entire Board on the Company s enterprise risk program and processes. When a Committee receives a report from management, the Chair of that Committee advises the full Board at its next meeting. This enables the Board and its Committees to coordinate risk oversight, particularly with respect to the interrelationships among various risks.

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PROPOSAL 1 ELECTION OF DIRECTORS

Director Qualifications and Process for Selecting Board Nominees

The Board has delegated to the Governance Committee the responsibility for reviewing and recommending to the Board nominees for director. The Governance Committee annually reviews with the Board the composition of the Board as a whole and recommends, if necessary, steps to be taken so that the Board reflects the appropriate balance of knowledge, experience, skills, expertise and diversity, all in the context of an assessment of the needs of the Board and the Company at the time. Board members should possess such qualifications, skills, attributes and experience as are necessary to provide a broad range of personal characteristics, including diversity, leadership and management skills, business experience and industry knowledge. Directors should be able to commit the requisite time for preparation and attendance at regularly scheduled Board and Committee meetings, as well as be able to participate in other matters necessary to ensure good corporate governance is practiced.

In evaluating a director candidate, the Committee considers factors that are in the best interests of the Company and its shareholders, including the knowledge, experience, integrity and judgment of each candidate; the potential contribution of each candidate to the diversity of backgrounds, experience and competencies that the Board desires to have represented; each candidate s ability to devote sufficient time and effort to his or her duties as a director; independence and willingness to consider all strategic proposals; and any other criteria established by the Board, as well as any core competencies or technical expertise necessary to staff Board Committees. The Governance Committee deems it appropriate for at least one member of the Board to qualify as an Audit Committee Financial Expert as defined by SEC rules.

The Board does not have a diversity policy, but does include diversity as one of the criteria it considers when evaluating any candidate for the Board. The Board takes into account diversity of experience, skills and background, as well as diversity in race, gender, and culture when considering individual candidates.

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 qualifications, skills, abilities 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.

The Governance Committee will consider written recommendations for candidates for 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.

The Governance Committee will consider any candidate recommended 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;

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the qualifications, knowledge, skills, abilities 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.

Shareholders may only nominate directors for election at meetings of shareholders in accordance with the procedures set forth in the Company s Bylaws. The Chair of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the Bylaws.

General

One director is to be elected to hold office for a term specified, and/or until his successor is elected and qualified. The Company s Restated Articles of Incorporation provide for up to 11 directors divided into three 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 11. The Board has currently fixed the number at nine, reflecting the resignation in October 2010 of Brian W. Dunham and the recent resignation of Roy L. Eiguren. Effective February 5, 2011, Mr. Eiguren, whose term would have expired in May 2011, informed the Board that he was submitting his resignation due to other business commitments and would not be standing for re-election at the Annual Meeting of Shareholders.

Upon recommendation from the Governance Committee, the Board has nominated Marc F. Racicot to be re-elected as a director for a three-year term to expire at the Annual Meeting of Shareholders in 2014; provided, however, that if Proposal 3 is approved, Mr. Racicot s term will be for one year. The nominee has consented to serve as a director, and the Board has no reason to believe that the nominee will be unable to serve. If the nominee should become unavailable, your shares will be voted for a Board-approved substitute. Mr. Racicot brings a strong and unique background and set of skills and experience to the Board, giving the Board as a whole competence and experience in a wide variety of areas, including corporate governance and public company board service, executive management, mergers and acquisitions, legal, government, and energy/utility industry experience. The Board concluded that the nominee is independent and should serve as a director of the Company in light of the Company s business and structure.

Nominees and Continuing Directors

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

*** Indicates Nominee(s) for Election**

ERIK J. ANDERSON **Director since 2000 (Current term expires in 2013)**

Mr. Anderson, age 52, 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 Co-Chair of GEI, a leisure

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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 is the founder of America s Foundation for Chess. He holds master s and bachelor s degrees in Industrial Engineering from Stanford University and a bachelor s degree (Cum Laude) in Management Engineering from Claremont McKenna College. Mr. Anderson also serves on the board of Advantage IQ, Inc.

Leadership Experience	President and CEO experience with investment, private equity and technology firms.
Finance Experience	Extensive experience with finance matters including mergers and acquisitions, securities and debt offerings and risk analysis.

KRISTIANNE BLAKE **Director since 2000 (Current term expires in 2013)**

Ms. Blake, age 57, has been President of the accounting firm of Kristianne Gates Blake, P.S., since 1987. She has served for 14 years on various boards of public companies and registered investment companies including service as a board chair, Audit Committee chair and Governance Committee member. Ms. Blake is currently serving as board chair for the Russell Investment Company and the Russell Investment Funds. She also serves on the boards of the Principal Funds, Inc., the Principal Variable Contracts Funds, Inc., and Laird Norton Wealth Management. Ms. Blake currently serves as a Regent at the University of Washington. In addition, Ms. Blake serves on the board of Advantage IQ, Inc. and is the chair of the Advantage IQ Audit Committee.

Leadership Experience	Ms. Blake has outside board experience as a director of public companies and registered investment companies as well as non-profit and university boards and has served on numerous board committees including serving as chair.
Financial Experience	Ms. Blake has an extensive background in public accounting. She was a Certified Public Accountant for 32 years and she worked for 12 years for an international accounting firm.
Community Development	She has extensive involvement in the Spokane community, having served on many non-profit and economic development boards.

JOHN F. KELLY **Director since 1997 (Current term expires in 2012)**

Mr. Kelly, age 66, is currently the President & Chief Executive Officer of John F. Kelly & Associates, a consulting company he founded in 2004, that is located in Coral Gables, Florida. 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 has a BA in Business from the University of Puget Sound, has over 40 years business experience and has been a board member and chair of numerous boards and committees (both profit and non-profit organizations). Mr. Kelly is a former board member of the Dream Foundation. He also serves on the board of Advantage IQ, Inc.

Leadership Experience	Mr. Kelly has over 35 years of business experience in the airline industry, serving in numerous management capacities, including roles as Chairman, CEO and President. He also brings experience in marketing, sales, corporate governance, compensation, mergers and acquisitions, consulting, and human resources. He currently is President and CEO of a consulting firm.

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Business and Association	He has been very involved in the Seattle, Washington business and cultural communities including chairing the Washington Roundtable and other nonprofit Boards.
Board Leadership	His experience and business skills, as well as his open communication style have aided the Board both as a Board and Committee member and in his role as the Lead Director for the past four years.

REBECCA A. KLEIN **Director since 2010 (Current term expires in 2013)**

Ms. Klein, age 45, is Principal of Klein Energy, LLC, a regulatory and government affairs consulting company. She also serves as Of Counsel to the law firm Tuggey Rosenthal Pauerstein Sandoloski & Agather LLP. Over the last twenty years she has worked in Washington, DC and in Texas in the energy, telecommunications and national security arenas. Ms. Klein s professional experience also includes service with KPMG Consulting (now Bearing Point). She headed the development of the company s Office of Government Affairs and Industry Relations in Washington, DC. She also served as a Senior Fellow with Georgetown University s McDonough School of Business. Since January 2008, she has served as chair of the board of the Lower Colorado River Authority, a public power utility owning generation, transmission, and water services across the central Texas area. In addition, she is chair of Power Across Texas, a non-profit that focuses on advancing information about clean, affordable and reliable energy in the state. Ms. Klein earned a Juris Doctor from St. Mary s University School of Law in San Antonio, Texas. She also holds a Master of Arts in National Security Studies from Georgetown University and a Bachelor of Arts in Human Biology from Stanford University. She is a member of the State Bar of Texas.

Legal and Regulatory Experience	Ms. Klein has a unique blend of legal and regulatory experience. She has served as a commissioner with the Texas Public Utilities Commission and subsequently as its chair. Her areas of legal expertise include energy and telecommunications.
Leadership Experience	Ms. Klein brings extensive management, human resource, organizational development, and national security experience to the Board.
Government Experience	She has experience in the military and national public policy arenas. She also has lobbying experience at both the state and federal level.
Board Experience	She serves as Chair of the Board of Directors of an energy and water services public utility.

SCOTT L. MORRIS **Director since 2007 (Current term expires in 2012)**

Mr. Morris, age 53, has been Chairman of the Board, President and Chief Executive Officer of the Company since January 2008. From May 2006 to December 2007, he served as the Company s President and Chief Operating Officer. Mr. Morris also serves as Chairman of the Board of the Company s subsidiaries, including Advantage IQ. Mr. Morris has been with the Company 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. He 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 serves on the Boards of the Washington Roundtable, Greater Spokane Incorporated, ReliOn, Inc., Gonzaga University, the Western Energy Institute, Edison Electric Institute and American Gas Association, and the Federal Reserve Bank. He has served on a number of Spokane non-profit and economic development Boards.

Industry and Leadership Experience	Mr. Morris has extensive utility experience having spent his entire career in the industry. He brings to the Board a deep knowledge and understanding of the Company and its subsidiaries, having served in a number of management capacities throughout the Company, including President of Utility Operations, managing the Company s Oregon and California gas operations, customer service, and construction areas and CEO of the Company s subsidiary, Advantage IQ. He is the only officer of the Company to sit on the Board and the Advantage IQ board.
Business and Policy Experience	He has experience leading a number of economic development and business association boards. He also serves on the board of the Federal Reserve Bank.

MICHAEL L. NOËL **Director since 2004 (Current term expires in 2013)**

Mr. Noël, age 69, is President of Noël Consulting Company, Inc., a financial consulting firm he founded in 1998, located in Prescott, Arizona, that specializes in advising public utility commissions on corporate bond offerings. 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. Mr. Noël serves on the board of SCAN Health Plan, where he is Chair of the Audit Committee and a member of the Corporate Governance Committee. He also serves as a board member and Chair of the Governance Committee for the HighMark family of mutual funds. Mr. Noël is a member of the National Association of Corporate Directors and a named Audit Committee Financial Expert under the Sarbanes-Oxley Act. Mr. Noël earned his master s degree in business management from the University of Southern California, graduating first in his class and Summa Cum Laude. He graduated with a Bachelor s degree in finance, Cum Laude, from California State University, Long Beach.

Governance Experience	Mr. Noël has governance experience on private and public company boards having served as Board Chair, Compensation Committee Chair and Audit Committee Chair.
Industry and Regulatory Experience	Mr. Noel brings a unique management and financial perspective to the Board having served as a CFO for a large investor-owned utility. He currently serves as an advisor to public utility commissions on financing matters.
Financial Experience	He has spent most of his career in the financial arena and has served as a CFO of a large utility company where he dealt with many of the same financial and regulatory issues that face our Company.

MARC F. RACICOT* **Director since 2009 (For a term expiring in 2014)**

Mr. Racicot, age 62, served as President and Chief Executive Officer of the American Insurance Association from August, 2005 to February, 2009. Prior to that, he was a partner at the law firm of Bracewell & Giuliani, LLP from 2001 to 2005. He is a former governor (1993 to 2001) and attorney general (1989 to 1993) of the state of Montana. Mr. Racicot was nominated by President Bush and unanimously elected to serve as the chairman of the Republican National Committee from 2002 to 2003 prior to assuming the position of chairman of the Bush/Cheney Re-election Committee from 2003 to 2004. He previously served as a director for Siebel Systems, Allied Capital Corporation and Burlington Northern Santa Fe Corporation and presently serves as a director for Plum Creek Timber Company, Massachusetts Mutual Life Insurance Company, and The Washington Companies. In addition, throughout his career, Mr. Racicot has strongly committed himself to children, education and community issues. He was appointed to the board of The Corporation for National and Community Service by President Clinton and has also served on the boards of Carroll College, Jobs for America s Graduates and United Way in Helena, Montana. Mr. Racicot is also a past chairman of America s Promise, where his predecessor was Secretary of State Colin Powell.

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Government and Policy Experience	Mr. Racicot has served in a number of elected offices in the state of Montana including that of Governor. He has also had a number of political appointments on both the state and federal level where he was involved in policy development.
Legal and Regulatory Experience	He brings extensive legal and regulatory experience from his military and prosecutorial service, as well as from private legal practice and his elected office as Attorney General of Montana. During his tenure as Governor of Montana, as well as during his time in private practice, he was extensively involved in natural resource, environmental, permitting and energy issues affecting Montana and the nation.
Governance	Mr. Racicot has served on a number of public company boards and chaired a number of board committees.

HEIDI B. STANLEY **Director since 2006 (Current term expires in 2012)**

Ms. Stanley, age 54, is co-owner and Chair of Empire Bolt & Screw, Inc., a privately-held international distribution company headquartered in Spokane, Washington. Prior to this, Ms. Stanley had 24 years of experience in the banking industry. She served as Chairman of Sterling Savings Bank from January 2009 to October 2009 and Chief Executive Officer from January 2008 to October 2009. From January 2008 to December 2008, she served as Director, Vice Chair, President & Chief Executive Officer. From October 2003 to December 2007, she served as Director, Vice Chair and Chief Operating Officer. Prior to this, she held a variety of leadership positions with increasingly higher levels of managerial responsibility. Ms. Stanley also served as Director of Sterling s Subsidiary Company INTERVEST Mortgage Investment Company. In 2006 and 2007, 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 founding chair of Greater Spokane Incorporated, former Chair of the Association of Washington Business (AWB), and former chair of the Spokane Area YMCA. Ms. Stanley currently serves on the Eastern Washington Advisory Board of the Washington Policy Center, AWB Board and co-chairs the Governance Committee of the Spokane Symphony. Ms. Stanley graduated from Washington State University with a Bachelor of Arts degree in Business Administration.

Financial and Banking Leadership Experience	The foundation established from her early years at IBM Corporation, combined with her rise to CEO over a lengthy banking career and exposure as co-owner of a privately-held company, have given Ms. Stanley a diverse business perspective. Specifically, her 24 years of experience in banking management included positions as a Chief Administrative Officer, Chief Operating Officer and CEO of a multi-state banking operation. She has experience in operations, risk analysis, policy development, mergers and acquisitions and in the capital markets.
Business Associations	She has served on many industry and business boards and chaired the American Bankers Association Capital Markets Group and the Association of Washington Business.
Community Development	Ms. Stanley has been active in the Spokane area and recently chaired Greater Spokane Incorporated, a regional chamber/economic development organization for Spokane, Washington.

R. JOHN TAYLOR **Director since 1985 (Current term expires in 2012)**

Mr. Taylor, age 61, has been the Chairman and Chief Executive Officer of CropUSA Insurance Agency, Inc. since 1999. He has also served as Chairman and Chief Executive Officer of AIA Services Corporation since 1995. Both companies are insurance agencies with operations throughout the United States that place various

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forms of health, life, crop, and multi-peril insurance to agricultural producers. Mr. Taylor holds similar positions with affiliated companies and subsidiaries of CropUSA and AIA Services. 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. Mr. Taylor is a member of the Board and Chair of the audit committee of the State of Idaho Endowment Fund Investment Board (EFIB). The EFIB manages investments of the proceeds generated by timber sales and other revenue of the endowment lands within the State of Idaho. The EFIB also manages the financial assets of the State Insurance Fund, the Judge s Retirement Fund, the Ritter Island Endowment Fund, and the Trail of the Coeur d Alene s Endowment Fund. The Investment Board also manages a Credit Enhancement Program for public school bonds. Board members of the EFIB are appointed by the Governor of the State of Idaho. Mr. Taylor is an attorney and has been a member of the Idaho State Bar since 1976.

Leadership Experience	Mr. Taylor has extensive experience as a CEO, President and COO of many national corporations.
Community Development Experience	Mr. Taylor has been an active member of the Lewiston, Idaho community serving in a number of capacities for community organizations. He is a former member of the Lewiston City Council and has served as a director or board member of several civic, political, and non-profit entities. He is currently a member of the Board of the Idaho Heritage Trust, a statewide organization dedicated to the preservation of historical properties and sites. The work is funded from the investment earnings of royalty fees paid upon the purchase of Idaho automobile license plates.
Political Experience	He has been elected to several positions in the Idaho Republican Party including State Treasurer.
Governance and Legal Experience	Mr. Taylor brings to the Board valuable governance experience on other boards as Board and Audit Committee Chairs as well as his legal experience from his private practice.

The Board recommends a vote FOR the nominee for director.

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, ethical standards and the independent auditor s qualifications and independence.

The Audit Committee is composed of directors who the Board has determined to be independent, as required by the rules of the NYSE. In 2010, the Audit Committee met eight (8) times.

Prior to their inclusion in the Quarterly Reports on Form 10-Q filed with the SEC, 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 2010 and discussed them with management and Deloitte & Touche LLP (Deloitte), the Company s independent registered public accounting firm. The Audit Committee reviewed with the CEO and CFO their certifications as to the accuracy of the financial statements and the establishment and maintenance of internal controls and procedures. It also reviewed with management all earnings press releases relating to 2010 annual and quarterly earnings prior to their issuance.

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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 year ended December 31, 2010, with management, which has primary responsibility for the financial statements, and with Deloitte, which is responsible as the Company s independent registered public accounting firm for the audit 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 year ended December 31, 2010, for filing with the SEC. The Board approved the recommendation.

The Audit Committee also reviewed Management s Report on Internal Control Over Financial Reporting and the Auditor 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 promulgated by the Public Company Accounting Oversight Board (PCAOB) and by the SEC and, with and without management present, discussed and reviewed the results of the independent auditor s audit of the financial statements. The Audit Committee also discussed the results of the internal audit examinations, received and reviewed quarterly risk management reports, and received and reviewed annual compliance, technology and business continuity reports.

Deloitte provided the Audit Committee with the written communications required by the PCAOB Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence.* 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 services and fees. The Audit Committee also recommended to the Board, after reviewing the performance of Deloitte, its reappointment in 2011 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 performed the mandated tasks included in its Charter. 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 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

EXECUTIVE COMPENSATION OVERVIEW

This section contains information regarding our compensation programs and policies and, in particular, their application to a specific group of individuals that we refer to as our Named Executive Officers (NEOs). Under applicable SEC rules, our NEOs for this Proxy Statement consist of our CEO, our CFO and the three other executive officers who received the highest compensation for 2010. This section is organized as follows:

Compensation Committee Consultant Disclosure contains information regarding the fees and role of the Company s Compensation Consultant.

Chief Executive Officer Succession Plan contains information regarding the succession plan that is in place for our CEO.

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Compensation Discussion and Analysis (CD&A) contains a description of the specific types of compensation we pay, a discussion of our compensation policies, information regarding how those policies were applied to the compensation of our NEOs for 2010 and other information that we believe may be useful to investors regarding compensation of our NEOs and other employees.

Executive Compensation Summary and Key 2010 Highlights provides an executive summary of the major elements of our compensation programs and key changes that were made in 2010.

2010 Report of the Compensation Committee contains a report of the Compensation Committee of the Board regarding the CD&A section described above.

Compensation Committee Interlocks and Insider Participation contains information regarding certain types of relationships, if any, involving our Compensation Committee members.

Executive Compensation Tables provides information, in tabular formats specified in applicable SEC rules, regarding the amounts or value of various types of compensation paid to our NEOs and related information.

Employment Agreements with Named Executive Officers contains summaries of the employment agreements between our Named Executive Officers and Avista.

Potential Payments and Other Benefits Upon Termination or Change of Control provides information regarding amounts that could become payable to our NEOs following specified events.

The parts of this Executive Compensation section described above are intended to be read together and each provides information not included in the others. In addition, for background information regarding the Compensation Committee of our Board of Directors and its responsibilities, please see Committees of the Board of Directors Compensation Committee on page 6.

COMPENSATION COMMITTEE CONSULTANT DISCLOSURE

Fees and Role of the Compensation Consultant

The Compensation Committee has engaged Towers Watson to serve as its outside, independent compensation consultant to assist the Compensation Committee, as requested, to fulfill various aspects of its charter. Specifically, at the request and direction of the Compensation Committee, Towers Watson assists with the following:

Benchmarking pay practices among the peer group, described in another section, and providing a broader market perspective;

Assessing the design of individual pay elements and the total pay program relative to the Company s objectives, market practices and other factors;

Assisting the Compensation Committee in reviewing compensation recommendations prepared by management; and

Providing the Compensation Committee with an outside perspective and, as appropriate, specific recommendations on program design.

Towers Watson presents information on current market practices and, as appropriate, provides recommendations for consideration by the Compensation Committee. As provided by its Charter, the Compensation Committee makes all final pay decisions for officers.

Towers Watson also assists the Governance Committee with respect to nonemployee director compensation. Pursuant to the Company s written policy governing the other services that the consultant can perform for the

Company, the Compensation Committee may authorize Towers Watson to provide services for the Company provided the Compensation Committee determines the work would not compromise the consultant s independence with respect to compensation recommendations to the Compensation Committee.

The Compensation Committee Chair must approve in advance any proposed services to be provided by Towers Watson for the Company.

The Compensation Committee also has the sole authority to retain and terminate the executive compensation consultant.

Towers Watson Fees for 2010

Towers Watson received $132,778 in 2010 for executive compensation consulting services and $167,006 for actuarial consulting services that were unrelated to executive or nonemployee director compensation. The Compensation Committee has assessed the current process that is place at the Committee level, as well as Towers Watson s internal processes and policies, and based on these structures the Compensation Committee does not believe that Towers Watson s role in providing these services to the Company compromises Towers Watson s ability to provide the Compensation Committee with an objective and independent perspective.

Processes to Assure Independence

Because the Compensation Committee believes that its executive compensation consultant should be able to render advice to the Committee free of management s influence, the Compensation Committee has processes in place to assure independence. The consultant reports directly to the Compensation Committee on all executive compensation matters; regularly meets separately with the Compensation Committee outside the presence of management; and speaks separately with the Compensation Committee chair and other Compensation Committee members between meetings, as necessary or as requested by the Compensation Committee.

Interactions between the Towers Watson consultants and management are limited to those that Towers Watson needs in order to provide the Compensation Committee with relevant information and appropriate recommendations. The process also prevents management use of Towers Watson for non-executive compensation-related services without the Compensation Committee s advance knowledge and approval. The Compensation Committee has directed the Towers Watson consultants who work directly with the Compensation Committee to interact with management, only as needed, on behalf of the Compensation Committee.

In addition, Towers Watson separates the executive compensation consulting services provided to the Compensation Committee from services it provides to Company management related to actuarial consulting services. The Towers Watson executive compensation professionals working on executive compensation do not work on other consulting assignments for the Company. Towers Watson confirmed to the Compensation Committee that it has policies and processes in place to preserve its independence when providing executive compensation consulting services to the Compensation Committee and providing other services to the Company. These include the following:

the individual providing executive compensation consulting services to the Compensation Committee is not personally involved in doing work in any of the other areas in which Towers Watson provides services to the Company;

the individual providing executive compensation consulting services to the Compensation Committee does not share information about the specific work done on behalf of the Compensation Committee with other Towers Watson staff providing assistance to the Company on other engagements; and

the individual providing consulting services to the Compensation Committee is not directly compensated for increasing the total revenues that Towers Watson generates from the Company or expanding the range of services that Towers Watson provides to the Company.

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Working with the Consultant

The Compensation Committee determines the work to be performed by the consultant. The consultant works with management to gather data required in preparing the consultant s analyses for Compensation Committee review.

Specifically, the consultant provides the Compensation Committee with market trend information, data, and recommendations to enable the Compensation Committee to make informed decisions and to stay abreast of changing market practices. In addition, the consultant provides analysis on the alignment of pay and performance and assists in the process of preparing disclosure such as the CD&A.

While it is necessary for the consultant to interact with management to gather information and obtain recommendations, the Compensation Committee Chair governs if and when the consultant s advice and recommendations can be shared with management. Ultimately, the consultant provides recommendations and advice to the Compensation Committee in an executive session without Company management present, which is when critical pay decisions are made. This approach ensures the Compensation Committee receives objective advice from the consultant so that it may make independent decisions about executive pay.

CEO SUCCESSION PLAN

Succession plans for the Company s CEO and other officers are an important part of the Company s long-term success, and the Company has in place a succession-planning process that reflects the Company s long-term business strategy. The Compensation Committee conducts quarterly reviews of the succession plans for the CEO and other executives of the Company. The CEO and the Compensation Committee review those succession plans annually with the full Board. The succession plans reflect the Board s belief that the Company should regularly identify internal candidates for the CEO and other executive positions and that it should develop those candidates for consideration when a transition is planned or necessary. Accordingly, management has identified internal candidates in various phases of development and has implemented development plans to assure the candidates readiness. Those development plans identify the candidates strengths and weaknesses and the Compensation Committee receives periodic updates and regularly reviews the candidates progress. In addition to internal development pools, to assure selection of the best candidate(s), the Company would recruit externally if that approach would better suit the company s strategic needs. The Compensation Committee believes that our succession planning process provides a good structure to assure that the Company will have qualified successors for its executive officers.

COMPENSATION DISCUSSION AND ANALYSIS (CD&A)

Executive Compensation Summary and Key 2010 Highlights

The compensation programs are intended to align the NEOs interests with those of the shareholders by rewarding performance that meets or exceeds the goals the Compensation Committee establishes with the objective of increasing shareholder value. In accordance with the pay for performance philosophy, the total compensation received by the NEOs reflects corporate and operational performance measured against annual and long-term performance goals. The NEOs total compensation is comprised of a mix of base salary, annual incentive compensation and long-term incentive awards.

The Compensation Committee is responsible for establishing, implementing, and continually monitoring adherence with the compensation philosophy. The Compensation Committee carefully reviews and considers all aspects of the executive compensation programs for fairness, appropriateness, and reasonableness, taking into consideration the Company s economics and relevant practices of comparable companies.

The Compensation Committee believes that the executive compensation programs are structured in the best manner possible to meet the Company s business objectives, as well as to support its culture and traditions that have existed for over 121 years. The executive compensation programs have played a material role in focusing

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our executive team on achieving solid financial results, maintaining system reliability, and delivering outstanding customer service. The compensation structure also serves as a tool to help motivate, retain, and attract a highly experienced, successful executive team to manage our company.

The Committee regularly evaluates and calibrates the compensation programs for senior executives to confirm that pay programs relate to the specific strategies and performance drivers of the Company. The Compensation Committee receives regular updates through their advisors, various publications regarding best practices, and benchmark data that help to inform the Compensation Committee when making compensation decisions. In 2010, the Compensation Committee reviewed the Company s executive pay practices with the full Board. The Compensation Committee asked its independent executive compensation consultant to lead the Board in a discussion and review of current executive pay practices in an independent executive session.

The Committee closely monitors the compensation programs and pay levels of executives from companies of similar size and complexity, so that we may ensure that our compensation programs are within the range of market practices. The Compensation Committee continually evaluates the various elements of compensation that encourage the right behaviors and that hold management accountable for results. Below, we summarize our 2010 results, the effect those results had on the compensation of our NEOs and certain other changes the Committee implemented in 2010.

2010 Summary and Key Highlights

Executive compensation programs have both short and long-term components. In addition to base pay, the Company provides an incentive structure comprised of an annual cash incentive program, restricted stock unit grants that vest over three years, and performance share awards that are tied to the Company s total shareholder return over a three-year period relative to a peer group.

The Company s 2010 financial results reflected modest growth compared to 2009 despite an unusually warm winter and an ongoing challenging economy. Slower load growth and lower weather-related usage were offset by lower power supply costs, the management of the Company s operating expenses, and the implementation of rate increases. The table below summarizes our 2010 financial results. Please also refer to Management s Discussion and Analysis of Financial Conditions and Results of Operations in the Company s Form 10-K for a more detailed description of the 2010 financial results.

	2010	**2009**	**Percentage of Change**
Net Income	$ 230,188	$ 200,658	14.7%
Earnings per Diluted Share	$ 1.65	$ 1.58	4.4%
Annual Total Shareholder Return	8.7%	16.7%	N/A
Three Year Total Shareholder Return	16.4%	-9.6%	N/A

Certain components of executive compensation are linked to the Company s financial performance, and the Company s 2010 financial results determined the compensation plan outcomes for 2010.

Earnings per share, for both the regulated and unregulated business operations, represented 60% of the potential short-term incentive award for the 2010 executive officer plan. In addition, the utility operating costs per customer represented another 30% of the potential short-term incentive award.

Based on its review of the Company s 2010 performance, the Compensation Committee determined that the Company satisfied, at various levels, all five 2010 short-term incentive metrics. The Compensation Committee determined that the Company exceeded target performance for Utility EPS and O&M cost per customer. The Company also met target performance for Non-Utility EPS. The Company met both customer satisfaction and reliability. As a result, the Compensation Committee authorized payment of bonuses of 99% of base salary for the CEO, and 66% of base salary for all other NEOs.

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For performance awards granted in 2008 for the performance period ending December 31, 2010, the Compensation Committee held a special meeting on January 11, 2011 to review and certify the level of achievement of the performance targets, and settle the awards by the issuance of shares to executive officers. The Company s total shareholder return was 16.4% during the performance cycle, which placed the Company at the 64^{th} percentile among the S&P 400 Utilities Index. Based on these results, the CEO and the other NEOs, received a total payout based on a number of units that was 115% of the target number of units established at the time the award was granted.

In 2010, the annual incentive plan was modified by creating one reliability metric called Reliability Index. In an effort to balance reliability between frequency, duration and percentage of customers with three or more outages, three indices used in the past were combined into one index, which combines Customer Average Interruption Duration Index (CAIDI), System Average Interruption Frequency Index (SAIFI) and Customer Experiencing Multiple Interruptions ($CEMI^3$). $CEMI^3$ is a new metric to the utility industry and measures the percentage of customers that experience more than three sustained outages during the year.

Using a ten-year cost of debt, the Compensation Committee established a 6.05% ROE hurdle for the CEO s restricted shares for 2010. Dividend equivalents are paid in cash based on the total number of units earned each year provided the performance goal is met. If the Company does not achieve the minimum ROE performance target, no shares or dividend equivalents are earned. For 2010, the ROE hurdle was met; therefore, the CEO received 1/3 of his restricted stock units and also received the cash dividend equivalents, which would have been forfeited if the hurdle had not been achieved.

In February 2010, the Board adopted a formal recoupment policy applicable to officer incentive compensation awards. The policy authorizes the Board to recover officer incentive payouts if those payouts are based on performance results that are subsequently revised or restated to levels that would have produced lower incentive plan payouts. The recoupment policy is intended to reduce potential risks associated with our incentive plans, and thus better align the long-term interests of our NEOs and shareholders.

In February 2010, the Board adopted Officer Stock Ownership Guidelines to strengthen the alignment of the financial interests of executives with those of shareholders and provide an additional basis for sharing in the Company s success or failure as measured by overall shareholder returns. The policy requires officers to own a percentage of shares based on their position and salary and achieve set ownership levels based on a multiple of salary. The policy requires officers to achieve the required ownership level within five years from inception of the program, or from the officer s employment date or the officer s promotion date.

The total compensation program does not provide for guaranteed bonuses and has multiple performance measures. Annual cash incentive components focus on both the actual results and the sustainability and quality of those results. The annual incentive plans for employees and executives contain both economic and qualitative components. Several components of the annual incentive plans are focused on achieving earnings targets and cost efficiencies. The plans also focus on maintaining reliability and customer satisfaction levels.

Because the Compensation Committee believes the total compensation program provided to executive officers is fair and market competitive, the Company does not provide any additional benefits in the form of perquisites to the CEO or any other officer.

In November 2010, the no-hedging policy in the Company s insider trading policy was clarified to state that all directors, named executive officers, and other officers are prohibited from hedging the economic interest in the Avista shares they hold.

The Compensation Committee believes it is important to provide protection to senior management in the event of a Change of Control. There are no Change of Control agreements that exceed three times base salary and bonus. The Change of Control agreements all have double triggers that provide for a

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severance payment only upon the occurrence of both a Change of Control and an adverse impact on the NEO s employment such as a significant diminution in role or responsibilities.

In November 2010, the Board redefined annual bonus for all new Change of Control Agreements by changing the highest annual bonus to target bonus. This change will align the definition of annual bonus to the market practice based on a review provided by Towers Watson and will be effective for all new Change of Control Agreements entered into on or after November 11, 2010.

In November 2009, the Board eliminated the excise tax gross-up benefit for all new Change of Control Agreements entered into on or after November 13, 2009.

The Company has only two executive employment agreements in place, and they do not contain guarantees for salary increases, non-performance-based bonuses or equity compensation. The Compensation Committee eliminated the use of additional Supplemental Executive Retirement Plan (SERP) service credit as a recruitment tool for all new executive hires. Although this type of pay practice was used in the past as a negotiated recruitment tool, the Committee recognizes that there have been market changes in supplemental pension plan design and changes in compensation governance views on the use of supplemental pensions over the past few years.

The Compensation Committee formalized the process to ensure the independence of the executive compensation consultant and other advisors in 2009 and reviewed and affirmed the independence of advisors again in 2010.

The Compensation Committee, the Chairman and CEO, and the Senior Vice President of Human Resources engage in a talent review process annually to address succession and executive development for the CEO and other key executives positions. The results of the talent review are presented to the Board.

All of these changes are discussed in more detail below.

Compensation Philosophy and Objectives

The Compensation Committee s goal has been to design a compensation program that focuses the executives on the achievement of the Company s specific annual, long-term, and strategic goals that align executives interests with those of shareholders by rewarding performance that maintains and improves shareholder value. The compensation plans allow executives to receive cash bonuses or shares of common stock when specific measurable goals of each plan are achieved. In allocating compensation among these components, the Compensation Committee believes that the compensation of our senior-most levels of management should be weighted toward performance-based compensation, placing a greater portion of their compensation at risk based on achieving specific goals related to specific items of corporate performance that are likely to produce long-term shareholder and customer value.

The Compensation Committee makes all compensation decisions regard