AVISTA CORP
Form PRE 14A
March 07, 2013
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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 x 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 transaction applies:

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

(3) 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:

(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:

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# Notice of May 9, 2013

# Annual Meeting and

# 2013 Proxy Statement

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## Important Voting Information

Under the New York Stock Exchange (the NYSE ) rules, brokerage firms generally have the authority to vote their customers 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, matters relating to executive compensation and matters relating to certain corporate governance issues. For Avista Corporation, this means that brokers may not vote shares on Proposals 1, 3, and 4 if you have not given your broker instructions on how to vote. Broker non-votes are not counted. Please be sure to give specific voting instructions to your broker so that your broker can vote your shares.

## Your Participation in Voting the Shares You Own is Important

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 through 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 through 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.

## More Information is available

If you have any questions about the proxy voting process, please contact the broker, bank or other financial institution where you hold your shares. The Securities and Exchange Commission (the SEC ) also has a website (www.sec.gov/spotlight/proxymatters.shtml) with more information about your rights as a shareholder. Additionally, you may contact our Investor Relations Department at (509) 495-4203.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE**

**SHAREHOLDER MEETING TO BE HELD ON THURSDAY, MAY 9, 2013**

**This Proxy Statement and the 2012 Annual Report are available on the Internet at**

**http://proxyvote.com**

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

**Your immediate attention is appreciated.**

March 29, 2013

Dear Fellow Shareholder:

On behalf of the Board of Directors (the Board ), it s my pleasure to invite you to the Avista Corporation ( Avista ) 2013 Annual Meeting of Shareholders (the Annual Meeting ). The doors open at 7:30 a.m. and the meeting will begin promptly at 8:15 a.m.

| | | | |
|---|---|---|---|
| Date | Thursday, May 9, 2013 | 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 nominees for election as members of the Board 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 2012 Annual Report. Your vote is important regardless of the number of shares you own.

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 12.**

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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**

**ANNUAL MEETING TO BE HELD ON THURSDAY, MAY 9, 2013**

**This proxy statement and the 2012 Annual Report are available on the Internet at**

**http://proxyvote.com**

| | |
|---|---|
| **Date:** | Thursday, May 9, 2013 |
| **Time:** | 8:15 a.m., Pacific Time |
| **Place:** | Avista Main Office Building Auditorium<br><br>1411 E. Mission Avenue, Spokane, Washington |
| **Record Date:** | March 8, 2013 |
| **Meeting Agenda:** | 1) Election of ten directors. |
| | 2) Ratification of the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for 2013. |
| | 3) Amendment of the Company s Restated Articles of Incorporation to reduce certain shareholder approval requirements. |
| | 4) Advisory (non-binding) vote on executive compensation. |
| | 5) Transaction of other business that may come before the meeting or any adjournment(s). |

All shareholders are cordially invited to attend the meeting in person. Shareholders who cannot be present at the meeting are urged to vote and submit their proxy by mail, telephone, or through the Internet as promptly as possible. Please sign and date the proxy card and return it promptly or cast your vote via telephone or through 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 29, 2013

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**AVISTA CORPORATION**

**1411 East Mission Avenue**

**Spokane, Washington 99202**

**PROXY STATEMENT**

**FOR THE ANNUAL MEETING**

**TO BE HELD ON MAY 9, 2013**

**ABOUT THE ANNUAL MEETING**

**Who is soliciting my vote?**

The Board is soliciting your vote in connection with the 2013 Annual Meeting.

**What is the purpose of the Annual Meeting?**

The meeting will be the Company s regular Annual Meeting of Shareholders. You will be voting on the following matters at the Annual Meeting:

1) Election of ten directors.

2) Ratification of the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for 2013.

3) Amendment of the Company s Restated Articles of Incorporation to reduce certain shareholder approval requirements.

4) Advisory (non-binding) vote on executive compensation.

5) Transaction of other business that may come before the meeting or any adjournment(s).

**How does the Board recommend I vote?**

The Board recommends a vote:

1) For the election of all ten directors.

2) For ratification of the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for 2013.

3) For the amendment of the Company s Restated Articles of Incorporation to reduce certain shareholder approval requirements.

4) For the advisory (non-binding) vote on executive compensation.

**Who is entitled to vote at the Annual Meeting?**

The Company s common stock is the only class of securities with general voting rights. The Board has set March 8, 2013, as the record date for the Annual Meeting (the Record Date ). Only shareholders who own common stock at the close of business on the Record Date may attend and vote at the Annual Meeting.

**What are the voting rights of holders of common stock?**

Each share of common stock is entitled to one vote. There is no cumulative voting. At the close of business on the Record Date, ______shares of common stock were outstanding and entitled to vote.

**How many shares must be present to hold the Annual Meeting?**

Under Washington law, action may be taken on matters submitted to shareholders only if a quorum is present. The presence at the meeting in person or represented by proxy of holders of a majority of the shares of common stock outstanding as of the Record Date will constitute a quorum. Shares are represented by proxy for quorum purposes even if abstention is instructed or if no instructions are given. 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.

**How do I vote shares registered in my name?**

If you hold shares that were registered in your name on the Record Date, then you, as the registered holder of those shares, may vote those shares:

by completing, dating and signing your proxy card and returning it to the Company by mail in the envelope provided (or bringing it with you to the Annual Meeting);

by telephone or through the Internet, following the instructions on your proxy card.

**How do I vote shares held through a broker, bank or other nominee?**

If you are the beneficial owner of shares held through a broker, bank or other nominee, then you are not a record holder of these shares and may vote them only by instructing the registered holder how to vote them.

You should follow the voting instructions given to you by the broker, bank or other nominee that holds your shares. Generally, you will be able to give your voting instructions by mail, by telephone or through the Internet.

The Company s common stock is listed on the NYSE. Under NYSE rules, brokerage firms generally have the authority to vote shares when their customers do not give voting instructions. However, NYSE rules prohibit brokerage firms from voting on certain types of matters without specific instructions from the beneficial owners if a beneficial owner does not give instructions on such a matter, the brokerage firm cannot vote on that matter. This is called a broker non-vote. Matters on which brokers may not vote without instructions include the election of directors, matters relating to executive compensation and matters relating to certain corporate governance issues. For Avista, this means that brokers may not vote on Proposals 1, 3 and 4 unless you have given your broker instructions on how to vote. Please be sure to give specific voting instructions to your broker so that your shares can be voted.

**How do I vote shares held through an employee plan?**

If you are the beneficial owner of shares through participation in the Company s 401(k) plan, then you are not the record holder of these shares and may vote them only by instructing the plan trustee or agent how to vote them.

You should follow the voting instructions given to you by the trustee or agent for the plan. Generally, you will be able to give your voting instructions by mail, by telephone or through the Internet.

**How can I revoke my proxy or change my vote after returning my proxy card or giving voting instructions?**

If you were a registered holder as of the Record Date and returned a proxy card, you may revoke your proxy or change your vote at any time before it is exercised at the Annual Meeting by giving written notice to the Corporate Secretary of the Company. You may also change your vote by timely delivering a later-dated proxy or a later-dated vote by telephone or through the Internet or by voting in person at the Annual Meeting.

If you were not a registered holder as of the Record Date and wish to change or revoke your voting instructions, you should follow the instructions given to you by your broker, bank or other registered holder.

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**How many votes are required to elect directors and approve the other proposals?**

Proposal 1 election of directors. A nominee will be elected if the number of votes cast for exceeds the number of votes cast against. Abstentions or broker non-votes with respect to my shares will have no effect on the election of that director since those shares will not be voted at all. If you are the registered holder of the shares but give no instructions on the proxy card with respect to this proposal, the shares represented by that proxy card will be voted for each of the nominees. 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 to fill the office held by such director, (ii) the effective date of the resignation of such director, or (iii) December 31, 2013.

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 2013, will be approved if the number of votes cast for exceeds the number of votes cast against. Abstentions with respect to any shares will have no impact on the outcome of this proposal since those shares will not be voted at all. Brokers may vote on this proposal without instructions. If you are the registered holder of the shares but give no instructions on the proxy card with respect to this proposal, the shares represented by that proxy card will be voted for this proposal.

Proposal 3 the proposal for amending the Articles to reduce certain shareholder approval requirements will be approved upon the affirmative vote of the holders of 80% of the total number of shares of common stock outstanding. Abstentions or broker non-votes with respect to any shares will have the same impact as a negative vote on the outcome of Proposal 3 since those shares will not be voted for. If you are the registered holder of the shares but give no instructions on the proxy card with respect to this proposal, the shares represented by that proxy card 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 for exceeds the number of votes cast against. Abstentions and broker non-votes with respect to any shares will have no impact on the outcome of Proposal 4 since those shares will not be voted at all. If you are the registered holder of the shares but give no instructions on the proxy card with respect to this proposal, the shares represented by that proxy card will be voted for this proposal.

**Who pays for the proxy solicitation and how will the Company solicit votes?**

The expense of soliciting proxies will be borne by the Company. Proxies will be solicited by the Company primarily by mail, but may also be solicited personally and by telephone at nominal expense to the Company by directors, officers, and regular employees of the Company. In addition, the Company has engaged Phoenix Advisory Partners at a cost of $6,500 plus out-of-pocket expenses, to solicit proxies in the same manner. The Company will also request banks, brokerage houses, custodians, nominees, and other record holders of the Company s common stock to forward copies of the proxy soliciting material and the Company s 2012 Annual Report to Shareholders to the beneficial owners of such stock, and the Company will reimburse such record holders for their expenses in connection therewith.

**Whom can I contact if I have questions or need assistance in voting my shares?**

If you have any questions about the proxy voting process, please contact the broker, bank or other financial institution where you hold your shares. The SEC also has a website (www.sec.gov/spotlight/proxymatters.shtml) with more information about your rights as a shareholder.

Additionally, you may contact our Investor Relations Department at (509) 495-4203.

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## 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 is responsible 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 industry 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, risks, 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 (the CEO ) has also served as Chairman of the Board (the 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.

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 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 effort, and provides clear leadership for the Company, the Board and the markets.

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. Having a single person serve as Chairman and CEO continues to provide unified and responsible leadership and is currently the right form of leadership for the Company and the Board.

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.

### Duties of the Chairman

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 skills, expertise and experience that each director has to offer; working with the Lead Director to establish schedules and agendas for Board meetings, with input from other directors and management; and providing input to the Chair of the Governance Committee on the selection of members and Chairs of the various Board Committees and candidates for Board membership. The Chairman is also responsible 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

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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.

**Lead Director**

The Board has also established the position of an independent Lead Director. John F. Kelly was elected by the independent directors to serve as Lead Director. The Lead Director s duties include:

- maintaining an active, 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
- working with the Chairman to set meeting schedules and agendas for the Board meetings, including 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 these 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 9.)

**Director Independence**

The Board has been, and continues to be, a strong proponent of director independence. It is the policy of the Board that a majority of the directors be independent from management and that the Board 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 of Shareholders and, if a director joins the Board between Annual Meetings of Shareholders, at such time. To assist in this determination, the Board adopted Categorical Standards for Independence of Directors (the Categorical Standards ).

The Company s corporate governance structures and practices provide for a strong, independent Board and include several independent oversight mechanisms. The Board is comprised of Mr. Morris and ten independent directors. The Board has five independent Committees with separate independent Chairs Audit Committee, Compensation & Organization Committee (the Compensation Committee ), Corporate

Governance/Nominating Committee (the Governance Committee ), Finance Committee, and Energy, Environmental & Operations Committee (the 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 sources independent from management. 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.

During its annual review, the Board considered whether there were any transactions (see related party transactions below) 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.

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As a result of this review, the Board has affirmatively determined that the directors nominated for election at the Annual Meeting 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 rules of the SEC.

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 2012.

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, board members, or investors during 2012.

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 2012 or in any of the prior three years did not exceed the threshold amount in the Categorical Standards.

Mr. Taylor is a Board member of a corporation which owns and operates radio stations in Idaho, Washington and Oregon. In 2012, the Company s ad agency purchased radio advertisements on some of those stations. The amount paid to that company in 2012 or in any of the prior three years did not exceed the threshold amount in the Categorical Standards.

**Board Meetings**

The Board held seven meetings in 2012. The attendance at all Board meetings and at all Board Committee meetings was 99%. 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 2013 Annual Meeting.

**Meetings of Independent Directors**

The independent directors meet at each regularly scheduled Board meeting in an 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.

**Committees**

The Board has six standing Committees Audit Committee, Compensation Committee, Governance Committee, Finance Committee, Environmental Committee and Executive Committee. Each of these Committees is comprised solely of independent directors, with the exception of the Executive Committee, which is chaired by Mr. Morris. 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

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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 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 2012, the Audit Committee consisted of directors Burke, Noël, Stanley, and Blake Chair. The Board has determined that Mr. Burke is an Audit Committee Financial Expert, as defined in the SEC rules. Ten meetings were held in 2012.

***Compensation Committee*** Considers and approves, as well as oversees the risks associated with, compensation and benefits of executive officers of the Company. The Compensation Committee 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 within the Company s Categorical Standards. In addition, the Compensation Committee 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. Eight meetings were held in 2012.

***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 48). This Committee also develops Board membership criteria and reviews potential director candidates. Recommendations for director nominees are presented to the full Board for approval. See Proposal 1 Director Qualifications and Process for Selecting Board Nominees below. Only independent directors sit on this Committee. The Governance Committee consists of directors Blake, Racicot, Taylor, and Kelly Chair. Five meetings were held in 2012.

***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. The Committee consists of directors Anderson, Holley, Racicot, and Klein Chair. Four meetings were held in 2012.

***Finance Committee*** Assists the Board in overseeing 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

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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 Burke, Holley, Stanley, and Anderson Chair. Four meetings were held in 2012.

***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 2012.

**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 an annual review of the succession plans for the CEO and other executives of the Company and receives quarterly updates on the plans. 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 may recruit externally if such approach would better suit the Company s strategic needs. The Compensation Committee believes that the Company s succession planning process provides a good structure to assure that the Company will have qualified successors for its executive officers.

In order to have a fully comprehensive CEO succession plan in place, the Board adopted a Contingency CEO Succession Plan to outline the procedures for the temporary appointment of an Interim CEO and an Interim Chairman to avoid a vacancy in leadership that may occur because of an absence event due to death, illness, disability, or sudden departure of the CEO.

**Corporate Governance Guidelines**

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

**Director Orientation and Continuing Education**

The Governance Committee and management are responsible for director orientation programs. Orientation programs are designed to familiarize new directors with the Company s business strategies and polices. The Governance Committee is responsible for director continuing education. Continuing education programs for directors may include a combination of internally developed materials and presentations, programs presented by third parties, and financial and administrative support for attendance at academic or other independent programs.

**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 (the CFO ) (the principal financial officer) and the Board.

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**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**

During 2012, the Company contacted a number of major shareholders to solicit information regarding issues of concern to the shareholders with respect to corporate governance and executive compensation. Those discussions were conducted by teleconference. 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.

**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 corporate management on areas of material risk to the Company, including operational, financial, legal, 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 Company 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.

**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. 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, expertise, 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. 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;

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;

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experience in the regulatory arena;

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

attributes that would enhance the diversity and perspective of the Board; and

knowledge of the customers, community, and employee base.

While in the usual case, candidates for director are nominated by the Board (after consideration and recommendation by the Governance Committee, as discussed above), shareholders may directly nominate candidates for election as directors. However, in order to do so, shareholders must follow the procedures set forth in the Company s Bylaws which are discussed under 2014 Annual Meeting of Shareholders, starting on page 55. The Chair of the meeting may refuse to acknowledge any nomination not made in compliance with the Bylaws.

**Nominees**

Ten directors are to be elected to hold office for a one-year term, and/or until a qualified successor is elected. The Company s Restated Articles of Incorporation provide for up to 11 directors. 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 fixed the number at 10, upon Mr. Noel s retirement from the Board, effective May 10, 2013.

Upon recommendation from the Governance Committee, the Board has nominated Erik J. Anderson, Kristianne Blake, Donald C. Burke, Rick R. Holley, John F. Kelly, Rebecca A. Klein, Scott L. Morris, Mark F. Racicot, Heidi B. Stanley and R. John Taylor to be re-elected as directors for a one-year term to expire at the Annual Meeting of Shareholders in 2014. Michael L. Noël will not be seeking re-election and will be retiring from the Board as he has reached the mandatory retirement age of 72 as outlined in the Company s Bylaws. The nominees have consented to serve as directors, and the Board has no reason to believe that any nominee will be unable to serve. If a nominee should become unavailable, your shares will be voted for a Board-approved substitute. The Board has concluded that all nominees, with the exception of Mr. Morris, are independent and should serve as directors of the Company in light of the Company s business and structure.

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

**ERIK J. ANDERSON**

**Director since 2000**

Chair of Finance Committee, Member of Environmental Committee

*Mr. Anderson,* age 54, has been, since 2002, President of WestRiver Capital, a private investment company, chair of Tachyon Networks, Inc., an advanced satellite-based internet solutions company, and vice-chair of Montgomery & Co., LLC, an investment bank serving growth companies in technology, media and healthcare.

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| | He is also chair of Zula, LLC, a science education company, and a co-chair of GEI, a leisure business based on golf entertainment. From 1998 to 2002, Mr. Anderson was CEO of Matthew G. Norton, Co., a private investment company. Prior to 1998, he was CEO of Trillium Corporation. His experience also 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 Ecova, Inc. (Ecova), a subsidiary of the Company. |
| Leadership Experience | President and CEO experience with investment, private equity and technology firms. |
| Financial Experience | Extensive experience with finance matters including mergers and acquisitions, securities and debt offerings, and risk analysis. |

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**KRISTIANNE BLAKE**

**Director since 2000**

Chair of Audit Committee, Member of Governance and Executive Committees

*Ms. Blake*, age 59, has been president of the accounting firm of Kristianne Gates Blake, P.S., since 1987. She has served for 17 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 Ecova and is the chair of the Ecova Audit Committee.

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| 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. |

**DONALD C. BURKE, CPA**

**Director since 2011**

Member of Finance and Audit Committees

*Mr. Burke,* age 52, currently serves as an independent trustee to approximately 100 registered mutual funds for the Goldman Sachs mutual fund complex. Prior to assuming this role, from 2006 to 2010, Mr. Burke served as a trustee for numerous global funds that were advised by BlackRock, Inc. From 2006 to 2009, he was a managing director of BlackRock and served as the president and CEO of the BlackRock U.S. mutual funds. In this role, Mr. Burke was responsible for all of the accounting, tax and regulatory reporting requirements for over 300 open and closed-end mutual funds. Mr. Burke joined BlackRock in connection with the merger with Merrill Lynch Investment Managers (MLIM), taking a lead role in the integration of the two firms operating infrastructures. While at MLIM, Mr. Burke was the Head of Global Operations and Client Services and also served as the Treasurer and Chief Financial Officer of the MLIM mutual funds. He started his career with Deloitte & Touche (formerly Deloitte Haskins & Sells). Mr. Burke is a certified public accountant and received a Bachelor of Science degree in Accounting and Economics from the University of Delaware and a Master of Business Administration in Taxation from Pace University. Mr. Burke also serves on the board of Ecova.

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| Financial Experience | Mr. Burke brings significant financial experience to the board from his years in public accounting and his role as the treasurer and CFO of numerous mutual funds. |
| Leadership Experience | Mr. Burke has held a number of leadership roles throughout his career including leading a global operations organization with employees located across four continents. |
| Board Experience | Mr. Burke has extensive board experience, having served on the audit, compliance, governance & nominating, and contract review committees of various boards. He also serves on the boards of a number of charitable foundations. |

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**RICK R. HOLLEY**

**Director since 2011**

Member of Finance and Environmental Committees

*Mr. Holley*, age 61, has been the president and CEO of Plum Creek Timber Company, Inc., based in Seattle, Washington, since 1994. He served as the vice president and CFO at Plum Creek Timber Co. Inc. from April 1985 to December 1993. Prior to joining Plum Creek, Mr. Holley worked for Burlington Northern, Inc. and served as an assistant vice president of Corporate Audit from 1983 to 1985. He served on the boards of American Forest & Paper Association, the World Forestry Center and Children s Hospital Foundation in Seattle. Mr. Holley serves as a member of the Economic Advisory Council at Federal Reserve Bank of San Francisco. He also serves as a director of the National Alliance of Forestland Owners, Sustainable Forestry Initiative, Inc., The Seattle Times and Blethen Corporation. He completed an advanced education program at Northwestern University and received a Bachelor of Science in Accounting and Business Administration from San Jose State University.

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| Leadership Experience | Mr. Holley has extensive executive experience, with emphasis on strategic planning and implementation, mergers and acquisitions, human resources and organization development, government relations, corporate governance and finance experience. |
| Financial Experience | Mr. Holley has Business Administration and Accounting degrees and has served as CFO of a publicly-traded company. |

**JOHN F. KELLY**

**Director since 1997**

Chair of Governance Committee and Member of Compensation and Executive Committees

*Mr. Kelly,* age 68, is currently the president & CEO of John F. Kelly & Associates, a consulting company he founded in 2004, that is located in Coral Gables, Florida. Mr. Kelly is a retired chair, president and CEO of Alaska Air Group, where he also served as a Board member from 1989 to May 2003. He was chair of Alaska Airlines from 1995 to February 2003, CEO from 1995 to 2002, and president from 1995 to 1999. He served as chair 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 of 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 Ecova.

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| Leadership Experience | Mr. Kelly has over 35 years of business experience in the airline industry, serving in numerous management capacities, including roles as chair, 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. |
| 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 over four years. |

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**REBECCA A. KLEIN**

**Director since 2010**

Chair of Environmental Committee and Member of Compensation Committee

*Ms. Klein*, age 47, is Principal of Klein Energy, LLC, an energy consulting company based in Austin, Texas. 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) where 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 and vice 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.

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| 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 vice chair of the board of an energy and water services public utility. |

**SCOTT L. MORRIS**

**Director since 2007**

Chairman of the Board and Chair of Executive Committee

*Mr. Morris,* age 55, has been Chairman, President and CEO of the Company since January 2008. From May 2006 to December 2007, he served as the Company s President and COO. Mr. Morris also serves as chair of the Company s subsidiaries, including Ecova. 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, Gonzaga University, the Western Energy Institute, Edison Electric Institute, American Gas Association, the Federal Reserve Bank of San Francisco and is the Chair of Innovate Washington. He has served on a number of Spokane non-profit and economic development Boards.

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| Industry and<br><br>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 |

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| | Company s subsidiary, Ecova. He is the only officer of the Company to sit on the Avista Board and the Ecova 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 of San Francisco. |

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**MARC F. RACICOT**

**Director since 2009**

Member of Governance and Environmental Committees

*Mr. Racicot*, age 64, served as president and CEO 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 chair of the Republican National Committee from 2002 to 2003 prior to assuming the position of chair 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 chair 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. |

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**HEIDI B. STANLEY**

**Director since 2006**

Member of Finance and Audit Committees

*Ms. Stanley*, age 56, 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 chair of Sterling Savings Bank from January 2009 to October 2009 and CEO from January 2008 to October 2009. From January 2008 to December 2008, she served as director, vice chair, president & CEO. From October 2003 to December 2007, she served as director, vice chair and COO. 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. She is also actively engaged with the Seattle NACD Chapter. Ms. Stanley graduated from Washington State University with a Bachelor of Arts degree in Business Administration.

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| 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 CEO and COO 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 Association of Washington Business and the American Bankers Association Capital Markets Group. |
| 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. |

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**R. JOHN TAYLOR**

**Director since 1985**

Chair of Compensation Committee and Member of Governance and Executive Committees

*Mr. Taylor*, age 63, has been the chair and CEO of CropUSA Insurance Agency, Inc. since 1999 and chair and CEO of Green Leaf Re Insurance Company since 2013. He has also served as chair and CEO of AIA Services Corporation since 1995. The companies place various forms of agricultural related insurance and reinsurance business throughout the western and mid western United States. Mr. Taylor holds similar positions with affiliated companies and subsidiaries of CropUSA, Green Leaf Re and AIA Services. Previously, Mr. Taylor served as president of AIA Services and was its COO. In addition, he is chair of Pacific Empire Radio Corporation of Lewiston, Idaho, a twelve station Northwest radio group. Mr. Taylor is an attorney and has been a member of the Idaho State Bar since 1976.

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| 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, including the Endowment Fund Investment Board of Idaho. 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. |

**The Board recommends a vote FOR all nominees for director.**

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## 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 2012, the Audit Committee met ten (10) times.

Prior to the inclusion of the financial statements 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 2012 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 2012 annual and quarterly earnings prior to their issuance.

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, 2012, 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, 2012, 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 2013 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.

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The Audit Committee performed the mandated tasks included in its charter. The Audit Committee also recommended to the Board the designation of Donald C. Burke 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**

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| Kristianne Blake Chair | Donald C. Burke | Michael L. Noël | Heidi B. Stanley |

**COMPENSATION DISCUSSION AND ANALYSIS**

The purpose of this Compensation Discussion and Analysis (the CD&A ) is to provide material information about the compensation objectives and policies for our named executive officers (the NEOs ) and to put in perspective the quantitative and narrative disclosures in the CD&A and the following compensation tables. Our NEOs for 2012 were:

- Scott L. Morris, Chairman, President & CEO
- Mark T. Thies, Sr. Vice President & CFO
- Dennis P. Vermillion, Sr. Vice President Environmental Compliance Officer ( ECO ) and President of Avista Utilities
- Karen S. Feltes, Sr. Vice President Human Resources & Corporate Secretary
- Marian M. Durkin, Sr. Vice President, General Counsel & Chief Compliance Officer ( CCO )

The CD&A also describes the following:

- A summary of our business results and the alignment between executive pay and Company performance;
- Our decision-making process on compensation design and pay levels, including our compensation governance approach;
- Our compensation philosophy and objectives; and
- A detailed description of the elements of the Company s executive compensation program.

*Executive Summary*

In 2012, the CEO and the Board established performance goals for the Company and aligned the short-term and long-term incentive plans with those goals. A key element of these plans is the focus on maintaining an attractive financial profile while creating long-term value for shareholders and customers. The annual short-term executive incentive plan focuses mainly on earnings for both the utility and non-utility subsidiaries, as well as customer and operational metrics.

For 2012, earnings at Avista Utilities decreased primarily due to reduced retail loads because of warmer weather during the first and fourth quarters of the year, operational challenges of certain industrial customers and a continued weak economy. In addition, our utility performance was also limited by increased operating expenses (including costs under a voluntary severance incentive program), depreciation and amortization and interest expense, partially offset by the implementation of general rate increases. Weaker than expected results from Ecova, our primary unregulated business, and losses from our other non-utility businesses further dampened our consolidated results for the year. Net income at Ecova decreased primarily due to increased costs and limited increases in revenues. The decrease in our other businesses is due to losses on impairments of investments, strategic consulting and other corporate costs.

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The 2012 executive short-term and long-term plans paralleled the financial performance based on the goals set in these plans. Therefore, no payout was received on the earnings per share ( EPS ) portion of the short-term plan, and no performance awards were issued based on the relative total shareholder return ( TSR ) of the Company compared to the Standard & Poor s ( S&P ) 400 Utilities Index.

**2012 Executive Compensation Highlights**

The compensation earned by our NEOs in 2012 reflects our corporate performance for the fiscal year, as well as the impact of the challenging economy;

The Compensation Committee approved salary increases ranging from 0.7% to 7.8% for the NEOs based on market comparisons, its assessment of individual performance and other factors as discussed in more detail below;

The Ecova Board approved a one-time grant of performance-based non-qualified stock options ( NQSOs ) for the NEOs who serve as officers of Ecova. This includes all NEOs with the exception of Mr. Vermillion, who in his role as Avista Utility President does not serve as an officer of Ecova. The Compensation Committee agreed to have the Ecova Board take this action as they believed it was in the shareholder s interest that the NEOs be motivated to drive and maximize the value of Ecova s business and be rewarded when certain performance metrics are achieved at Ecova by receiving a one-time grant with a performance metric based on Ecova s EBITDA growth of 15% for 2013, 2014, and 2015. The NEOs did not earn 1/3 of their NQSOs granted in 2012 because Ecova s earnings before interest, taxes, depreciation and amortization ( EBITDA ) growth was below the threshold performance required to vest the options. The NQSOs are performance-based and 1/3 vest and become exercisable each year over a three-year period only if the performance condition is met.

Our 2012 EPS performance was below target expectations. Therefore, the performance level achieved for the annual cash incentive plan was only 40.5% of target. Based on the performance level achieved, the CEO s cash incentive payment was 36.4% of base salary and the other NEOs received 24.3% of base salary;

For our CEO, the return on equity ( ROE ) performance condition on the performance-based restricted stock units ( RSUs ) granted in 2010, 2011 and 2012 exceeded target; therefore 1/3 of his RSUs and the associated dividend equivalents were paid;

The NEOs other than the CEO received 1/3 of their RSUs granted in 2010, 2011 and 2012, along with the associated dividend equivalents. The RSUs are time-based, and 1/3 vest each year over a three-year period; and

The NEOs did not earn their 2010-2012 performance share award, along with the associated dividend equivalents because the Company s relative TSR over the three-year performance period was below the threshold performance required to earn a payout.

**Business Results Impact Compensation**

We establish target compensation at the beginning of each performance period. An executive s actual pay will be at, above or below the target level based on individual, organizational, and stock performance. A substantial portion of each NEO s compensation is in the form of equity so that as the stock price rises or falls, so does the NEO s actual compensation.

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We employ a variety of quantitative criteria to assess the performance of our executives. Our objectives include achieving the EPS and ROE targets, exceeding TSR objectives relative to our peers, reducing our costs per customer, and improving customer satisfaction, reliability of service, responsiveness and performance excellence. The charts below illustrate the relationship between equity performance and our CEO s compensation.

* Performance shares represent awards made in 2010 that could have become vested if certain TSR performance conditions were met from 2010 through 2012. RSUs represent the portion of awards made in each 2010, 2011 and 2012 that could have become vested if certain ROE performance conditions were met in 2012. Chart excludes the Ecova performance-based stock options due to their one-time nature.

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**Compensation Governance Practices**

The Company places high value on strong compensation governance practices. We believe our executive compensation practices align with our corporate values and provide a foundation for success. These governance practices include:

| Practices We Employ | Practices We Avoid |
|---|---|
| Pay is closely linked to performance | We do not provide perquisites |
| Undue risk is mitigated (see Risk Mitigation Overview on page 23) | We do not permit hedging or short sales of company stock |
| Stock ownership guidelines have been implemented consistent with market practices | We do not provide dividends or dividend equivalents on unearned performance awards or RSUs |
| A recoupment (i.e., clawback) policy is in place | We eliminated excise tax gross-ups for all new executives after November 13, 2009 |
| Change-in-Control ( CIC ) severance requires a double trigger | We do not provide executive severance outside of a change in control |
| Our Compensation Committee reviews NEO tally sheets annually | We do not provide additional Supplemental Executive Retirement Plan ( SERP ) service credits as a recruitment tool for hiring executives |
| Our Compensation Committee is composed entirely of independent directors | |
| Our Compensation Committee engages an independent compensation consultant | |
| Our Compensation Committee regularly has executive sessions without management present | |

**2012 Say on Pay Advisory Vote**

At the May 2012 Annual Meeting, shareholders expressed substantial support for the compensation of our NEOs, with approximately 91% of the votes cast for the Say on Pay advisory resolution approving our executive compensation. We view this outcome as a signal of general shareholder support for our executive compensation philosophy, policies and practices. In addition to considering the Say on Pay advisory vote, our CFO, Senior Vice President, Human Resources & Corporate Secretary, and General Counsel proactively solicit input from shareholders regarding our governance and executive compensation programs. We believe this outreach to shareholders, together with our shareholders ability to contact us at any time to express specific views on executive compensation, fosters open dialogue to assure we maintain the consistency and credibility of the program.

Following the shareholder meeting, we once again discussed our overall approach and took into consideration feedback we have received from meetings with various shareholders. As a result, the Compensation Committee decided to add a chart on realized pay to the CD&A. Other than adding the additional chart on realized pay, and after considering the results of the 2012 Say on Pay advisory vote, the Compensation Committee reaffirmed the elements of our executive compensation program and policies.

**Decision Making Process**

**Role of the Compensation Committee**

The Compensation Committee makes all compensation decisions regarding the CEO, the NEOs and other elected officers, including the level of cash compensation and equity awards. The CEO annually reviews the performance ratings of each executive officer determined by his or her direct manager and presents the ratings to the Compensation Committee for it to consider with respect to salary adjustments, annual incentive opportunity, and annual equity award amounts. In 2012, the Compensation Committee also reviewed the Company s executive pay practices with the full Board.

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**Role of Management**

The independent compensation consultant makes recommendations to the Compensation Committee as to the amount and form of executive compensation for all executive officers including the CEO. The CEO has input on the recommendations to the Compensation Committee with respect to the compensation of all of our executive officers (other than himself).

At the request of the Compensation Committee, both the Senior Vice President of Human Resources and the CEO regularly attend Compensation Committee meetings, excluding the executive sessions where their respective compensation and other matters are discussed.

**Role of the Compensation Consultant**

The Compensation Committee selects and retains the services of an independent compensation consultant to support its oversight of our executive compensation programs. For several years, and until April 2012, the Committee retained Towers Watson as its primary advisor. In April 2012, the Compensation Committee engaged Meridian Compensation Partners LLC (  Meridian  ) as its independent compensation consultant. Meridian provides to the Compensation Committee consulting services solely relating to executive compensation and governance matters. The Compensation Committee has determined under NYSE rules the independence of Meridian and, further, that no conflict of interest exists between Meridian and the Company.

A representative of Meridian attended Compensation Committee meetings in 2012 and advised the Compensation Committee on all principal aspects of executive compensation, including the competitiveness of program design and award values and specific analyses with respect to the Company s executive officers.

The Compensation Committee determines the work to be performed by the consultant. The consultant works with the Senior Vice President of Human Resources and her staff to gather data required in preparing the consultant s analyses for Compensation Committee review, but does not otherwise provide any services or advice to management.

While it is necessary for the consultant to interact with management to gather information and obtain recommendations, the Compensation Committee Chair determines if and when the 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 important 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.

**Risk Mitigation Overview**

The Compensation Committee believes that the Company s compensation policies and practices should not create risks that are reasonably likely to have a material adverse effect on the Company. In establishing pay practices for the Company, the goal is to design a compensation structure that does not encourage inappropriate risk-taking by employees or executive officers. Therefore, enterprise risk management is integral to the overall compensation philosophy. The following features of the compensation structure reflect this approach:

- Payout opportunity of short and long-term incentives is capped;
- Annual cash incentive design provides a balance of key performance metrics that are focused on financial results and system sustainability over time;
- The total compensation program does not provide for guaranteed bonuses and has multiple financial and non-financial performance measures;
- The Compensation Committee reviews both short-term and long-term financial scenarios to ensure the plan design does not encourage executives to take excessive risks but also does not discourage appropriate risks;

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Stock ownership guidelines are in place to strengthen the alignment of the financial interests of executives with those of shareholders;

Officers are prohibited from engaging in short-sales or hedging the economic interest in the Company shares they hold; and

The Company maintains a formal recoupment policy.

## Elements of Compensation

### Compensation Philosophy and Objectives

The Compensation Committee approves and implements a compensation program that focuses 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 programs 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 executives should be weighted toward variable performance-based compensation, linking a significant portion of their compensation with goals related to specific items of corporate performance that are likely to produce long-term shareholder and customer value.

The charts below outline the portion of compensation that is variable and therefore is at risk for our CEO and the average of our other NEOs. Variable compensation includes: annual incentives, RSUs and performance shares. The charts below also outline the portion of compensation for our CEO and the average of our other NEOs that is directly linked to share value. Share value compensation includes RSUs and performance shares.

| | | | | |
|---|---|---|---|---|
| Variable | 75% | | Variable | 65% |
| Linked to Share Value | 52% | | Linked to Share Value | 43% |

### Competitive Analysis and Peer Group

The Compensation Committee believes it is important to provide a compensation structure that is competitive with compensation paid to comparable executives of companies within the energy/utility industry to ensure the Company attracts and retains quality employees in key positions to lead the Company. To achieve this objective, the Compensation Committee works with its consultant to conduct an annual competitive review of its total compensation program for the CEO and other NEOs. Through the review process, the Compensation Committee generally targets overall compensation levels (base, short-term incentive and long-term incentives) within +/-15% of the median of the peer group. Pay components may vary higher or lower than the median depending on an individual s role, responsibilities, and performance within the Company. The Compensation Committee believes this target positioning is effective to attract and retain our executives.

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The Compensation Committee annually compares each element of NEO total compensation, which includes base salary, annual cash incentives, and long-term incentives, against a NEO peer group of publicly-traded companies within the energy/utility industry of similar revenue size and market capitalization. There were 19 companies in the S&P 400 Utilities Index used for the NEO peer group in 2012, consistent with past practice. We believe the following companies represent the Company competitors for NEO talent. The median revenues of the peer group were $2.3B as compared with Avista s revenues of $1.6B. The companies in the 2012 NEO peer group include:

| | | |
|---|---|---|
| Alliant Energy Corp | IDACORP Inc | Questar Corp |
| Aqua America Inc | MDU Resources Group Inc | UGI Corp |
| Atmos Energy Corp | National Fuel Gas Co | Vectren Corp |
| Black Hills Corp | NSTAR | Westar Energy Inc |
| Cleco Corp | NV Energy Inc | WGL Holdings Inc |
| Great Plains Energy Inc | OGE Energy Corp | |
| Hawaiian Electric Industries Inc | PNM Resources Inc | |

Consistent with prior years, in 2012, the Compensation Committee also used the Towers Watson Energy Services Executive Compensation database for additional compensation data on comparable diversified energy companies with revenues between $1 billion and $3 billion. The median revenues of the peer group were $1.8B. The advantage of using survey information is that it provides competitive data for all of the Company s executive officer positions.

The companies comprising the Survey Peer Group were:

- Acciona Energy
- AGL Resources Inc
- Areva Inc
- Black Hills Corp
- Cleco Corp
- Covanta Holding Corp.
- CPS Energy
- Crosstex Energy LP
- Energen Corp.
- EQT Corp
- First Solar, Inc.
- GenOn Energy
- Hawaiian Electric Industries
- IDACORP Inc
- LG&E and KU Energy Services (PPL Corp)
- Lower Colorado River Authority
- McDermott International
- New York Power Authority
- NorthWestern Energy
- NSTAR
- Oglethorpe Power
- PNM Resources, Inc.
- Portland General Electric
- Proliance Holdings
- Regency Energy Partners LP
- Salt River Project
- Santee Cooper
- SemGroup
- Southern Union Company
- UNS Energy
- Vectren Corp.
- Westar Energy Inc.

The Compensation Committee also reviews compensation data from other regional peers in an effort to obtain as much intelligence on trends within the region, as well as looking at the overall energy industry. The Compensation Committee uses all of these sources of data to help it make informed decisions about market compensation practices.

**Performance Management**

The Compensation Committee believes in aligning pay with performance. As part of that alignment, all executives receive annual performance reviews by their direct manager, and the Compensation Committee reviews the performance ratings of each NEO. The Compensation Committee also reviews the results of the Company s 360-degree survey for each NEO. This is a standardized performance survey conducted every other year on multiple leadership performance categories which includes feedback from peers within the Company, direct reports, and the NEO s direct manager.

At the beginning of each calendar year, the CEO develops specific performance targets and goals for his role based on strategic goals set by the Board. The Compensation Committee reviews and approves the CEO s goals at its annual February meeting and presents the goals to the full Board for its information and review. The

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Compensation Committee reviews quarterly the CEO s performance relative to his targets. At the end of the year, the Compensation Committee reviews the CEO s year-end results as part of its overall CEO annual performance review process.

**Base Salary**

Our NEOs are provided with an annual base salary to compensate them for services rendered during the year. 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: competitive pay among executives in the utility and diversified energy industry, NEO responsibilities and job complexity, experience and breadth of knowledge. In setting the annual base salary for the NEOs, the Compensation Committee also considers the market data provided by its consultant and each NEO s responsibilities, which includes electric and natural gas utility operations, as well as subsidiary operations. In addition, the Compensation Committee recognizes that the Company operates in several states, thereby requiring quality relationships and interaction with multiple regulatory agencies.

***2012 Base Salaries***

In addition to considering the factors noted above, the Compensation Committee also reviews performance results for the year to determine how the CEO performed against specific targets and operational goals established at the beginning of the year. The CEO s key performance goals for 2012 generally related to strategic planning, financial performance, safety targets, diversified energy resource management, regulatory and legislative matters, succession planning, governance, and customer value delivery.

For 2012, the Compensation Committee agreed that the CEO had met the established goals. The Compensation Committee also reviewed performance ratings of each of the other NEOs to determine appropriate adjustments in base salary. The Compensation Committee noted that the market data provided by the consultant showed that the base salary for several NEOs and the CEO were below market levels. After the adjustments shown below, base salaries generally are within +/- 15% of the median of the peer group. The table below outlines the changes to base salary in 2012 for our NEOs.

| | | 2011 Salary | % Increase | 2012 Salary |
|---|---|---|---|---|
| Scott L. Morris | Chairman, President & CEO | $ 670,000 | 0.7% | $ 675,000 |
| Mark T. Thies | Senior Vice President & CFO | $ 345,000 | 7.8% | $ 372,000 |
| Dennis P. Vermillion | Senior Vice President, ECO & President Avista Utilities | $ 305,000 | 2.3% | $ 312,000 |
| Karen S. Feltes | Senior Vice President, Human Resources & Corporate Secretary | $ 255,000 | 6.3% | $ 271,000 |
| Marian M. Durkin | Senior Vice President, General Counsel & CCO | $ 290,000 | 6.9% | $ 310,000 |

**2012 Executive Officer Annual Cash Incentive**

The 2012 Executive Officer Annual Cash Incentive Plan (the Plan ) was designed to align the interests of the NEOs and senior management with both shareholder and customer interests to achieve overall positive financial and operational performance for the Company. These goals are reflected in the Plan by having 60% of the total incentive payout tied to EPS targets and the remaining 40% of the total incentive opportunity payout tied to key components of utility operation. Each metric is independent, which allows the Plan to pay a portion of the award to the CEO or other NEOs upon the attainment of one goal even if the other goals are not met.

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The performance metrics for the Plan are based on factors that are essential for the long-term success of the Company, and, with the exception of the EPS goals, are identical to performance metrics used in the Company s annual cash incentive plan for non-executive employees. The Compensation Committee believes that having similar metrics for both the Plan and the non-executive plan encourages employees at all levels of the Company to focus on common objectives.

The following chart shows the Plan performance goals for each performance metric, the weighting of each metric, and the 2012 actual results of each metric.

| Metric | Weighting | Threshold | Target | Exceeds | Actual | Details |
|---|---|---|---|---|---|---|
| ***Earnings Components*** | | | | | | |
| Utility EPS* | 50% | $ 1.56 | $ 1.59 | $ 1.66 | $ 1.38<br>Not Met | Payout can vary 0%-150% based on performance level. |
| Non-Utility EPS* | 10% | $ 0.16 | $ 0.17 | $ 0.19 | $ (0.06)<br>Not Met | Payout can vary 0%-150% based on performance level. |
| ***Utility Operations Components*** | | | | | | |
| Cost Per Customer* | 20% | $ 381.74 | $ 371.96 | $ 367.42 | $ 371.71<br>Met 102.7% | The Operating and Maintenance (O&M) cost is directly related to maintaining reliable, cost-effective service levels. Payouts can vary 0%-150% based on performance level. |
| Customer Satisfaction Rating | 5% | NA | 90% | NA | 93%<br>Met 100% | This rating is derived from a Voice of the Customer survey conducted each quarter by an independent agency. This survey is used to track satisfaction levels of customers that have had recent contact with our call center or service center. This is a hit or miss target and the payout is either 100% or 0% based on achievement of objective. |
| Reliability Index | 5% | NA | 1.00 | NA | 1.13<br>Met 100% | This measure is derived from the combination of three indices that track average restoration time for sustained outages, average number of sustained outages per customer, and percent of customers experiencing more than three sustained outages during the year. This is a hit or miss target and the payout is either 100% or 0% based on achievement of objective. |

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| Metric | Weighting | Threshold | Target | Exceeds | Actual | Details |
|---|---|---|---|---|---|---|
| Response Time | 5% | NA | 93% | NA | 97%<br>Met<br>100% | This metric measures the percentage of time the Company responds within targeted time goals for dispatched natural gas emergency calls. This is a hit or miss target and the payout is either 100% or 0% based on achievement of objective. |
| Performance Excellence | 5% | NA | 100% | NA | 100%<br>Met<br>100% | This metric combines two separate measurements into one, project milestones and realized value from implemented or completed process improvement initiatives. This is a hit or miss target and the payout is either 100% or 0% based on achievement of objective. |

* Payout levels are interpolated on a sliding scale for results between the threshold performance level and the maximum level.

The Compensation Committee sets target goals for these performance metrics that are rigorous, but designed to be reasonably achievable with strong management performance. Maximum performance levels were designed to be difficult to achieve given historical performance and the Company s forecasted results at the time the performance metrics were approved. Over the last nine years, the actual performance results of the Plans have averaged 74% of target and ranged from a low of 15% of target to a high of 114% of target as shown in the chart below.

*2012 Executive Officer Annual Cash Incentive Target Award Opportunity*

Individual annual cash incentive awards are set as a percentage of base salary. The Compensation Committee annually compares annual cash incentive opportunity levels against the NEO Peer Group. As discussed previously, the Compensation Committee targets overall compensation levels which include base salaries, short-term incentives and long-term incentives within +/- 15% of the median of the peer group. For 2012, the Compensation Committee maintained the target incentive award opportunities of 90% of base salary for the CEO and 60% of base salary for all other NEOs, which aligns with the competitive range of +/- 15% of the median of the market. The actual total amounts paid could increase (up to 145% of target) or decrease (as low as 0% of target) depending on the Company s actual performance since payouts for several metrics can vary depending on the performance level achieved.

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*2012 Results for the Executive Officer s Annual Cash Incentive Plan*

After the end of the year, the Compensation Committee assesses the performance of the Company against each Plan objective, comparing the actual year-end 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. The results also are reviewed and verified by the Finance Committee.

Based on this review, at its February 2013 meeting, the Compensation Committee determined that the Company did not satisfy the threshold performance for Utility EPS and Non-Utility EPS. The Company exceeded the target performance level for O&M Cost Per Customer and met the targets for all four non-financial metrics: customer satisfaction, reliability, response time and performance excellence. The actual performance result of the 2012 executive officer s annual cash incentive plan was 40.5% of target. As a result, and at the same meeting, the Compensation Committee authorized payment of cash incentives equal to 36.4% of base salary (40.5% of 90%) for the CEO, and 24.3% of base salary (40.5% of 60%) for all other NEOs.

**Long-Term Equity Compensation**

The Compensation Committee believes that equity-based compensation is the most effective means of creating a long-term link between shareholder returns and the compensation provided to NEOs and other key management. This program encourages participants to focus on long-term Company performance and provides an opportunity for executive officers and designated key employees to maintain ownership in the Company through grants of Company stock that can be earned based on service-time and/or performance over a three-year cycle. Through the use of long-term performance awards and RSUs, 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 ( LTIP ) authorizes various types of equity awards. 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 form of the award, the amount of the award, the timing of the award, as well as any other aspect of the award it may deem material. For 2012, our program continued to be heavily weighted toward performance-based equity awards, 75% of the value being granted in the form of performance shares and 25% being granted in the form of RSUs. Our 2012 long-term incentive form and mix were the same as in 2011.

When making decisions for grant amounts, the Compensation Committee considers competitive market data and those executives who have the greatest ability to influence overall Company performance. In addition and as previously discussed, the Compensation Committee targets overall compensation levels which include base salaries, short-term incentives and long-term incentive within +/- 15% of the median of the peer group.

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*Performance-Based Equity Awards*

The vesting of performance-based equity awards is contingent on the Company s stock performance. Performance shares are designed to provide a direct link to the long-term interests of shareholders by assuring that shares will be paid only if the Company attains a specified performance level of TSR relative to our peers over a three-year period. The peer group for performance purposes consists of all companies comprising the S&P 400 Utilities Index as of January 1 at the beginning of the performance cycle. Throughout the course of the three-year performance cycle, companies may be added or dropped from the index by S&P due to mergers or other activities. At the end of the cycle, new companies that were added to the index are included in the rankings as if they had been in the ranking from the beginning, provided there is sufficient trading history to include them in the final calculation. When a company is dropped from the index, everything related to the company is excluded as if it were never in the 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 rate-of-return ranking compared to that of those companies in the S&P 400 Utilities Index, and is payable at the Compensation Committee s discretion in cash, shares of Company common stock, or a combination of both. Dividend equivalents on performance awards are accumulated and paid upon vesting if the awards vest and are paid based on performance. If the Company s relative TSR over the three-year performance period is below the threshold performance required to earn the award, then the accumulated dividends are forfeited as well.

*Range of Award Opportunity for Performance Shares*

Each year, the Compensation Committee approves a grant of performance shares at target to each NEO that vest over a three-year performance cycle based on achieving pre-determined performance goals. The number of performance shares that may be earned at the end of the cycle can range from 0% to 200% of the target number of performance shares granted, depending upon the level of performance.

During 2012, we granted performance shares to our NEOs that may be earned over based on our TSR relative to the TSR of the S&P 400 Utilities Index for the performance period between 2012 to 2014.

In 2012, the payout schedule for corresponding TSR performance was revised by the Compensation Committee to align with current competitive practices within the peer group based on market data provided by the Compensation Committee s consultant and to align with competitive practice of those utilities within the S&P 400 Utilities Index. The following graph represents the relationship between the Company s relative three-year TSR and the award opportunity.

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*2010-2012 Performance Shares Settlement*

For performance shares granted in 2010 for the performance period ending December 31, 2012, the Compensation Committee held a special meeting on January 11, 2013 to review, certify, and settle the issuance of shares to executive officers. The Company s TSR was 29.9% during the performance cycle, which placed the Company at the 15th percentile among the S&P 400 Utilities Index. Based on these results, the CEO and the other NEOs forfeited the performance award granted in 2010. No accrued dividend equivalents were paid out on performance shares covered by the 2010 grant.

*Restricted Stock Units*

The Company awards RSUs to improve retention of key talent and link compensation to the value of the Company common stock. For all NEOs and other executive officers other than the CEO, the vesting of RSUs is time-based, and the units vest in three equal annual increments, provided the executive remains employed by the Company on the last day of each year of the three-year period.

Dividend equivalents on time-based RSUs are accumulated and paid upon vesting if the awards vest and are paid. If the award is forfeited, the accumulated dividends are also forfeited.

For the CEO, the RSUs vest in three equal annual increments provided the CEO remains employed by the Company on the last day of each year of the three-year period and the Company has attained the performance targets. In order for any portion of the CEO s RSUs to vest, the Company s ROE must exceed a hurdle rate equal to the Company s weighted average cost of debt.

Using a weighted average cost of debt, the Compensation Committee determined early in 2012 that a 5.76% ROE hurdle rate was appropriate for 2012. Dividend equivalents accrue on the unvested RSUs and, if the performance targets are met, the dividend equivalents are paid in cash at the same time that the underlying RSUs vest and are paid in shares. If the Company does not achieve the minimum ROE performance target, no shares or dividend equivalents are earned. For 2012, the ROE hurdle rate was met; therefore, the CEO received 1/3 of his RSUs and associated cash dividend equivalents.

| | Realized Value Paid in 2012 | | | | | |
|---|---|---|---|---|---|---|
| NEO | Performance Shares | | Restricted Stock Units | | | Total Realized Value |
| | # | Value | # | Value | Dividend Equivalents | |
| Scott L. Morris | 0 | $ 000 | 12,367 | $ 322,037 | $ 28,535 | $ 350,572 |
| Mark T. Thies | 0 | $ 000 | 5,066 | $ 124,472 | $ 14,034 | $ 138,506 |
| Dennis P. Vermillion | 0 | $ 000 | 5,100 | $ 125,307 | $ 14,151 | $ 139,458 |
| Karen S. Feltes | 0 | $ 000 | 6,266 | $ 153,956 | $ 16,122 | $ 170,078 |
| Marian M. Durkin | 0 | $ 000 | 5,066 | $ 124,472 | $ 14,034 | $ 138,506 |

*One-time Grant of Stock Options*

The Ecova Board approved a one-time grant of performance-based NQSOs for the NEOs who serve as officers of Ecova. This includes all NEOs with the exception of Mr. Vermillion, who in his role as Avista Utility President does not serve as an officer of Ecova. The Compensation Committee agreed to have the Ecova Board take this action as they believed it was in the shareholder s interest that the NEOs be motivated to drive and maximize the value of Ecova s business and be rewarded when certain performance metrics are achieved at Ecova by receiving a one-time grant with a performance metric based on Ecova s EBITDA growth of 15% for 2013, 2014, and 2015.

The stock options vest over a three-year period based on Ecova s earnings growth, do not have put rights and terminate 10 years from the date granted. Ecova must achieve, based on EBITDA, a growth rate of 15 percent each year for 1/3 of the options to vest and become exercisable. If the performance condition is not met, the options do not vest. However, if Ecova achieves a cumulative EBITDA growth rate of 30 percent after two years or 45 percent after three years, then all previously unvested options will vest.

One-third of the NEOs options granted in 2012 did not vest because Ecova s EBITDA growth was below the threshold performance required to vest the options.

**Perquisites**

The Company does not provide any perquisites or personal benefits to the CEO or any other NEO.

**Other Benefits**

All regular employees, including the NEOs, are eligible for the Company s defined benefit plan, the Company s 401(k) plan, health and dental coverage, Company-paid term life insurance, disability insurance, paid time off, and paid holidays.

The Company s retirement plan for all employees provides a traditional retirement benefit based on employees compensation and years of credited service. Earnings credited for retirement purposes represent the final average annual base salary of the employee for the highest 36 consecutive months during the last 120 months of service with the Company.

**Supplemental Executive Retirement Plan**

In addition to the Company s retirement plan for all employees, the Company provides additional pension benefits through the SERP to the Company s executive officers. Details of the SERP benefits and the amounts accrued by each NEO are found in the Pension Benefits section on page 40.

The Compensation Committee believes the pension plans and the SERP are an important part of the NEOs compensation. These plans are market competitive within the energy/utility industry and serve a critically important role in the retention of senior executives. As the benefits thereunder increase for each year these executives remain employed, the plans thereby encourage our most senior executives to remain employed and continue their work on behalf of shareholders.

The Compensation Committee had previously approved grants of additional years of SERP service credit to two NEOs in an effort to recruit them to join the Company and move to Spokane, Washington. Although this type of pay practice was used in the past as a negotiated recruitment tool, the Compensation Committee recognizes that there have been market changes over the past few years in supplemental pension plan design and changes in compensation governance views on the use of supplemental pensions. Therefore, the Compensation Committee took action several years ago to no longer grant additional SERP service credits as a recruitment incentive.

Based on its review of the market for these types of plans, the Compensation Committee revised the SERP to align it with the median industry practice. Effective February 4, 2011, the Company adopted a new SERP for eligible employees who first become hired or appointed as executive officers of the Company after February 3, 2011. The new SERP is a restoration plan, which means that it is designed to offset the effect of certain Code limitations applicable to qualified retirement plans. Those limitations prevent a qualified plan from paying a pension benefit on a participant s base salary above a certain level. A restoration plan provides a pension on that portion of a participant s salary that cannot be taken into account by the qualified plan.

**Executive Deferred Compensation**

The Company also maintains an Executive Deferred Compensation Plan (the EDC Plan ). Each NEO may voluntarily participate in this EDC Plan on the same terms and conditions as all other eligible employees who reach a set compensation level. This EDC Plan is competitive in the market and provides eligible employees and executives with a tax-efficient savings method. Additional information about this EDC Plan, including 2012 contributions and year-end account balances can be found in the Non-Qualified Deferred Compensation table on page 41.

**Company Self-Funded Death Benefit Plan**

To provide death benefits to beneficiaries of executive officers who die during their term of office, the Company maintains an executive death benefit plan that will provide an executive officer s designated beneficiary with a lump sum payment, equal to twice the executive officer s final annual base salary, payable within thirty days of the executive s death. Prior to January 1, 2008, the plan continued to provide the death benefit to the beneficiaries of executives who died after retirement. Effective January 1, 2008, the post-retirement death benefit was eliminated for any individual who first became an executive officer after that date. Individuals who were executive officers prior to January 1, 2008 continue to be eligible for the post-retirement death benefit. For officers who are eligible for the post-retirement death benefit, in the event of their death after retirement, their designated beneficiary will receive a lump sum equal to twice the retired executive officer s total annual pension benefit. Amounts payable to the beneficiary of either group are paid from the general assets of the Company. The present value of this benefit for each NEO can be found in the Potential Payment upon Termination or Change in Control ( CIC ) Tables starting on page 41.

**Supplemental Executive Disability Plan**

The Supplemental Executive Disability Plan provides benefits to the Company s executive officers who become disabled during employment. The plan provides a benefit equal to 60% of the executive officer s annual salary at the date of disability reduced by the aggregate amount, if any, of disability benefits provided for under the Company s Long-Term Disability Plan for employees, workers compensation benefits, and any benefit payable under provisions of the Federal Social Security Act. Benefits will be payable until the earlier of the executive officer s date of retirement or age 65. The present value of this benefit for each NEO can be found in the Potential Payment upon Termination or CIC Tables on page 41.

**Change in Control and Severance Benefits**

In 2012, none of the executive officers had severance benefits, except for termination in connection with a change in control. The Compensation Committee believes it is in the interest of shareholders to provide severance to our executive officers in the event of a CIC, thereby reducing the inherent conflict of our executive officers pursuing a transaction that may result in their personal job loss. There are no CIC agreements that provide cash severance benefits in excess of three times base salary and bonus. The CIC agreements all have double triggers that provide for a severance payment only upon the occurrence of both a CIC and qualified termination.

Additional information regarding the CIC agreements, including definitions of key terms and a quantification of benefits that would have been received by the NEOs had termination occurred on December 31, 2012, due to a CIC, is found in the Potential Payment Upon Termination or CIC tables on page 41.

CIC agreements entered into on or after November 13, 2009 do not provide for excise tax gross-ups. CIC agreements entered into before that date contain gross-ups, but, the gross-up provisions have been modified to eliminate the gross-up payment if the golden parachute excise tax imposed by Code Sections 280G and 4999 could be avoided by reducing an executive s total change of control payments (other than the gross-up) by 10% or less.

**Internal Revenue Code Section 162(m)**

Code Section 162(m) imposes a $1 million limit on the amount of compensation paid to a CEO and certain other highly compensated executive officers that a public company may deduct each year as an expense for federal income tax purposes. This limitation does not apply to compensation that qualifies as performance-based compensation, which is compensation paid when an individual s performance meets pre-established objective

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goals based on performance criteria approved by the Company s shareholders. When consistent with the Company s compensation philosophy and objectives, the Compensation Committee intends to structure its compensation plans so that all compensation expense may be deductible for tax purposes. However, in light of the need to maintain flexibility in administering our executive compensation program, the Compensation Committee retains discretion to recommend to the Board executive compensation that may not be deductible.

**Compensation Governance Matters**

*Recoupment Policy*

The Compensation Committee believes that if the Company is required to prepare an accounting restatement as a result of misconduct or a material error, incentive payouts based on the original results should be revised. Therefore, the Board has adopted a formal recoupment policy applicable to incentive compensation awards. The policy authorizes the Board to recover incentive payouts if those payouts are based on performance results that are subsequently revised or restated to levels that would have produced payouts lower than the original incentive plan payouts. If misconduct or material error results in a restatement of financial results, the Compensation Committee may recommend that the Board either require forfeiture of incentive awards or seek to recover appropriate portions of the executive officer s compensation for the relevant period, in addition to other disciplinary actions that might be appropriate based on the circumstances. The Board, in its discretion, would determine when the need for a recoupment is triggered, to whom the recoupment would apply and the mechanism for recouping incentive payments.

*Stock Ownership Guidelines*

The Board has implemented a stock ownership policy for the Company s executive officers. The policy requires executive officers to own shares based on their position and salary, as well as to achieve set ownership levels based on a multiple of salary. The exact multiple depends on the executive officer s position and salary. The policy requires executive officers to achieve the required ownership level within five years from the program s inception in 2010, or from the executive officer s employment date or from the executive officer s promotion.

The objectives of having a stock ownership policy are to:

- Strengthen alignment of the executives financial interests with those of shareholders;
- Enhance executive long-term perspective and focus on shareholder value growth;
- Reinforce pay at risk philosophy and provide an additional basis for sharing in Company success or failure as reflected in shareholder returns; and
- Align Company practice with corporate governance best practices.

| Requirement | | Ownership Definition | Retention Requirement |
| --- | --- | --- | --- |
| CEO | 5 times salary | Direct holding and family holdings | Officers must retain 50% of the net shares received upon restricted stock release or issuance of performance shares earned until the ownership level is achieved. |
| SVPs | 2.5 times salary | Shares held in 401(k) | |
| VPs | 1 times salary | Shares held in Executive Deferred Compensation Account | |
| | | Unvested time-based RSUs | |

Annually in February, the Compensation Committee reviews the ownership levels to assure adherence to the guidelines. In 2012, the Compensation Committee conducted its annual review to assess that each officer was at or moving toward the required ownership level for his or her position. Although several officers had not yet met the required ownership level, after review, the Compensation Committee determined that those officers were making appropriate progress toward the required level.

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***Anti-Hedging Policy***

The anti-hedging policy in the Company s insider trading policy expressly prohibits all directors, NEOs, and other officers from engaging in a short sale or hedging the economic interest in the Company shares they hold.

**Compensation Committee Report**

The Compensation Committee of the Board has reviewed and discussed the CD&A with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the CD&A be included in the Company s Annual Report on Form 10-K and in this proxy statement.

**Members of the Compensation & Organization Committee of the Board**

John Taylor Chair    Rebecca Klein    Michael Noël    John Kelly

**Compensation Committee Interlocks and Insider Participation**

There are no Compensation Committee interlocks or insider participation relationships which SEC regulations or NYSE listing standards would require to be disclosed in this proxy statement.

**EXECUTIVE COMPENSATION TABLES**

**Summary Compensation Table 2012(1)**

| Name and Principal Position | Year | Salary(2) | Stock Awards ($)(3) | Stock Options ($)(7) | Non-Equity Incentive Plan Compensation ($)(4) | Change in Pension and Non-Qualified Deferred Compensation Earnings ($)(5) | All Other Comp. ($)(6) | Total Compensation ($) |
|---|---|---|---|---|---|---|---|---|
| S. L. Morris | 2012 | $ 673,847 | $ 1,420,093 | $ 135,250 | $ 245,860 | $ 969,583 | $ 50,165 | $ 3,359,548 |
| Chairman of the Board, | 2011 | $ 662,307 | $ 1,356,481 | | $ 537,363 | $ 890,122 | $ 49,273 | $ 3,495,546 |
| President & Chief Executive | 2010 | $ 630,001 | $ 1,033,920 | | $ 627,669 | $ 906,969 | $ 47,408 | $ 3,245,967 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Officer | | | | | | | | |
| M. T. Thies | 2012 | $ 365,769 | $ 545,190 | $ 33,813 | $ 88,970 | $ 117,078 | $ 11,250 | $ 1,128,257 |
| Sr. Vice President & Chief | 2011 | $ 341,153 | $ 331,268 | | $ 184,530 | $ 77,386 | $ 11,025 | $ 945,362 |
| Financial Officer | 2010 | $ 323,077 | $ 252,630 | | $ 215,865 | $ 52,163 | $ 11,025 | $ 854,760 |
| D. P. Vermillion | 2012 | $ 310,385 | $ 560,803 | | $ 75,498 | $ 383,559 | $ 13,907 | $ 1,344,152 |
| Sr. Vice President & | 2011 | $ 304,039 | $ 331,268 | | $ 164,455 | $ 301,136 | $ 13,413 | $ 1,114,311 |
| Environmental | 2010 | $ 298,078 | $ 252,630 | | $ 199,260 | $ 233,354 | $ 13,015 | $ 996,337 |
| Compliance Officer | | | | | | | | |
| K. S. Feltes | 2012 | $ 267,308 | $ 545,190 | $ 33,813 | $ 65,020 | $ 253,636 | $ 11,250 | $ 1,142,404 |
| Sr. Vice President & Corporate | 2011 | $ 253,654 | $ 372,722 | | $ 137,201 | $ 186,846 | $ 11,025 | $ 961,448 |
| Secretary | 2010 | $ 246,461 | $ 288,270 | | $ 164,722 | $ 153,540 | $ 11,025 | $ 864,018 |
| M. M. Durkin | 2012 | $ 305,385 | $ 545,190 | $ 33,813 | $ 74,282 | $ 170,519 | $ 11,250 | $ 1,106,626 |
| Sr. Vice President, General | 2011 | $ 288,655 | $ 331,268 | | $ 156,133 | $ 123,624 | $ 11,025 | $ 910,705 |
| Counsel & Chief Compliance | 2010 | $ 281,463 | $ 252,630 | | $ 187,969 | $ 97,364 | $ 11,025 | $ 830,451 |
| Officer | | | | | | | | |

(1) This table summarizes the compensation paid to, granted to, or earned by each of our NEOs for each of the last three fiscal years.

(2) Amounts earned in the applicable year; includes regular pay, paid time-off and holiday pay. The total amounts shown in this column also include any amounts that an NEO elected to defer in accordance with the Executive Deferred Compensation Plan. (See the Non-Qualified Deferred Compensation table on page 41 to find out which NEOs elected to defer compensation during 2012 and how much they deferred.)

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(3) Values shown represent the aggregate grant date fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 *Compensation Stock Compensation* for RSUs and performance awards granted in each of the years reported. Assumptions used in the calculation of these amounts are included in Note 20 of the Company s audited financial statements for the year ended December 31, 2012 included in the Company s Annual Report on Form 10-K filed with the SEC. In the case of performance share awards, the amounts reported in the Stock Awards column represent the aggregate grant date fair value of the target number of performance shares that may become vested if the applicable performance criteria are satisfied, and computed in accordance with ASC 718. The aggregate grant date fair value for the target number of performance shares was calculated by using a Monte Carlo simulation, which produces a probable value for the awards. Performance stock awards vest at the end of the vesting term, however the number of shares delivered vary based upon the attained level of performance and may range from 0 to 2.0 times (for awards granted prior to 2011 range is from 0 to 1.5 times) the target number of performance shares awarded. For the 2012 performance share grant, if the maximum level of performance is achieved and using the closing stock price of $24.11 as reported on December 31, 2012 to calculate the value and add the dividend equivalents using an annual amount of $1.16 per share as declared in 2012 multiplied by three years, then the value of the payouts would be: Mr. Morris $2,345,150; Mr. Thies $662,160; Mr. Vermillion $689,750; Ms. Durkin $662,160; and Ms. Feltes $662,160.

(4) Annual short-term cash incentive awards paid in 2013 that were earned by NEOs for 2012 performance in accordance with the Executive Incentive Compensation Plan.

(5) The change in pension amounts for each NEO is the difference between the December 31, 2012 and December 30, 2011 present values of the accrued benefit at normal retirement age (the earliest age at which retirement benefits may be received by the NEO without any reduction in benefits). The increase in the value of pension benefits is due to one additional year of service, higher final average earnings, the passage of time, and changes in interest and mortality assumptions for calculating present values. The present value as of December 31, 2012 utilizes the RP2000 mortality table projected to 2013 for males and females and a 4.15% discount rate for the Retirement Plan and a 4.05% discount rate for the SERP Plan. There were no above-market earnings for the Company s Executive Deferred Compensation Plan.

(6) Includes employer matching contributions under both the Executive Deferred Compensation Plan and the Investment and Employee Stock Ownership Plan (401(k) plan). The Company makes matching contributions on behalf of all its employees who make regular contributions of their wages, salary, cash incentive, and overtime to the 401(k) plan during the plan year. The Company matching contribution to the 401(k) plan is equal to $0.75 for every $1.00 of regular employee contributions up to a maximum 6% of compensation for non union employees hired prior to January 1, 2006. For non union employees hired after that date, the Company matching contribution is equal to $1.00 for every $1.00 of regular employee contributions up to a maximum of 6% of compensation. The Company matching contribution under the Executive Deferred Compensation Plan is equal to $0.75 for every $1.00 contributed up to a maximum of 6% of the executive s base pay less the maximum contribution allowed under the 401(k) plan assuming the participant has contributed the maximum allowed by law. The All Other Compensation amounts for 2012 are shown in the following table:

(7) Values shown represent the aggregate grant date fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 *Compensation Stock Compensation* for stock option awards granted in 2012. The value of the options was calculated using a Black Scholes pricing model. The Ecova Board approved a one-time grant of performance-based non-qualified stock options for the NEOs who serve as officers of Ecova. This includes all NEOs with the exception of Mr. Vermillion, who in his role as Avista Utility President does not serve as an officer of Ecova. The options are performance-based and 1/3 vest and become exercisable each year over a three-year period only if the performance condition is met.

| Name | Executive Deferred Compensation Plan Company Match | Investment and Employee Stock Ownership Plan (401(k) plan) Company Match | Paid Time Off (Cash Outs) | Total All Other Compensation |
|---|---|---|---|---|
| Morris | | $ 11,250 | $ 38,915 | $ 50,165 |
| Thies | | $ 15,000 | | $ 15,000 |
| Vermillion | $ 2,657 | $ 11,250 | | $ 13,907 |
| Feltes | | $ 11,250 | | $ 11,250 |
| Durkin | | $ 11,250 | | $ 11,250 |

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## Grants of Plan-Based Awards 2012

| | | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(2) | | | Estimated Future Payouts Under Equity Incentive Plan Awards(3) | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Grant Date(1) | Threshold | Target | Maximum | Threshold(#) | Target(#) | Maximum(#) | All Other Stock Awards: Number of Shares of Stock or Units (#)(5) | Grant Date Fair Value of Stock and Option Awards ($)(6) |
| S. L. Morris | | | | | | | | | |
| Annual Cash Award | 02/02/12 | $ 284,310 | $ 607,500 | $ 765,450 | | | | | |
| Performance Award | 02/02/12 | | | | 17,000 | 42,500 | 85,000 | | $ 1,107,550 |
| Restricted Stock Units (4) | 02/02/12 | | | | | 12,100 | 12,100 | | $ 312,543 |
| Stock Options (7) | 02/28/12 | | | | | 100,000 | 100,000 | | $ 446,000 |
| M. T. Thies | | | | | | | | | |
| Annual Cash Award | 02/02/12 | $ 69,638 | $ 223,200 | $ 187,488 | | | | | |
| Performance Award | 02/02/12 | | | | 4,800 | 12,000 | 24,000 | | $ 312,720 |
| Restricted Stock Units | 02/02/12 | | | | | | | 9,000 | $ 232,470 |
| Stock Options (7) | 02/28/12 | | | | | 25,000 | 25,000 | | $ 111,500 |
| D. P. Vermillion | | | | | | | | | |
| Annual Cash Award | 02/02/12 | $ 58,406 | $ 187,200 | $ 157,248 | | | | | |
| Performance Award | 02/02/12 | | | | 5,000 | 12,500 | 25,000 | | $ 325,750 |
| Restricted Stock Units | 02/02/12 | | | | | | | 9,100 | $ 235,053 |
| K. S. Feltes | | | | | | | | | |
| Annual Cash Award | 02/02/12 | $ 50,731 | $ 162,600 | $ 136,584 | | | | | |
| Performance Award | 02/02/12 | | | | 4,800 | 12,000 | 24,000 | | $ 312,720 |
| Restricted Stock Units | 02/02/12 | | | | | | | 9,000 | $ 232,470 |
| Stock Options (7) | 02/28/12 | | | | | 25,000 | 25,000 | | $ 111,500 |
| M. M. Durkin | | | | | | | | | |
| Annual Cash Award | 02/02/12 | $ 58,032 | $ 186,000 | $ 156,240 | | | | | |
| Performance Award | 02/02/12 | | | | 4,800 | 12,000 | 24,000 | | $ 312,720 |
| Restricted Stock Units | 02/02/12 | | | | | | | 9,000 | $ 232,470 |
| Stock Options (7) | 02/28/12 | | | | | 25,000 | 25,000 | | $ 111,500 |

(1) The grant date is the date the Compensation Committee and/or the Board approves the grant of performance awards, RSUs or non-equity incentive awards.

(2) Potential annual cash incentive awards granted to NEOs for 2012 performance in accordance with the Plan. The amounts actually paid to NEOs for 2012 performance appear in the Non-Equity Incentive Plan column of the Summary Compensation Table. See the CD&A for further explanation.

(3) Performance share awards are granted under the LTIP and vest over a three-year period. The number of units earned at the end of the three-year period depends on the level of performance achieved. See the CD&A for further explanation.

(4) In 2012, Mr. Morris was awarded RSUs that vest over a three-year period each year 1/3 of the units vest and shares are issued provided Mr. Morris is employed on the last day of the year and the Company achieves the minimum annual ROE performance target established for that year. Dividend equivalents accrue on the unvested units and, if the performance target is met, the dividend equivalents are paid in cash at the same time the underlying units vest and are paid in shares. Therefore, if the Company does not achieve the annual ROE performance target, no units or dividend equivalents are earned. See the CD&A for further explanation.

(5) In 2012, the NEOs, other than Mr. Morris, were awarded RSUs that vest over a three-year period each year 1/3 of the units vest and shares are issued on an annual basis provided the NEO is employed on the last day of the vesting period. Dividend equivalents accrue on the unvested units and, if the NEO is employed on the last day of the vesting period, the dividend equivalents are paid in cash at the same time the underlying units vest and are paid in shares. Therefore, if his or her employment ends prior to the last day of the vesting period, no units or dividend equivalents are earned.

(6) The performance award amounts shown in this column are calculated in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 718 Compensation Stock Compensation and represent the grant date fair value of the target award that could be earned. Assumptions used in the calculation of these amounts are included in Note 20 of the Company s audited financial statements for the year ended December 31, 2012 included in the Company s Form 10-K filed with the SEC on February 26, 2013. The aggregate grant date fair value for the target number of units was calculated by application of a Monte Carlo model, which resulted in a fair value per share lower than the closing price per share on the grant date.

(7)

The Ecova Board approved a one-time grant of performance-based NQSOs for the NEOs who serve as officers of Ecova. This includes all NEOs with the exception of Mr. Vermillion, who in his role as Avista Utility President does not serve as an officer of Ecova. The NQSOs are performance-based and 1/3 vest and become exercisable each year over a three-year period only if the performance condition is met.

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**Employment Agreements**

The Company currently does not have employment agreements with its NEOs, with the exception of Ms. Durkin and Mr. Thies. Please refer to the Pension discussion on page 40 for a discussion of the provisions that relate to the grant of additional service credit for pension purposes, and to the Potential Payments Upon Termination or Change of Control discussion at page 41, for a discussion of the change in control provisions, including the recent modification to the golden parachute excise tax gross-up provisions.

**Outstanding Equity Awards at Year-End 2012**

| | | Option Awards | | | Stock Awards | | | |
|---|---|---|---|---|---|---|---|---|
| **Name** | **Date of Grant** | **Number of Securities Underlying Unexercised Options (#) Exercisable(1)** | **Option Exercise Price ($)(2)** | **Option Expiration Date(3)** | **Number of Shares or Units of Stock that Have Not Vested (#)(4)** | **Market Value of Shares or Units of Stock That Have Not Vested ($)(5)** | **Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights That Have not Vested(6)** | **Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested ($)(6)** |
| S. L. Morris | 02/03/2011 | | | | | | 51,400 | $ 619,627 |
| S. L. Morris | 02/03/2011 | | | | | | 4,166 | $ 100,442 |
| S. L. Morris | 02/02/2012 | | | | | | 42,500 | $ 409,870 |
| S. L. Morris | 02/02/2012 | | | | | | 8,066 | $ 194,471 |
| M. T. Thies | 02/03/2011 | | | | | | 12,500 | $ 150,688 |
| M. T. Thies | 02/03/2011 | | | | 1,033 | $ 24,906 | | |
| M. T. Thies | 02/02/2012 | | | | | | 12,000 | $ 115,728 |
| M. T. Thies | 02/02/2012 | | | | 6,000 | $ 144,660 | | |
| D. P. Vermillion | 02/03/2011 | | | | | | 12,500 | $ 150,688 |
| D. P. Vermillion | 02/03/2011 | | | | 1,033 | $ 24,906 | | |
| D. P. Vermillion | 02/02/2012 | | | | | | 12,500 | $ 120,550 |
| D. P. Vermillion | 02/02/2012 | | | | 6,066 | $ 146,251 | | |
| K. S. Feltes | 02/03/2011 | | | | | | 12,500 | $ 150,688 |
| K. S. Feltes | 02/03/2011 | | | | 1,633 | $ 39,372 | | |
| K. S. Feltes | 02/02/2012 | | | | | | 12,000 | $ 115,728 |
| K. S. Feltes | 02/02/2012 | | | | 6,000 | $ 144,660 | | |
| M. M. Durkin | 02/03/2011 | | | | | | 12,500 | $ 150,688 |
| M. M. Durkin | 02/03/2011 | | | | 1,033 | $ 24,906 | | |
| M. M. Durkin | 02/02/2012 | | | | | | 12,000 | $ 115,728 |
| M. M. Durkin | 02/02/2012 | | | | 6,000 | $ 144,660 | | |

(1) The Ecova Board approved a one-time grant of performance-based non-qualified stock options NQSOs for the NEOs who serve as officers of Ecova. This includes all NEOs with the exception of Mr. Vermillion, who in his role as Avista Utility President does not serve as an officer of Ecova. The NQSOs are performance-based and 1/3 vest and will become exercisable each year over a three-year period only if the performance condition is met. One-third of the NEOs options granted in 2012 did not vest and become exercisable because Ecova s EBITDA growth was below the threshold performance required to vest the options.

(2) Option exercise price is based on the average of the high and low stock price on the date of grant.

(3) Options have a term of ten years from the grant date.

(4) Number of time-based RSUs that remain unvested as of December 31, 2012. (RSUs vest over a three-year period 1/3 of the units vest and are issued on an annual basis.)

(5) Market value of RSUs is based on the closing stock price ($24.11) as reported on December 31, 2012.

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(6) Performance share awards reflect the number of performance shares granted at the threshold performance level. The market value is based on the closing stock price ($24.11) as reported on December 31, 2012. The value for the 2011 performance share award is shown at the threshold level (50%) based on results (less than threshold) for the first two years of the 2011-2013 performance period. The value for the 2012 performance share awards are shown at the threshold level (40%) based on results (less than threshold) for the first year of the 2012-2014 performance period. The NEOs did not earn a performance share payout for the 2010-2012 performance period, and as a result, those performance shares are shown as zero on the Option Exercises and Stock Vested table below.

**Option Exercises and Stock Vested 2012**

| | Option Awards | | Stock Awards (1) (2) | |
|---|---|---|---|---|
| Name | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise ($) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting ($) |
| S. L. Morris | | | 0(1) | $ 0 |
| S. L. Morris | | | 4,166(3) | $ 113,315 |
| S. L. Morris | | | 4,167(3) | $ 118,175 |
| S. L. Morris | | | 4,034(3) | $ 119,081 |
| S. L. Morris | 26,250 | $ 405,158 | | |
| M. T. Thies | | | 0(1) | $ 0 |
| M. T. Thies | | | 1,033(2) | $ 26,579 |
| M. T. Thies | | | 1,033(2) | $ 27,777 |
| M. T. Thies | | | 3,000(2) | $ 84,150 |
| D. P. Vermillion | | | 0(1) | $ 0 |
| D. P. Vermillion | | | 1,033(2) | $ 26,579 |
| D. P. Vermillion | | | 1,033(2) | $ 27,777 |
| D. P. Vermillion | | | 3,034(2) | $ 85,101 |
| K. S. Feltes | | | 0(1) | $ 0 |
| K. S. Feltes | | | 1,633(2) | $ 42,017 |
| K. S. Felte | | | | |