

AVISTA CORP  
Form PRE 14A  
February 29, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A INFORMATION

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

(Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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|-------------------------------------|---------------------------------------|--------------------------|--|
| <input checked="" type="checkbox"/> | Preliminary Proxy Statement           | <input type="checkbox"/> | <b>Confidential, for Use of the Commission Only</b><br><b>(as permitted by Rule 14a-6(e)(2))</b> |
| <input type="checkbox"/>            | Definitive Proxy Statement            |                          |  |
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AVISTA CORPORATION

(Name of registrant as specified in its charter)

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(Name of person(s) filing proxy statement, if other than the registrant)

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- No fee required.
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  - (1) Title of each class of securities to which the transaction applies:
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  - (1) Amount Previously Paid:
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Notice of May 10, 2012

Annual Meeting and

2012 Proxy Statement

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**Important Voting Information**

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

**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 the Internet as promptly as possible. If you are submitting your proxy by mail, you should complete, sign, and date your proxy card, and return it in the envelope provided. If you plan to vote by telephone or the Internet, voting instructions are printed on your proxy card and/or proxy notice. If you hold your shares through an account with a brokerage firm, bank, or other nominee, please follow the instructions you receive from them to vote your shares.

**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 & Exchange Commission (SEC) also has a website ([www.sec.gov/spotlight/proxymatters.shtml](http://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 10, 2012**

**This proxy statement and the 2011 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 30, 2012

Dear Fellow Shareholder:

On behalf of the Board of Directors (Board), it is my pleasure to invite you to the 2012 Annual Meeting of Shareholders. The doors open at 7:30 a.m. and the meeting will begin promptly at 8:15 a.m.

Date	Thursday, May 10, 2012	Place:	Avista Main Office Building
Time	7:30 a.m. Doors Open		Auditorium
	7:45 a.m. Refreshments		1411 E. Mission Avenue
	<b>8:15 a.m. Annual Meeting Convenes</b>		Spokane, Washington

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

Please take the opportunity to review the Proxy Statement and 2011 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](http://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](http://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 13.**

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**AVISTA CORPORATION**

**1411 East Mission Avenue**

**Spokane, Washington 99202**

**NOTICE OF ANNUAL MEETING**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE  
SHAREHOLDER MEETING TO BE HELD ON THURSDAY, MAY 10, 2012**

**This proxy statement and the 2011 Annual Report are available on the Internet at**

**<http://proxyvote.com>**

**Date:** Thursday, May 10, 2012  
**Time:** 8:15 a.m., Pacific Time  
**Place:** Avista Main Office Building Auditorium

**Record Date:** 1411 E. Mission Avenue, Spokane, Washington  
March 9, 2012

**Meeting Agenda:**

- 1) Election of eleven directors.
- 2) Ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for 2012.
- 3) Amendment of the Company's Restated Articles of Incorporation to reduce certain shareholder approval requirements. The Board recommends a vote **FOR** this proposal.
- 4) Advisory (non-binding) vote on executive compensation. The Board recommends a vote **FOR** this proposal.
- 5) Transaction of other business that may come before the meeting or any adjournment(s).

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

By Order of the Board,

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Karen S. Feltes

Senior Vice President & Corporate Secretary

Spokane, Washington

March 30, 2012

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**AVISTA CORPORATION**

**1411 East Mission Avenue**

**Spokane, Washington 99202**

**PROXY STATEMENT**

**FOR THE ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON MAY 10, 2012**

**GENERAL**

**Your vote is important. Whether or not you plan to attend the Annual Meeting in person, we urge you to vote and submit your proxy by mail, telephone, or the Internet as promptly as possible.** If you are submitting your proxy by mail, you should complete, sign, and date your proxy card, and return it in the envelope provided. If you plan to vote by telephone or the Internet, voting instructions are printed on your proxy card and/or proxy notice. If you hold your shares through an account with a brokerage firm, bank, or other nominee, please follow the instructions you receive from them to vote your shares.

At the close of business on the record date, March 9, 2012, there were \_\_\_\_\_ shares of Company common stock outstanding and entitled to vote at the Annual Meeting. Shares represented at the meeting by properly executed proxies will be voted at the meeting. If the shareholder specifies voting instructions, the shares will be voted as indicated. A proxy may be revoked at any time prior to the Annual Meeting.

**VOTING**

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

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Proposal 1 election of directors, a nominee will be elected if the number of votes cast for exceeds the number of votes against. Abstentions or broker non-votes (see voting instructions at the beginning of this proxy statement) will have no effect on the election of that director. If no instructions are given on a proxy with respect to this proposal, the holders of the shares represented by that proxy card will be deemed to abstain from voting on this proposal. Shareholders may not cumulate votes in the election of directors. If an incumbent director does not receive a majority of votes cast with respect to his/her re-election in an uncontested election, he/she would continue to serve a term that would terminate on the date that is the earliest of: (i) the date of the commencement of the term of a new director selected by the Board to fill the office held by such director, (ii) the effective date of the resignation of such director or (iii) December 31, 2012.

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 2012, will be approved if the number of votes duly cast in favor of this proposal exceeds the number of votes cast against the proposal. Abstentions from voting will have no impact on the outcome of this proposal. If no instructions are given on a proxy card with respect to this proposal, the shares represented by that proxy will be voted for this proposal.

Proposal 3, the proposal for amending the Articles to reduce certain shareholder approval requirements, has been divided into two proposals 3A and 3B. Proposal 3A will be approved upon the affirmative vote of the holders of 2/3 of the outstanding shares of common stock. Proposal 3B will be approved upon the affirmative vote of the

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holders of 80% the outstanding shares of common stock. Abstentions or broker non-votes (see voting instructions at the beginning of this proxy statement) will have the same impact as a negative vote on the outcome of Proposals 3A and 3B. If the shares represented by a proxy card are registered in the name of the beneficial owner (and not a broker) and if no instructions are given on the proxy card with respect to these proposals, the shares represented by that proxy card will be voted for these proposals.

Proposal 4, the advisory (non-binding) vote on executive compensation, will be approved if the number of votes cast in favor of this proposal exceeds the number of votes cast against the proposal. Abstentions from voting and broker non-votes will have no impact on the outcome of Proposal 4. If the shares represented by a proxy card are registered in the name of the beneficial owner (and not a broker) and if no instructions are given on the proxy card with respect to this proposal, the shares represented by that proxy card will be voted for this proposal.

## **CORPORATE GOVERNANCE MATTERS**

### **Corporate Governance Principles**

The Board has long adhered to governance principles designed to assure the continued vitality of the Board in the execution of its duties. The Board 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 and challenges facing the Company and markets so that the Board members can exercise their fiduciary responsibilities to the Company's shareholders.

### **Board Leadership Structure**

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

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 efforts 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.

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

maintaining an active, 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 agenda items.

The Lead Director is available for communications and consultation with major shareholders. The Company has a mechanism for shareholders to communicate with the Lead Director, non-management directors as a group, or on an individual basis. (See Communications with Shareholders on page 6.)

The Board has been, and continues to be, a strong proponent of director independence. As a result, the Company's corporate governance structures and practices provide for a strong, independent Board and include several independent oversight mechanisms. The Board believes this governance structure and these practices ensure that strong and independent directors will continue to effectively oversee the Company's management and key issues related to its long-range business plans, long-range strategic issues, risks and integrity. The Board is comprised of Mr. Morris and ten independent directors. The Board has five independent Committees with separate independent Chairs: Audit Committee, Compensation & Organization Committee (Compensation Committee), Corporate Governance/Nominating Committee (Governance Committee), Finance Committee and Energy, Environmental & Operations Committee (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.

## **Director Independence**

It is the policy of the Board that a majority of the directors be independent from management and that the Board will not engage in transactions that would conflict with the Company's business. Independence determinations are made on an annual basis at the time the Board approves nominees for election at the next Annual Meeting and, if a director joins the Board between Annual Meetings, at such time. To assist in this determination, the Board adopted Categorical Standards for Independence of Directors (Categorical Standards).

During its annual review, the Board considered transactions and relationships between each director or any member of his/her family and the Company and its subsidiaries and affiliates, including those reported under Related Party Transactions below. The Board also considered whether there were any transactions or relationships between directors or any member of their immediate family (or any entity of which a

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director or an immediate family member is an executive officer, general partner, or significant equity holder) and members of the Company's senior management or their affiliates. The purpose of the review was to determine whether any such relationships or transactions existed that were inconsistent with a determination that the director is independent.

As a result of this review, the Board 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.

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### **Related Party Transactions**

The Board recognizes that related party transactions present a heightened risk of conflicts of interest and/or improper valuation (or the perception thereof) and, therefore, has adopted a Related Party Transaction Policy, which will be followed in connection with all related party transactions involving the Company and specified related persons that include directors (including nominees) and executive officers, certain family members and certain shareholders, all as outlined in the applicable Securities and Exchange Commission (SEC) rules.

SEC rules require that the Company disclose any related party transaction in which the amount involved exceeds \$120,000 in the last year. The Governance Committee has determined that the Company has no related party transactions that were reportable for 2011.

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 2011.

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 2011 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 2011, the Company's ad agency purchased radio advertisements on those stations. The amount paid to that company in 2011 or in any of the prior three years did not exceed the threshold amount in the Categorical Standards.

### **Board Meetings**

The Board held six meetings in 2011. The attendance at all Board meetings and at all Board Committee meetings was 94.9%. 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 2012 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.

### **Duties of Chairman of the Board**

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The Chairman's duties include chairing all meetings of the Board in a manner that effectively utilizes the Board's time and which takes full advantage of the expertise and experience that each director has to offer; establishing an agenda for each Board meeting with the Lead Director, 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 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.

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### **Committees**

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

**Audit Committee** Assists the Board in overseeing the integrity of and the risks related to the Company's financial statements, the Company's compliance program dealing with legal and regulatory requirements, the qualifications and independence of the independent registered public accounting firm, the performance of the Company's internal audit function and independent registered public accounting firm, and the Company's systems of internal controls regarding accounting, financial reporting, disclosure, legal compliance and ethics that management and the Board have established, including without limitation all internal controls established and maintained pursuant to the Securities Exchange Act of 1934 (the Exchange Act) and by the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). The Audit Committee oversees the Company's risk assessment and risk management processes and the business continuity process. Only independent directors sit on the Audit Committee. During 2011, the Audit Committee consisted of directors Burke, Noël, Stanley, and Blake Chair. The Board has determined that Mr. Noël is an Audit Committee Financial Expert, as defined in the SEC rules. Eight meetings were held in 2011.

**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 18.

The Compensation Committee is composed of independent directors as defined by the rules of the NYSE, and, in addition, complies with the outside director requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), and the non-employee director requirements of Rule 16b-3 under the Exchange Act.

The Compensation Committee consists of directors Kelly, Klein, Noël and Taylor Chair. Five meetings were held in 2011.

**Governance Committee** Advises the Board on corporate governance matters and oversees the risks relating to such matters including recommending guidelines for the composition and size of the Board, evaluating Board effectiveness and organizational structure and setting director compensation (see the section on Director Compensation on page 52 for further information). This Committee also develops Board membership criteria and reviews potential director candidates. Recommendations for director nominees are presented to the full Board for approval. Director nominations by shareholders may be submitted in accordance with the procedures set forth under Director Qualifications and Process for Selecting Board Nominees below. Only independent directors sit on this Committee. The Governance Committee consists of directors Blake, Racicot, Taylor and Kelly Chair. Five meetings were held in 2011.

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***Energy, Environmental and Operations 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 2011.

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**Finance Committee** Strives to ensure that corporate management has in place strategies, budgets, forecasts, and financial plans and programs, including adequate liquidity, to enable the Company to meet its goals and objectives and oversees the associated risks. The Finance Committee's activities and recommendations include reviewing management's qualitative and quantitative financial plans and objectives for both the short and long-term; approving strategies with appropriate action plans to help ensure that financial objectives are met; having in place a system to monitor progress toward financial goals, including monitoring commodity price and counterparty credit risk, as well as taking any necessary action; and overseeing and monitoring employee benefit plan investment performance and approving changes in investment policies, managers, and strategies. Only independent directors sit on this Committee. The Finance Committee consists of directors Burke, Holley, Stanley, and Anderson Chair. Five meetings were held in 2011.

**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 2011.

## **Corporate Governance Guidelines**

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

## **Code of Business Conduct and Ethics**

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

## **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](http://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 2011, 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.

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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;

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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 and regulatory, strategic and reputational risks. The Board's oversight is conducted primarily through the Committees of the Board as set out above in the descriptions of each Committee and as set out in their Charters, but the full Board retains responsibility for general oversight of risks. Management is responsible for the day-to-day management of risks, and the appropriate officer within the 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.

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**PROPOSAL 1 ELECTION OF DIRECTORS**

**Director Qualifications and Process for Selecting Board Nominees**

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

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

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

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

The Governance Committee will consider written recommendations for candidates for the Board that are made by shareholders. Recommendations must include detailed biographical material indicating the qualifications the candidate would bring to the Board, and must include a written statement from the candidate of willingness and availability to serve. While recommendations may be considered at any time, recommendations for a specific Annual Meeting must be received in accordance with the provisions outlined in the Bylaws (see page 62). Recommendations should be directed to the General Counsel of the Company, 1411 East Mission Avenue, P.O. Box 3727 (MSC-12), Spokane, Washington 99220.

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

the appropriate size of the Board;

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

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;

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

experience in the regulatory arena;

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

enhance the diversity and perspective of the Board; and

knowledge of the customers, community, and employee base.

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

**Nominees**

Eleven 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 currently fixed the number at 11.

Upon recommendation from the Governance Committee, the Board has nominated Erik J. Anderson, Kristianne Blake, John F. Kelly, Rebecca A. Klein, Scott L. Morris, Michael L. Noël, 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 2013. The Board appointed Donald C. Burke and Rick R. Holley, as directors, effective August 1, 2011 and has nominated Messrs. Burke and Holley to be elected as directors for a one-year term to expire at the Annual Meeting of Shareholders in 2013. 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**

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*Mr. Anderson*, age 53, has been, since 2002, President of WestRiver Capital, a private investment company, Chairman of Tachyon Networks, Inc., an advanced satellite-based internet solutions company, and vice-Chairman of Montgomery & Co., LLC, an investment bank serving growth companies in technology, media, and healthcare. He is also Chairman of Zula, LLC, a science education company, and a Co-Chair of GEI, a leisure business based on golf entertainment. From 1998 to 2002, Mr. Anderson was Chief Executive Officer of Matthew G. Norton, Co., a private investment company. Prior to 1998, he was Chief Executive Officer of Trillium Corporation. In addition, his experience includes tenures as both a partner at the private equity firm of Frazier & Company, LP, and as a Vice President of Goldman, Sachs & Co. Mr. Anderson is the founder of America's Foundation for Chess. He holds master's and bachelor's degrees in Industrial Engineering from Stanford University and a bachelor's degree (Cum Laude) in Management Engineering from Claremont McKenna College. Mr. Anderson also serves on the board of Ecova, Inc. (Ecova).

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**

*Ms. Blake*, age 58, has been President of the accounting firm of Kristianne Gates Blake, P.S., since 1987. She has served for 14 years on various boards of public companies and registered investment companies including service as a board chair, Audit Committee chair and Governance Committee member. Ms. Blake is currently serving as board chair for the Russell Investment Company and the Russell Investment Funds. She also serves on the boards of the Principal Funds, Inc., the Principal Variable Contracts Funds, Inc., and Laird Norton Wealth Management. Ms. Blake currently serves as a Regent at the University of Washington. In addition, Ms. Blake serves on the board of Ecova and is the chair of the Ecova Audit Committee.

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

**DONALD C. BURKE, CPA**

**Director since 2011**

*Mr. Burke*, age 51, 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 Chief Executive Officer 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), where he took 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 Degree from Pace University.

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 in 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**

*Mr. Holley*, age 60, 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 the Chairman of the National Alliance of Forestland Owners, as a Director of Sustainable Forestry Initiative, Inc., The Seattle Times and Blethen Corporation and as a Trustee of the American Forest Foundation. 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.

Leadership Experience	Mr. Holley has President and CEO experience, with 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 Chief Financial Officer of a publicly-traded company.

**JOHN F. KELLY**

**Director since 1997**

*Mr. Kelly*, age 67, is currently the President & Chief Executive Officer of John F. Kelly & Associates, a consulting company he founded in 2004, that is located in Coral Gables, Florida. Mr. Kelly is a retired Chairman, President, and Chief Executive Officer of Alaska Air Group, where he also served as a Board member from 1989 to May 2003. He was Chairman of Alaska Airlines from 1995 to February 2003, Chief Executive Officer from 1995 to 2002, and President from 1995 to 1999. He served as Chairman of the Board of Horizon Air from February 1991 to November 1994, and from February 1995 until May 2003. Mr. Kelly has a BA in Business from the University of Puget Sound, has over 40 years business experience and has been a board member and chair of numerous boards and committees (both profit and non-profit organizations). Mr. Kelly is a former board member of the Dream Foundation. He also serves on the board of Ecova.

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

*Ms. Klein*, age 46, is Principal of Klein Energy, LLC, a regulatory and government affairs consulting company. Over the last twenty years she has worked in Washington, DC and in Texas in the energy, telecommunications and national security arenas. Ms. Klein's professional experience also includes service with KPMG Consulting (now Bearing Point). She headed the development of the company's Office of Government Affairs and Industry Relations in Washington, DC. She also served as a Senior Fellow with Georgetown University's McDonough School of Business. Since January 2008, she has served as chair 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.

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 Directors of an energy and water services public utility.

**SCOTT L. MORRIS**

**Director since 2007**

*Mr. Morris*, age 54, has been Chairman of the Board, President and Chief Executive Officer of the Company since January 2008. From May 2006 to December 2007, he served as the Company's President and Chief Operating Officer. Mr. Morris also serves as Chairman of the Board of the Company's subsidiaries, including 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, ReliOn, Inc., Gonzaga University, the Western Energy Institute, Edison Electric Institute and American Gas Association, and the Federal Reserve Bank. He has served on a number of Spokane non-profit and economic development Boards.

Industry and Leadership Experience	Mr. Morris has extensive utility experience having spent his entire career in the industry. He brings to the Board a deep knowledge and understanding of the Company and its subsidiaries, having served in a number of management capacities throughout the Company, including President of Utility Operations, managing the Company's Oregon and California gas operations, customer service, and construction areas and CEO of the Company's subsidiary, Ecova. He is the only officer of the Company to sit on the Board and the Ecova board.
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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.

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**MICHAEL L. NOËL**

**Director since 2004**

*Mr. Noël*, age 70, is President of Noël Consulting Company, Inc., a financial consulting firm he founded in 1998, located in Prescott, Arizona, that specializes in advising public utility commissions on corporate bond offerings. Mr. Noël spent 30 years as an executive with Edison International, an international electric power company. He served as Senior Vice President and Chief Financial Officer of Edison International, as well as in the same capacity for its Southern California Edison Company subsidiary. Mr. Noël serves on the boards of SCAN Health Plan and the SCAN Foundation, where he is Chair of both Audit Committees. He also serves as a board member and Chair of the Governance Committee for the HighMark family of mutual funds. Mr. Noël is a member of the National Association of Corporate Directors and a named Audit Committee Financial Expert under the Sarbanes-Oxley Act. Mr. Noël earned his master's degree in business management from the University of Southern California, graduating first in his class and Summa Cum Laude. He graduated with a Bachelor's degree in finance, Cum Laude, from California State University, Long Beach.

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

**MARC F. RACICOT**

**Director since 2009**

*Mr. Racicot*, age 63, served as President and Chief Executive Officer of the American Insurance Association from August, 2005 to February, 2009. Prior to that, he was a partner at the law firm of Bracewell & Giuliani, LLP from 2001 to 2005. He is a former governor (1993 to 2001) and attorney general (1989 to 1993) of the state of Montana. Mr. Racicot was nominated by President Bush and unanimously elected to serve as the chairman of the Republican National Committee from 2002 to 2003 prior to assuming the position of chairman of the Bush/Cheney Re-election Committee from 2003 to 2004. He previously served as a director for Siebel Systems, Allied Capital Corporation and Burlington Northern Santa Fe Corporation and presently serves as a director for Plum Creek Timber Company, Massachusetts Mutual Life Insurance Company, and The Washington Companies. In addition, throughout his career, Mr. Racicot has strongly committed himself to children, education and community issues. He was appointed to the board of The Corporation for National and Community Service by President Clinton and has also served on the boards of Carroll College, Jobs for America's Graduates and United Way in Helena, Montana. Mr. Racicot is also a past chairman of America's Promise, where his predecessor was Secretary of State Colin Powell.

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	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

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### Experience

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**

*Ms. Stanley*, age 55, 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 Chief Executive Officer from January 2008 to October 2009. From January 2008 to December 2008, she served as Director, Vice Chair, President & Chief Executive Officer. From October 2003 to December 2007, she served as Director, Vice Chair and Chief Operating Officer. Prior to this, she held a variety of leadership positions with increasingly higher levels of managerial responsibility. Ms. Stanley also served as Director of Sterling's Subsidiary Company INTERVEST Mortgage Investment Company. In 2006 and 2007, she was named one of the 25 Most Powerful Women in Banking by U.S. Banker Magazine. Prior to joining Sterling in 1985, Ms. Stanley worked for IBM in San Francisco, California and Tucson, Arizona. Ms. Stanley is founding Chair of Greater Spokane Incorporated, former Chair of the Association of Washington Business (AWB), and former Chair of the Spokane Area YMCA. Ms. Stanley currently serves on the Eastern Washington Advisory Board of the Washington Policy Center, AWB Board and co-chairs the Governance Committee of the Spokane Symphony. 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.

Financial and

The foundation established from her early years at IBM Corporation, combined with her rise to CEO over a lengthy banking career and exposure as co-owner of a privately-held company, have given Ms. Stanley a diverse business perspective. Specifically, her 24 years of experience in banking management included positions as a Chief Executive Officer, Chief Operating Officer and CEO of a multi-state banking operation. She has experience in operations, risk analysis, policy development, mergers and acquisitions and in the capital markets.

Banking Leadership  
Experience

Business

She has served on many industry and business boards and chaired the Association of Washington Business and the American Bankers Association Capital Markets Group.

Associations

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**

*Mr. Taylor*, age 62, has been the Chairman and Chief Executive Officer of CropUSA Insurance Agency, Inc. since 1999. He has also served as Chairman and Chief Executive Officer of AIA Services Corporation since 1995. Both companies are insurance agencies with operations throughout the United States that place various forms of health, life, crop, and multi-peril insurance to agricultural producers. Mr. Taylor holds similar positions with affiliated companies and subsidiaries of CropUSA and AIA Services. In addition, he is Chairman of Pacific Empire Radio Corporation of Lewiston, Idaho, a fifteen station Northwest radio group. Mr. Taylor is a member of the Board and Chair of the audit committee of the State of Idaho Endowment Fund Investment Board (EFIB). The EFIB manages the financial investments and state endowment funds of the State of Idaho that are generated by timber sales and other revenue of the endowment lands owned by the State of Idaho. The EFIB also manages the financial assets of the State Insurance Fund, the Judge s Retirement Fund, the Ritter Island Endowment Fund, and the Trail of the Coeur d Alene s Endowment Fund. The Investment Board also manages a Credit Enhancement Program for public school bonds. Members of the EFIB are appointed by the Governor of the State of Idaho. Mr. Taylor is an attorney and has been a member of the Idaho State Bar since 1976.

Leadership

Mr. Taylor has extensive experience as a CEO, President, COO and CFO of many national corporations. His background includes extensive experience in the highly regulated insurance industry, both on a federal and state level, as an agency, insurer and managing general underwriter. For over 30 years, the primary businesses for which Mr. Taylor was responsible focused on the key areas of risk and risk evaluations and the related investment of policy assets derived from the insurance premiums. His executive experience includes hands on experience in personnel, organizational development and growth management for the companies. Since 1997, Mr. Taylor has gained the additional experience as a Director of a billion dollar plus endowment fund for the State of Idaho, which manages the financial assets for the public schools, colleges and other public entities. The Fund also manages the pension assets for the Judges Retirement Funds.

Experience

Community Development

Mr. Taylor has been an active member of the Lewiston, Idaho community serving in a number of capacities for community organizations. He is a former member of the Lewiston City Council and has served as a director or board member of several civic, political, and non-profit entities. He is currently a member of the Board of the Idaho Heritage Trust, a statewide organization dedicated to the preservation of historical properties and sites. The work is funded from the investment earnings of royalty fees paid upon the purchase of Idaho automobile license plates.

Experience

Political Experience

He has been elected to several positions in the Idaho Republican Party including State Treasurer.

Governance and

Legal Experience

Mr. Taylor brings to the Board valuable governance experience on other boards as Board and Audit Committee Chairs as well as his legal experience from his private practice.

**The Board recommends a vote FOR 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 2011, the Audit Committee met eight (8) 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 2011 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 2011 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, 2011, 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, 2011, 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.

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The Audit Committee reviewed and approved Deloitte's services and fees. The Audit Committee also recommended to the Board, after reviewing the performance of Deloitte, its reappointment in 2011 as the Company's independent registered public accounting firm. The Board concurred in such recommendation. The Audit Committee also reviewed and approved the non-audit services performed by Deloitte and concluded that such services were consistent with the maintenance of independence.

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

### **Members of the Audit Committee of the Board**

Kristianne Blake Chair

Donald C. Burke

Michael L. Noël

Heidi B. Stanley

### **EXECUTIVE COMPENSATION SUMMARY**

This section contains information regarding our compensation programs and policies and, in particular, their application to a specific group of individuals that we refer to as our Named Executive Officers (NEOs). This section is organized as follows:

*Compensation Discussion and Analysis (CD&A)* contains a description of the specific types of compensation we pay, a discussion of our compensation policies, information regarding how those policies were applied to the compensation of our NEOs for 2011 and other information that we believe may be useful to investors regarding compensation of our NEOs and other employees.

*Executive Compensation Summary and Key 2011 Highlights* provides an executive summary of the major elements of our compensation programs and key changes that were made in 2011.

*2011 Report of the Compensation Committee* contains a report of the Compensation Committee regarding the CD&A section described above.

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

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

The parts of this Executive Compensation section described above are intended to be read together and each provides information not included in the others. In addition, for background information regarding the Compensation Committee and its responsibilities, please see Committees Compensation Committee on page 5.

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**COMPENSATION DISCUSSION AND ANALYSIS (CD&A)**

Our report of executive compensation provides an overview of our 2011 performance and related executive-level compensation and includes a description of our executive compensation philosophy, which are the general principles that guide our executive compensation decisions. Within this section we also describe the process that our Compensation Committee uses to set executive compensation. Our NEOs for 2011 are:

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

Mark T. Thies, Sr. Vice President & Chief Financial Officer

Dennis P. Vermillion, Sr. Vice President and President of Avista Utilities

Marian M. Durkin, Sr. Vice President, General Counsel & Chief Compliance Officer

Karen S. Feltes, Sr. Vice President & Corporate Secretary

We believe in a model of pay-for-performance. Our executive compensation program is designed to align the interests of NEOs with our shareholders and other stakeholders by tying a significant portion of compensation to our Company's performance as measured relative to a variety of predetermined factors during the applicable performance period. As an executive's level of responsibility within our organization increases, so does the

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percentage of total compensation that we link to performance, which we believe aligns the interests of our executives who have the highest level of decision-making authority and policy-making functions with the interests of our shareholders and customers.

Name	Base Salary	Annual Cash Incentive	Long-Term Equity Award
CEO	25%	23%	52%
All Other NEOs	36%	22%	42%
All Other Executive Officers	48%	19%	33%

**2011 SAY ON PAY**

We designed our 2011 executive compensation to provide sufficient fixed compensation, in the form of base salary, to promote retention of our NEOs, and to provide at-risk incentive compensation, in the form of short-term and long-term incentive compensation, to help ensure a focus on operational and financial performance for the benefit of our customers, our Company and our shareholders. We established each individual executive's 2011 base salary and short-term and long-term incentive opportunity based on market compensation survey data and the executive's experience and performance level in that position.

At the May 2011 Annual Meeting, the shareholders approved the Company's non-binding advisory vote on the Company's executive compensation program. The shareholders also voted to have the non-binding advisory vote appear annually in the Company's proxy statement. The Board considered the results of the vote and agreed with the results. Therefore, we are including the non-binding advisory vote on the Company's executive compensation in this year's proxy, and will have annual votes until the next shareholder vote on frequency.

One of the core principles of our executive compensation program is to ensure management's interests are aligned with our shareholders' interests to support long-term value creation. Accordingly, in our 2011 Proxy we provided shareholders the opportunity to vote on our executive compensation program through the Say on Pay proposal. While the vote was advisory, and not binding on our Company, the 94% shareholder approval vote we received sent a signal to management and the compensation committee regarding investor sentiment about our executive compensation philosophy, policies and practices. As a result, the Compensation Committee continued to apply the same effective principles and philosophy it has used in previous years in determining executive compensation and will continue to consider shareholder concerns and feedback in the future. We believe that the information we've provided in this CD&A demonstrates that our executive compensation program is designed appropriately and is working to ensure that our management and NEOs' interests are aligned with our shareholders' interests to support long-term value creation.

In addition to considering the Say on Pay advisory vote, our CFO, Corporate Secretary, and General Counsel proactively solicit input from shareholders regarding our executive compensation program, as well as board and governance matters. We believe this outreach to shareholders, and our shareholders' ability to contact us at any time to express specific views on executive compensation, creates an open dialogue to assure we maintain the consistency and credibility of the program. This dialogue also provides our management team and the Compensation Committee sufficient time to thoughtfully consider and to implement any appropriate changes to our executive compensation program based on feedback and input from various sources.

**Our 2011 Performance and NEO Compensation**

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Our Company has had a long-standing tradition of delivering performance results for our shareholders, customers, and the community. The executive compensation programs have played a material role in focusing our executive team on achieving moderate financial results, maintaining system reliability, and delivering outstanding customer service. The compensation structure also serves as a tool to help motivate, retain, and attract a highly experienced, successful executive team to manage the Company. Our Company is poised to continue its long-standing tradition of excellence and delivering performance.

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For the following reasons, we believe that our executive compensation programs are structured in the best manner possible to support our Company and our business objectives, as well as to support our 122-year old culture and traditions:

Our compensation programs are substantially tied into our key business objectives and the success of our shareholders.

We continually monitor, and when appropriate, adopt emerging best practices relating to corporate governance of our executive pay programs.

We closely monitor the compensation programs and pay levels of executives from companies of similar size and complexity, so that we may ensure that our compensation programs are within the range of market practices.

## **Pay for Performance**

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

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

The Compensation Committee closely monitors the compensation programs and pay levels of executives from companies of similar size and complexity, so that we may ensure that our compensation programs are within the range of market practices. The Compensation Committee continually evaluates the various elements of compensation that encourage the right behaviors and that hold management accountable for results. Below, we summarize our 2011 results, the effect those results had on the compensation of our NEOs and certain other changes the Compensation Committee implemented in 2011.

## **Highlights**

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

The Company's 2011 financial results reflected modest growth compared to 2010. This was primarily due to an increase in earnings at Avista Utilities (due to colder weather during the first quarter and the implementation of general rate increases, partially offset by an increase in other operating expenses, depreciation and amortization, and taxes other than income taxes) and partially due to an increase in earnings at Ecova, as well as a reduction in the net loss from the other businesses. The table below summarizes our 2011 financial results. Please also refer to Management's Discussion and Analysis of Financial Conditions and Results of Operations in the Company's

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Form 10-K for a more detailed description of the 2011 financial results.

	2011	2010	Percentage of Change
Net Income Attributable to Avista Corp.	\$ 100,224	\$ 92,425	8.4%
Earnings per Diluted Share	\$ 1.72	\$ 1.65	4.2%
Annual Total Shareholder Return	19.69%	9.52%	N/A
Three Year Total Shareholder Return	52.94%	19.01%	N/A

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Certain components of executive compensation are linked to the Company's financial performance, and the Company's 2011 financial results determined the compensation plan outcomes for 2011.

### *Annual Incentive Plan*

Earnings per share, for both the regulated and unregulated business operations, represented 60% of the potential short-term incentive award for the 2011 executive officer plan, and utility operating and maintenance costs per customer and four non-financial metrics represented the remaining 40% of the potential short-term incentive award.

Based on its review of the Company's 2011 performance, the Compensation Committee determined that the Company satisfied, at various levels, all seven 2011 short-term incentive metrics. The Compensation Committee determined that the Company exceeded target performance for Utility EPS and met target performance for Non-Utility EPS. The Company also met the minimum performance level for utility operating and maintenance costs per customer. The Company met all four non-financial metrics: customer satisfaction, reliability, response time and performance excellence. As a result, the Compensation Committee authorized payment of bonuses of 80% of base salary for the CEO, and 54% of base salary for all other NEOs.

### *Long-Term Incentives*

For performance awards granted in 2009 for the performance period ending December 31, 2011, the Compensation Committee held a special meeting on January 10, 2012 to review and certify the level of achievement of the performance targets, and settle the awards by the issuance of shares to executive officers. The Company's total shareholder return was 57.7% during the performance cycle, which placed the Company at the 53<sup>rd</sup> percentile among the S&P 400 Utilities Index. Based on these results, the CEO and the other NEOs, received 90% of the target number of units established at the time the award was granted and also received the cash dividend equivalents, which would have been forfeited if the hurdle had not been achieved.

For 2011, we met the 5.74% Return on Equity (ROE) hurdle for the CEO's restricted stock units for 2011; therefore, the CEO received 1/3 of his restricted stock units and also received the cash dividend equivalents, which would have been forfeited if the hurdle had not been achieved.

In 2011, the long-term incentive performance award plan was revised to increase the maximum opportunity from 150% for performance at or above the 85<sup>th</sup> percentile to a 200% opportunity for performance at the 100<sup>th</sup> percentile to align with current competitive practices within the peer group surveyed by Towers Watson and to align with competitive practice of those utilities within the S&P 400 Utilities Index.

In February 2011, the Compensation Committee changed how we pay Dividend Equivalent Rights on unvested time-based restricted stock awards. For all awards granted on or after February 3, 2011, dividend equivalents on awards that are subject to either performance-based vesting or time-based vesting will be accumulated and paid to the participant at the time that the awards vest and are paid. If the award is forfeited, then the accumulated dividends would also be forfeited.

### *Changes to Other Programs*

The Compensation Committee eliminated the use of additional Supplemental Executive Retirement Plan (SERP) service credit as a recruitment tool for all new executive hires. Although this type of pay practice was used in the past as a negotiated recruitment tool,

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the Compensation Committee recognizes that there have been market changes in supplemental pension plan design and changes in compensation governance views on the use of supplemental pensions over the past few years.

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### *Compensation Governance*

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

Our Officer Stock Ownership Guidelines strengthen the alignment of the financial interests of executives with those of shareholders and provide an additional basis for sharing in the Company's success or failure as measured by overall shareholder returns. For 2011, 50% of the officers have met and achieved their set ownership levels based on the guidelines. The other officers are on track to meet the goals.

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

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

The no-hedging policy in the Company's insider trading policy states that all directors, NEOs, and other officers are prohibited from hedging the economic interest in the Company shares they hold.

There are no Change of Control agreements that exceed three times base salary and bonus. The Change of Control agreements all have double triggers that provide for a severance payment only upon the occurrence of both a Change of Control and an adverse impact on the NEO's employment such as involuntary termination or a significant diminution in role or responsibilities. Change of Control Agreements entered into on or after November 2009, do not provide an excise tax gross-up benefit, and all agreements entered into before that date have been modified to eliminate the gross-up if the excise tax could be avoided by reducing an executive's total change of control payments (other than the gross-up) by 10% or less.

The Company has only two executive employment agreements in place, and they do not contain guarantees for salary increases, non-performance-based bonuses or equity compensation.

The Compensation Committee has a formalized process to ensure the independence of the executive compensation consultant plus other advisors and reviews and affirms the independence of advisors each year.

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

### **Compensation Philosophy and Objectives**

The Compensation Committee's goal has been to design a compensation program that focuses the executives on the achievement of the Company's specific annual, long-term, and strategic goals that align executives' interests with those of shareholders by rewarding performance

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that maintains and improves shareholder value. The compensation plans allow executives to receive cash bonuses or shares of common stock when specific measurable goals of each plan are achieved. In allocating compensation among these components, the Compensation Committee believes that the compensation of our senior-most levels of management should be weighted toward performance-based compensation, placing a greater portion of their compensation at risk based on achieving goals related to specific items of corporate performance that are likely to produce long-term shareholder and customer value.

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### **Setting Executive Compensation**

The Compensation Committee makes all compensation decisions regarding the CEO and other elected officers, including the level of cash compensation and equity awards. The CEO annually reviews the performance of each executive officer and presents his ratings to the Compensation Committee for it to consider with respect to salary adjustments, annual incentive opportunity, and annual equity award amounts. In 2011, the Compensation Committee also reviewed the Company's executive pay practices with the full Board.

The Compensation Committee believes that an effective total compensation plan should be structured to focus executives on the achievement of specific business goals set by the Company and to reward executives for achieving those goals. The Committee regularly evaluates and calibrates the incentive compensation programs to confirm that they are appropriately structured for the Company, that the plans align to the overall strategic goals of the Company, and that they relate to the specific strategies and performance drivers of the Company. The Committee also 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.

The Compensation Committee receives regular updates through their advisors, various publications regarding best practices, and market survey data that help to inform the Compensation Committee when making compensation decisions. The Committee also takes into consideration external factors, such as the executive labor market, in order to create a program that is designed to attract, retain, and appropriately motivate the key employees of the Company who drive shareholder value creation over the long term.

The Compensation Committee also has a clear goal to ensure the overall program has a direct link between pay and performance and the right mix between fixed and variable pay. That mix includes:

base salary;

short-term performance-based cash incentive compensation;

long-term equity incentive compensation including:

Performance-based Equity Awards;

Restricted Stock Units; and

retirement and other benefits.

The Compensation Committee has established the following key compensation principles to guide the design and ongoing administration of the Company's overall compensation program:

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Clearly identify the specific measures of Company performance that are likely to create long-term value;

Structure incentive pay programs to reward specified levels of performance on measures designed to help the Company achieve:

Shareholder value targets;

Earnings per share targets;

Relative stock performance levels compared to peers;

Customer service targets;

Operational targets;

Promote a safety culture;

Align elements of the incentive plans among all Company employees and executives;

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Maintain total compensation at market competitive levels; and

Provide a range of payout opportunities based on the level of achievement of performance goals.

### **Competitive Analysis**

When determining the types and amounts of compensation to be paid to the NEOs, the Compensation Committee considers it important to provide an overall plan that reflects compensation paid to similarly situated executives of peer companies to maintain a competitive position within the energy/utility industry and to ensure the Company retains and attracts when necessary quality employees in key positions to lead the Company. To achieve this objective, the Compensation Committee works with Towers Watson to conduct an annual competitive review of its total compensation program for the CEO and other NEOs. Through the review process the Compensation Committee establishes levels of base salaries, short-term annual incentives, and long-term incentives that are generally targeted to be near the median of the amounts paid by a peer group, based on competitive data gathered by Towers Watson. However, the Compensation Committee can exercise discretion to set any one or more of the components at levels 10% 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.

The Compensation Committee annually compares each element of total direct compensation, which includes base salary, annual cash incentives, and the value of long-term incentive grants, against a specific peer group of publicly-traded companies within the energy/utility industry. The companies in the peer group generally recruit individuals who are similar in skills and background to those the Company recruits to fill senior management positions, and are the companies with which Avista competes for executives and for shareholder investment.

### **Peer Group Companies**

In 2011, the Compensation Committee asked Towers Watson to use its Energy Services Executive Compensation database to perform a study of the compensation structure of comparable diversified energy companies with revenues between \$1 billion and \$3 billion to assure the data presented to the Compensation Committee reflected the Company's general size and scope within the market. This sample typically includes approximately 30 companies, the majority of which are investor owned. The sample generally stays very consistent from year to year, unless companies do not participate or fall outside of the revenue range because of acquisitions or other transactions. The advantage of using survey information is that it provides competitive data for all of executive officer positions.

The companies comprising the Compensation Peer Group were:

Areva	Northwest Natural
Black Hills Corp	NorthWestern Energy
Covanta Holdings	OGE Energy
CPS Energy	Oglethorpe Power
DPL Inc	PNM Resources
Energen	Portland General Electric
E On US	Proliance Holdings
First Solar	Regency Energy Partners LP
GenOn Energy	Salt River Project

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Hawaiian Electric  
IDACORP Inc  
Lower Colorado River Authority  
Mirant  
New York Power Authority  
Nicor

Santee Cooper  
Southern Union Company  
Unisource Energy  
Vectren  
Westar Energy

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### **Other Comparative Data**

The Compensation Committee also considers other relevant data to help in its decision making process. They review proxy data on the top five highest paid officers for the companies included in the S&P's 400 Utilities Index, which is the same group that is used to measure relative performance in the Long-Term Incentive Plan (LTIP) (as discussed on page 30). That review includes an evaluation of base salary, annual incentive opportunities, and long-term incentives.

The other comparative group used in the decision making process were also used to measure relative performance in the Long-Term Incentive Plan for the 2008-2010 performance period. The group included all utility companies in the S&P Utilities Index as of December 31, 2010, that were publicly traded as of November 30, 2007. The companies comprising the group were:

AGL Resources, Inc.	IDACORP, Inc.
Alliant Energy Corp.	MDU Resources Group, Inc.
Aqua America, Inc.	National Fuel Gas Co.
Atmos Energy Corp.	NSTAR
Black Hills Corp.	NV Energy, Inc.
Cleco Corp.	OGE Energy Corp.
DPL, Inc.	PNM Resources, Inc.
Dynegy, Inc.	Questar
Energen Corp.	UGI Corp.
Great Plains Energy, Inc.	Vectren Corp.
Hawaiian Electric Industries, Inc.	Westar Energy, Inc.
	WGL Holdings, 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 them make informed decisions about market compensation practices.

Periodically, the Compensation Committee also receives information regarding the competitive levels of health and retirement benefits. The Compensation Committee uses Towers Watson to survey and benchmark these benefit programs offered to employees in similarly situated peer companies within the energy/utility industry.

### **Performance Management**

As mentioned earlier, 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 that includes feedback from peers within the Company, direct reports, and the direct manager on multiple leadership performance categories.

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

The CEO's key performance goals for 2011 generally related to strategic planning, financial performance, safety targets, diversified energy resource management, regulatory and legislative matters, succession planning, governance, and customer value delivery.

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The mix of base salary, short-term cash incentive, and equity compensation varies depending on the level of the position held by the executive. The following chart shows the general targets, stated as a percentage of total compensation that the Compensation Committee uses for allocating compensation:

Name	Base Salary	Annual Cash Incentive	Long-Term Equity Award
CEO	25%	23%	52%
All Other NEOs	36%	22%	42%
All Other Executive Officers	48%	19%	33%

In allocating compensation among these components, the Compensation Committee believes that the compensation of our senior-most levels of management—the levels of management having the greatest ability to influence the Company's performance—should be weighted toward performance-based goals, putting a greater portion of their compensation at risk based on achieving specific goals, while levels below senior management should receive a greater portion of their total compensation in base salary that is not at risk. This approach is also consistent with practices of the Compensation Peer Group.

**Base Salary**

Based on the methodology described below, the CEO and the NEOs are provided with an annual base salary to compensate them for services rendered during the year. Base salary ranges for executive officers are determined according to position and responsibility by using the market data provided by Towers Watson.

The Compensation Committee reviews the base salary of all executive officers at least annually. The factors that influence the Compensation Committee's decisions regarding base salary include: levels of pay among executives in the utility and diversified energy industry, level of responsibilities and job complexity, experience and breadth of knowledge. In setting the annual base salary for the CEO and the NEOs, the Compensation Committee considers the market data provided by Towers Watson. The Compensation Committee also takes into account that each NEO has responsibilities that include both 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.

**2011 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 metrics and operational goals established at the beginning of the year. For 2011, the Compensation Committee agreed that the CEO had met the established metrics. The Compensation Committee also reviewed all NEOs performance rating to assure they received a fully meets or higher rating. The Compensation Committee noted that the current market data showed that several NEOs and the CEO were below market levels of base salary. The Compensation Committee agreed to make adjustments for all NEOs and the CEO. The average pay adjustment for all NEOs other than the CEO was 3.3%, ranging from 1.7% to 6.2%. Mr. Morris received a 6.3% salary increase

in 2011 since his salary was below market levels and had not been adjusted since 2008.

**Performance-Based Annual Cash Incentive**

The 2011 Executive Incentive Compensation Plan was designed to align the interests of senior management with both shareholder and customer interests to achieve overall positive financial performance for the Company. At its November meeting each year, the Compensation Committee considers whether an annual incentive plan should be established for the succeeding year. The Compensation Committee, in partnership with management, sets

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clear annual performance objectives for all executives, and measures annual performance against those objectives as stated in the plan. Over the last eight years since the Compensation Committee began using this approach, annual cash incentive payments have averaged 78% of the target amount and ranged from a low of 15% of target to a high of 114% of target. Individual annual cash incentive awards are set as a percentage of base salary. As described more fully below, the actual amounts paid could increase (up to 145% of target) or decrease (as low as 0% of target) depending on the Company's actual performance.

### **2011 Annual Cash Incentive Target Award Opportunity**

The Compensation Committee annually compares annual cash incentive opportunity levels against the Compensation Peer Group. For 2011, based on the information provided by Towers Watson, in order to target cash compensation to the median of the market, the Committee decided to maintain the current target incentive award opportunities of 90% of base salary for the CEO and 60% of base salary for all other NEOs. As part of their decision-making process, the Committee reviewed information that compared the results of the short-term incentive design and the long-term performance share plan with actual shareholder earnings and other components of shareholder return over the past several years.

### **Annual Cash Incentive Plan Design**

In February 2011, the Compensation Committee approved the plan design for the executive performance-based annual cash incentive plan for 2011. A key design element of the 2011 Plan was to closely align the interests of the officers with the interests of the shareholders and customers. These goals are reflected in the 2011 Plan by having 60% of the total incentive payout tied to earnings-per-share (EPS) targets. Of that 60%, utility EPS accounts for 50% and non-utility EPS accounts for the remaining 10%. In addition to the EPS targets, the remaining 40% of the annual incentive opportunity is based on key components of utility operation, including Cost Per Customer, Customer Satisfaction, Reliability Index and two new metrics that align with customer interests. The new Response Time metric balances the focus between our electric and natural gas lines of businesses. The other metric, called Performance Excellence, focuses on the Company's commitment to look for efficiencies in order to keep long term costs reasonable for our customers. These additional operational components balance the Plan in order to align the interests of our executives with shareholders and customers and achieve overall positive financial performance for the Company. Each metric is independent, which allows the Plan to pay a portion of the award to the CEO or NEOs upon the attainment of one goal even if the other goals are not met.

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

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For 2011, there were two groups of components for the executive annual cash incentive plan two earnings components and five utility operations components. Those components were:

### Earnings Components:

*Utility Earnings Per Share (EPS)* Fifty percent of the overall award depended on attaining EPS goals for the utility operations. The actual amount paid, related to the Utility EPS target, could increase (up to 150% of the utility EPS target award) or decrease (as low as 0% of the Utility EPS target award) depending on the Company's actual performance.

*Non-Utility Earnings Per Share (EPS)* Ten percent of the overall award depended on attaining EPS goals for the non-utility operations. The actual amount paid, related to the non-utility EPS target, could increase (up to 150% of the Non-utility EPS target award) or decrease (as low as 0% of the Non-utility EPS target award) depending on the Company's actual performance.

### Utility Operations Components:

*Cost Per Customer* The Operating and Maintenance (O&M) cost is a measure that is directly related to maintaining reliable, cost-effective service levels to run the Company's business efficiently. Twenty percent of the overall award depends on attaining an O&M cost per customer goal. The actual amount paid, related to the O&M target, could increase (up to 150% of the O&M cost target award) or decrease (as low as 0% of the O&M cost target award) depending on the Company's actual performance.

*Customer Satisfaction Rating* This rating is derived from a Voice of the Customer survey, which is 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. Five percent of the overall award depends on attaining a minimum Customer Satisfaction Rating. Five percent of the overall award depends on attaining a minimum level of reliability, of which 100% will be earned if the metric is met or nothing will be earned if it is not met.

*Reliability Index (RI)* 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. The industry names for the indices are *Customer Average Interruption Duration Index (CAIDI)*, *System Average Interruption Frequency Index (SAIFI)* and *Customer Experiencing Multiple Interruptions (CEMI<sup>3</sup>)*. Five percent of the overall award depends on attaining a minimum level of reliability, of which 100% will be earned if the metric is met or nothing will be earned if it is not met.

*Response Time (RT)* This metric measures the percentage of time the Company responds within targeted time goals for dispatched natural gas emergency calls. Five percent of the overall award depends on attaining a minimum average response time, of which 100% will be earned if the metric is met or nothing will be earned if it is not met.

*Performance Excellence (PE)* This metric combines two separate measurements into one, project milestones and realized value from implemented or completed process improvement initiatives. Five percent of the overall award depends on attaining a minimum level of

performance, of which 100% will be earned if the metric is met or nothing will be earned if it is not met.

For the first three components, payments are interpolated on a straight-line basis for results between the threshold level and the maximum level.

*Setting the Earnings and Utility Operations Incentive Goals* The 2011 cash incentive plan was designed to focus each executive on the Company's strategic financial and operating goals. Continuing to gain financial strength, increasing shareholder value, and maintaining reliable cost-effective service levels to run the business efficiently are all key considerations for the Compensation Committee when setting the goals.

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To determine the Utility and Non-Utility EPS goals for the plan, the Compensation Committee, in conjunction with the Finance Committee and management, considers and incorporates the EPS target range contained in the Company's original publicly disclosed earnings guidance for 2011 (\$1.47 to \$1.62 Utility EPS and \$0.13 to \$0.18 Non-Utility EPS) and reviews this in light of the budgeted EPS numbers (\$1.54 Utility and \$0.16 Non-Utility). For 2011, the Company set threshold, target, and exceeds levels based upon a range as shown in the table below. The earnings targets for 2011 are referred to above in the limited context of the Company's compensation programs for 2011 and should not be understood to be statements of management's expectations or estimates of results of operations or compensation targets for 2012 or any other year.

The O&M Cost Per Customer measure reflects operating efficiency and customer growth. The 2011 cash incentive plan places an emphasis on aggregate utility costs per customer targets to encourage Company-wide teamwork and consistent results. Using an O&M Cost Per Customer measure, the Company calculates the necessary efficiency savings and resulting cost per customer to achieve a 10%, 100% and 150% payout for this portion of the plan.

The customer satisfaction rating measures the customer's overall satisfaction with the service they received during a recent contact with the service center or call center. This measure is widely used in the industry for external reporting. The Company uses a combination of the satisfied and very satisfied ratings, rather than the standard satisfied rating that is typically used. The target was set at 90%, which is based on the current industry and economic environment.

In an effort to balance the Company's focus of reliability between frequency, duration and percentage of customers with three or more outages, three indices were combined into one metric called a Reliability Index. This index combines SAIFI, CAIDI and CEMI<sup>3</sup>. CEMI<sup>3</sup> is a new metric to the utility industry and measures the percentage of customers that experience more than three sustained outages during the year. The Company chose this level of outages over others because industry data received from JD Power's customer service surveys indicate that customers are more apt to be dissatisfied after three outages. To determine our target for the Reliability Index, a separate target was set for each metric (CAIDI 2 hours and 3 minutes restoration time, SAIFI 1.43 outages per customer, and CEMI 12.8% of customers experiencing more than 3 sustained outages), they were weighed equally and then combined into one metric. The target was set at 100%, a reasonable stretch based on past experience.

The Response Time metric focuses on customer and public safety while consistently treating customers the same throughout our service territory. The metric represents the percentage of time the Company responds within targeted goals for dispatched natural gas emergency calls. The Company tracks two types of emergency calls: priority 1 calls (blowing gas, explosions and/or fires) and priority 2 calls (inside and outside odors, runaway furnaces, etc.). To determine our target for the Response Time, a separate goal was set for each type of call (priority 1 60 minutes to respond and priority 2 120 minutes to respond). The target was set at 93%, a reasonable stretch based on past experience.

To help keep customer costs reasonable, the Company created the Performance Excellence metric to demonstrate its commitment to continuously look for efficiencies through process improvement. The metric measures the Company's performance under the Performance Excellence initiatives established at the beginning of the year. Each initiative has established milestones to complete and each has a projected dollar value represented by net present value and/or avoided costs.

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The 2011 goals and the performance threshold and relative weight given to each component were:

Incentive Components	Percentage of Cash Incentive	Threshold (50%)	Target (100%)	Exceeds (150%)
Utility Earnings Per Share	50%	\$ 1.52	\$ 1.57	\$ 1.65
Non-Utility Earnings Per Share	10%	\$ 0.13	\$ 0.16	\$ 0.18
Cost Per Customer	20%	\$ 357.52 <sup>1</sup>	\$346.85	\$ 341.70
Customer Satisfaction Rating (Satisfied/Very Satisfied)	5%	N/A	Not less than 90%	N/A
Reliability Index (combined CAIDI, SAIFI, & CEMI <sup>3</sup> )	5%	N/A	Not less than 100%	N/A
Response Time (percentage of time responded within goal)	5%	N/A	Not less than 93%	N/A
Performance Excellence (milestones and realized value)	5%	N/A	Not less than 100%	N/A

<sup>1</sup> Threshold payout level starts at 10% rather than 50%

**2011 Results for the Annual Cash Incentive Plan**

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

Based on this review, at its February 2012 meeting the Compensation Committee determined that the Company satisfied, at various levels, all seven metrics. The Compensation Committee determined that the Company exceeded target performance for Utility EPS and met target performance for Non-Utility EPS. The Company exceeded the minimum performance level (threshold) for O&M Cost Per Customer. The Company met all four non-financial metrics: customer satisfaction, reliability, response time and performance excellence. As a result, and at the same meeting, the Compensation Committee authorized payment of bonuses equal to 90.2% of the target level, which resulted in payments of 80% of base salary for the CEO, and 54% of base salary for all other NEOs.

**Long-Term Equity Compensation**

The Compensation Committee believes that equity 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 increase their ownership in the Company through grants of Company stock that can be earned based on performance over a three-year cycle. Through the use of long-term performance awards and restricted stock units, 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 amount of the award, the timing of the award, as well as any other aspect of the award it may deem material, such as the impact on the award if employment is terminated for any reason other than retirement, disability or death, and whether the awards are transferable to beneficiaries. The Compensation Committee reviews and approves any grants at their regularly scheduled quarterly meeting each February based upon various

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factors, including analysis and recommendations from Towers Watson. Board and Compensation Committee meetings, including meetings at which the Compensation Committee grants equity awards to executive officers, are generally scheduled at least a year in advance, and are scheduled without regard to the timing of earnings releases or other major announcements by the Company.

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For 2011, we retained the same two forms of long-term equity awards used in 2010, and the same allocations between them, with 25% of the total value of the award delivered through restricted stock units and the remaining 75% through performance-based equity awards. When making decisions for individual executives regarding long-term incentives, the Compensation Committee considers many factors. In addition to competitive market data, the Compensation Committee considers the amount of equity incentives currently outstanding and the number of shares available for future grants under the LTIP. As with the Company's annual cash incentive plan, award opportunities are higher for those executives who have the greatest ability to directly influence overall Company performance.

### **Performance-Based Equity Awards**

The vesting of performance-based equity awards is contingent on Company performance, and no portion of the performance-based equity awards will vest unless the Company achieves at least the threshold level of performance. The performance awards 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 level of performance 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 are added or dropped from the index. 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 on 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 ranking compared to the S&P 400 Utilities Index, and is payable at the Compensation Committee's option in either cash or Company common stock, or both. If employment terminates for any reason other than for retirement, death or disability during a performance cycle, all performance-based awards are forfeited. If employment terminates due to retirement, death or disability, the payment amount is still determined at the end of the three-year performance cycle and prorated based on the number of months of active service during the cycle.

Dividend equivalents on performance awards are accumulated and paid to the participant upon vesting if the awards vest and are paid. If the award is forfeited, then the accumulated dividends would also be forfeited.

In 2011, the long-term incentive performance award plan was revised to increase the maximum opportunity from 150% for performance at or above the 85<sup>th</sup> percentile to a 200% opportunity for performance at the 100<sup>th</sup> percentile. The Compensation Committee increased the maximum opportunity to align with current competitive practices within the peer group based on the market data provided by Towers Watson and to align with competitive practice of those utilities within the S&P 400 Utilities Index.

### **Range of Performance Award Opportunity**

The number of shares of Company common stock actually delivered to executive officers at the end of the three-year cycle can range from 0% to 200% of the target number of shares awarded. If the relative shareholder return is below the 45<sup>th</sup> percentile of the peer group, participants will not receive any shares at the end of the performance period, and will not receive any cash dividend equivalents. If the Company's total shareholder return (stock price appreciation plus reinvested dividends) is at least at the 45<sup>th</sup> percentile of the S&P 400 Utilities Index over the performance period, a threshold payout of 50% of the target number of units will be allocated to each individual plus cash dividend equivalents relative to the number of units awarded. To receive 100% of the award, the Company must perform at the 55<sup>th</sup> percentile among the S&P 400 Utilities Index. NEOs can earn up to 200% of the target number of units if the Company performs at the 100<sup>th</sup> percentile. Awards are interpolated on a straight-line basis for performance results between threshold and target, between target and the 85<sup>th</sup> percentile, and between the 85<sup>th</sup> percentile and the 100<sup>th</sup> percentile (maximum). For example: if the Company's total shareholder return ranking is in the 75<sup>th</sup> percentile, the payout would be 133% of target.



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The following graph represents the relationship between the Company's relative three-year total shareholder return and the award opportunity:

Relationship Between Avista's Relative Three-Year Shareholder Return and the Award Opportunity

### **2011 Performance Award Settlement**

For performance awards granted in 2009 for the performance period ending December 31, 2011, the Compensation Committee held a special meeting on January 10, 2012 to review, certify, and settle the issuance of shares to executive officers. The Company's total shareholder return was 57.7% during the performance cycle, which placed the Company at the 53<sup>rd</sup> percentile among the S&P 400 Utilities Index. Based on these results, the CEO and the other NEOs, received 90% of the target number of units of Company common stock associated with the performance award granted in 2009.

With respect to performance awards, the Company accrues quarterly dividends on the target number of units, and dividend equivalents are earned and paid only if the performance grant is approved for payout based on achieving the goals defined in the plan. Therefore, dividend equivalents were paid out in cash to the CEO and the other NEOs on performance awards covered by the 2009 grant.

### **Restricted Stock Units**

The Company awards restricted stock units to provide an incentive to reward retention and growth in the value of our Company common stock. For all NEOs and other executive officers other than the CEO, the vesting of restricted stock units 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.

Effective for awards granted on or after February 3, 2011, dividend equivalents on time-based restricted stock awards are accumulated and paid to the participant upon vesting if the awards vest and are paid. If the award is forfeited, then the accumulated dividends would also be forfeited. In the past, with respect to awards subject to time-based vesting, the company paid dividends on the awards at the same time the dividends were paid to the company's shareholders.

For the CEO, the restricted stock units 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 restricted stock units to vest, the Company's return on equity (ROE) must exceed a hurdle rate equal to the Company's average cost of debt over the ten years preceding the date on which the award is granted. (Ten years is used because it is close to the average maturity on the Company's debt portfolio.) The hurdle rate for each award is set at the time the award is granted. ROE was selected as a performance measure because it measures the efficient use of equity capital.



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Using a ten-year cost of debt, the Compensation Committee determined that a 5.74% ROE hurdle rate was appropriate for 2011. Dividend equivalents accrue on the unvested units and, if the performance targets are met, the dividend equivalents are paid in cash at the same time that the underlying units vest and are paid in shares. Therefore, if the Company does not achieve the minimum ROE performance target, no shares or dividend equivalents are earned. For 2011, the ROE hurdle rate was met; therefore, the CEO received 1/3 of his restricted stock units and cash dividend equivalents.

## **Fees and Role of the Compensation Consultant**

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

Surveying pay practices among the peer group, as previously discussed, and providing a broader market perspective;

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

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

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

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

## **Perquisites**

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

## **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 (SERP)**

In addition to the Company's retirement plan for all employees, the Company provides additional pension benefits through the SERP to executive officers of the Company. Details of the SERP benefits and the amounts accrued by each NEO are found in the Pension Benefits section on page 44.

The Compensation Committee believes that 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

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important role in the retention of senior executives. As the benefits thereunder increase for each year that these executives remain employed, the plans thereby encourage our most senior executives to remain employed and continue their work on behalf of the 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. The Committee felt that the grant of additional service was necessary because it helped to recruit the executive to join the Company and acted as a retention tool upon their employment. 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 in supplemental pension plan design and changes in compensation governance views on the use of supplemental pensions over the past few years. Therefore, the Compensation Committee has decided that in future agreements the Company will not grant additional SERP service credits as a recruitment incentive.

Based on its review of the market for these types of plans, the 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.

## **Deferred Compensation**

The Company also maintains an Executive Deferred Compensation Plan. All officers can voluntarily participate in this plan on the same terms and conditions as all other eligible employees who reach a set compensation level. This plan is competitive in the market, and provides eligible employees and executives with a tax-efficient savings method. Additional information about this plan, including 2011 contributions and year-end account balances can be found in the Non-Qualified Deferred Compensation table on page 45.

## **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-employment 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 that are eligible for the post-retirement death benefit, in the event of their death after retirement, pursuant to the Company's qualified retirement plan, 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 of Control Tables starting on page 47.

## **Supplemental Executive Disability Plan**

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The Supplemental Executive Disability Plan provides benefits to executive officers of the Company who become disabled during employment. The plan provides a benefit equal to 60% of the executive officer's base 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 Change of Control Tables.

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### **Change of Control and Severance Benefits**

In 2011, none of the executive officers had severance benefits, except for termination in connection with a change of control. The Compensation Committee believes it is important to provide protection to our executive officers in the event of a Change of Control. Further, the Compensation Committee believes that the interests of shareholders will be best served if the interests of our executive officers are aligned with them, and that providing Change of Control benefits should eliminate, or at least reduce, the reluctance of our executive officers to pursue potential Change of Control transactions that may be in the best interests of the shareholders. There are no Change of Control agreements that exceed three times base salary and bonus. The Change of Control agreements all have double triggers that provide for a severance payment only upon the occurrence of both a Change of Control, such as involuntary termination, or an adverse impact on the NEOs' employment such as a diminution in role or responsibilities.

Additional information regarding the Change of Control 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, 2011 due to a Change of Control, is found in the Potential Payment Upon Termination or Change of Control tables on page 47.

### **Elimination of Excise Tax Gross-Up Provision in Change of Control Agreements**

In November 2009, the Board decided to eliminate the excise tax gross-up benefit for all new Change of Control agreements entered into on or after November 13, 2009. With respect to Change of Control agreements entered into before that date, 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.

### **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 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 our compensation plans so that all compensation expense is deductible for tax purposes.

### **Pre-Set Diversification Plans**

The Company and the Compensation Committee have authorized the Company's executive officers to enter into pre-set diversification plans established according to Rule 10b5-1 under the Exchange Act with an independent broker-dealer. These plans include specific instructions for the broker to exercise options or sell stock on behalf of the officer if the Company's stock price reaches a specified level or certain events occur. The officer no longer has control over the decision to exercise or sell the securities subject to the plan. The purpose of such plans is to enable executive officers to recognize the value of their compensation in Company stock during periods in which the officer would be unable to buy or sell Company stock because important information about the Company had not yet been publicly released. Currently, none of the Company's executive officers has such a plan.



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**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, then incentive payouts based on the original results should be revised. Therefore, in February 2010, the Board 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 clawback is triggered, to whom the clawback would apply and the mechanism for recouping incentive payments.

**Stock Ownership Guidelines**

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

The objectives of having a policy are to:

Strengthen alignment of the financial interests of executives 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.

<b>Amount</b>	<b>Stock That Counts Toward Ownership Requirement</b>	<b>Retention Requirements</b>
CEO 5 times salary	Direct holdings and family holdings	Officers must retain 50% of the net shares
Senior Vice Presidents 2.5 times salary	Shares held in 401(k)	

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Vice Presidents 1 times salary

Shares held in the Executive Deferred  
Compensation Account

Unvested Restricted Stock Units

received upon  
restricted stock  
release or  
issuance of  
performance  
shares  
earned until the  
ownership level  
is achieved.

Annually in February, the Compensation Committee reviews the ownership requirements to actuals to assure adherence to the guidelines. The Compensation Committee conducted its annual review to assess that each officer was at or moving towards the required ownership level for their position. Although several officers had not yet met the required ownership level, after review, the Compensation Committee noted that those officers were making appropriate progress towards the required level.

### **Risk Mitigation Overview**

The Compensation Committee believes that the compensation policies and practices of the Company do not create risks that are reasonably likely to have a material adverse effect on the Company. In establishing pay practices for the Company's employees, the goal is to design a compensation structure that does not encourage

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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:

Each component of the short and long-term plans is either fixed or capped with respect to the payout opportunity; taking excessive risk to benefit one component at the expense of the other components does not result in an unlimited payout.

The design of the annual cash incentive plan creates a balanced focus on financial results and system sustainability over time which helps to mitigate risky decision-making practices.

The total compensation program does not provide for guaranteed bonuses and has multiple performance measures.

The Compensation Committee also 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.

The Company only has executive employment agreements in place with two of the NEOs, and they do not contain guarantees for salary increases, non-performance-based bonuses or equity compensation.

As detailed earlier we also have Officer Stock Ownership Guidelines in place to strengthen the alignment of the financial interests of executives with those of shareholders and provide an additional basis for sharing in the Company's success or failure as measured by overall shareholder returns.

The no-hedging policy in the Company's insider trading policy states that all directors, NEOs, and other officers are prohibited from hedging the economic interest in the Company shares they hold.

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

## **CEO Succession Plan**

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

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In order to have a fully comprehensive CEO succession plan in place, the Board at its August 2011 session, adopted a Contingency CEO Succession Plan to outline the procedures for the temporary appointment of an Interim CEO and an Interim Chairman of the Board 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.

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### **Compensation Consultant**

Towers Watson also assists the Governance Committee with respect to nonemployee director compensation. Pursuant to the Company's written policy governing the other services that the consultant can perform for the Company, the Compensation Committee may authorize Towers Watson to provide services for the Company provided the Compensation Committee determines the work would not compromise the consultant's independence with respect to compensation recommendations to the Compensation Committee.

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

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

Towers Watson received \$146,497 in 2011 for executive compensation consulting services and \$219,932 for actuarial consulting services that were unrelated to executive or nonemployee director compensation. The Compensation Committee has assessed the current process that is in place at the Committee level, as well as Towers Watson's internal processes and policies, and based on these structures the Compensation Committee does not believe that Towers Watson's role in providing these services to the Company compromises Towers Watson's ability to provide the Compensation Committee with an objective and independent perspective.

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

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

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

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

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

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

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

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

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

**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 our 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 2011(1)**

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary(2)</b>	<b>Stock Awards (\$)(3)</b>	<b>Non-Equity Incentive Plan Compensation</b>	<b>Change in Pension and Non-Qualified Deferred</b>	<b>All Other Comp. \$(6)(7)</b>	<b>Total Compensation (\$)</b>
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				(\$(4)	Compensation Earnings \$(5)			
S. L. Morris	2011	\$ 662,307	\$ 1,356,481	\$ 537,363	\$ 890,122	\$ 49,273	\$ 3,495,546	
Chairman of the Board,	2010	\$ 630,001	\$ 1,033,920	\$ 627,669	\$ 906,969	\$ 47,408	\$ 3,245,967	
President & Chief Executive	2009	\$ 630,001	\$ 1,112,983	\$ 582,026	\$ 691,983	\$ 11,025	\$ 3,028,018	
Officer								
M. T. Thies	2011	\$ 341,153	\$ 331,268	\$ 184,530	\$ 77,386	\$ 11,025	\$ 945,362	
Sr. Vice President & Chief	2010	\$ 323,077	\$ 252,630	\$ 215,865	\$ 52,163	\$ 11,025	\$ 854,760	
Financial Officer	2009	\$ 314,998	\$ 271,763	\$ 194,009	\$ 43,163	\$ 7,301	\$ 831,234	
D. P. Vermillion	2011	\$ 304,039	\$ 331,268	\$ 164,455	\$ 301,136	\$ 13,413	\$ 1,114,311	
Sr. Vice President & Environmental	2010	\$ 298,078	\$ 252,630	\$ 199,260	\$ 233,354	\$ 13,015	\$ 996,337	
Compliance Officer	2009	\$ 289,230	\$ 157,000	\$ 148,843	\$ 126,256	\$ 12,600	\$ 733,929	
M. M. Durkin	2011	\$ 288,655	\$ 331,268	\$ 156,133	\$ 123,624	\$ 11,025	\$ 910,705	
Sr. Vice President, General	2010	\$ 281,463	\$ 252,630	\$ 187,969	\$ 97,364	\$ 11,025	\$ 830,451	
Counsel & Chief Compliance	2009	\$ 274,999	\$ 271,763	\$ 169,373	\$ 63,930	\$ 11,025	\$ 791,090	
Officer								
K. S. Feltes	2011	\$ 253,654	\$ 372,722	\$ 137,201	\$ 186,846	\$ 11,025	\$ 961,448	
Sr. Vice President & Corporate	2010	\$ 246,461	\$ 288,270	\$ 164,722	\$ 153,540	\$ 11,025	\$ 864,018	
Secretary	2009	\$ 240,001	\$ 271,763	\$ 147,816	\$ 88,402	\$ 11,025	\$ 759,007	

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- (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 45 to find out which NEOs elected to defer compensation during 2011 and how much they deferred.)
- (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 restricted stock units 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, 2011 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 units 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 units was calculated by using a Monte Carlo simulation, which produces a probable value for the awards. Performance stock awards will vest at the end of the vesting term, however the number of shares delivered will 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 number of units awarded. For the 2011 grant, if the maximum level of performance is achieved and using the closing stock price of \$25.75 as reported on December 30, 2011 to calculate the value and add the dividend equivalents using an annual amount of \$1.10 per share as declared in 2011 multiplied by three years, then the value of the payouts would be: Mr. Morris \$2,986,340; Mr. Thies \$726,250; Mr. Vermillion \$726,250; Ms. Durkin \$726,250; and Ms. Feltes \$726,250.
- (4) Annual short-term cash incentive awards paid in 2012 that were earned by NEOs for 2011 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, 2011 and December 31, 2010 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, 2011 utilizes the RP2000 mortality table projected to 2012 for males and females and a 5.05% discount rate for the Retirement Plan and a 4.80% discount rate for the SERP Plan. There were no above-market earnings for the Company's Executive Deferred Compensation Plan.
- (6) The Company does not provide perquisites or other personal benefits to its NEOs.
- (7) 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. 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 2011 are shown in the following table:

Name	Executive Deferred Compensation Plan Company Match	Investment and Employee Stock Ownership		Total All Other Compensation
		Plan (401(k) plan) Company Match	One Leave (Cash Outs)	
Morris		\$ 11,025	\$ 38,248	\$ 49,273
Thies		\$ 11,025		\$ 11,025
Vermillion	\$ 2,388	\$ 11,025		\$ 13,413
Durkin		\$ 11,025		\$ 11,025
Feltes		\$ 11,025		\$ 11,025

**Table of Contents****Grants of Plan-Based Awards 2011**

Name	Grant Date(1)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(2)			Estimated Future Payouts Under Equity Incentive Plan Awards(3)			All Other Stock Awards: Number of Shares of Stock or Units (#)(5)	Grant Date Fair Value of Stock and Option Awards (\$)(6)
		Threshold	Target	Maximum	Threshold (#)	Target (#)	Maximum (#)		
S. L. Morris									
Annual Cash Award	02/03/11	313,560	603,000	844,200					
Performance Award	02/03/11				25,700	51,400	102,800		1,068,606
Restricted Stock Units (4)	02/03/11					12,500	12,500		287,875
M. T. Thies									
Annual Cash Award	02/03/11	107,640	207,000	289,800					
Performance Award	02/03/11				6,250	12,500	25,000		259,875
Restricted Stock Units	02/03/11							3,100	71,393
D. P. Vermillion									
Annual Cash Award	02/03/11	95,160	183,000	256,200					
Performance Award	02/03/11				6,250	12,500	25,000		259,875
Restricted Stock Units	02/03/11							3,100	71,393
M. M. Durkin									
Annual Cash Award	02/03/11	90,480	174,000	243,600					
Performance Award	02/03/11				6,250	12,500	25,000		259,875
Restricted Stock Units	02/03/11							3,100	71,393
K. S. Feltes									
Annual Cash Award	02/03/11	48,960	153,000	214,200					
Performance Award	02/03/11				6,250	12,500	25,000		259,875
Restricted Stock Units	02/03/11							4,900	112,847

- (1) The grant date is the date the Compensation Committee and/or the Board approves the grant of performance awards, restricted stock units or non-equity incentive awards.
- (2) Potential annual incentive cash awards granted to NEOs for 2011 performance in accordance with the Executive Incentive Compensation Plan. The amounts actually paid to NEOs for 2011 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 will 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 2011, Mr. Morris was awarded restricted stock units 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 targets are met, the dividend equivalents are paid in cash at the same time that 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 2011, the NEOs, other than Mr. Morris, were awarded restricted stock units 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 that 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) Amounts shown in this column are calculated in accordance with FASB 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, 2011 included in the Company's Form 10-K filed with the SEC on February 28, 2012. 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.

**Employment Agreements**

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The Company currently does not have employment agreements with its NEOs, with the exception of Ms. Durkin and Mr. Thies. Please refer to the CD&A beginning at page 18 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 46, for a discussion of the change in control provisions, including the recent modification to the golden parachute excise tax gross-up provisions.

**Table of Contents****Outstanding Equity Awards at Year-End 2011**

Name	Date of Grant	Option Awards			Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested (\$)(6)
		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)	
S. L. Morris	11/07/2002	26,250	\$ 10.17	11/07/2012				
S. L. Morris	02/11/2010						51,400	\$ 661,775
S. L. Morris	02/11/2010						4,166	\$ 107,275
S. L. Morris	02/03/2011						51,400	\$ 1,323,550
S. L. Morris	02/03/2011						8,333	\$ 214,575
M. T. Thies	02/11/2010						12,500	\$ 160,938
M. T. Thies	02/11/2010				1,033	\$ 26,600		
M. T. Thies	02/03/2011						12,500	\$ 321,875
M. T. Thies	02/03/2011				2,066	\$ 53,200		
D. P. Vermillion	02/11/2010						12,500	\$ 160,938
D. P. Vermillion	02/11/2010				1,033	\$ 26,600		
D. P. Vermillion	02/03/2011						12,500	\$ 321,875
D. P. Vermillion	02/03/2011				2,066	\$ 53,200		
M. M. Durkin	02/11/2010						12,500	\$ 160,938
M. M. Durkin	02/11/2010				1,033	\$ 26,600		
M. M. Durkin	02/03/2011						12,500	\$ 321,875
M. M. Durkin	02/03/2011				2,066	\$ 53,200		
K. S. Feltes	02/11/2010						12,500	\$ 160,938
K. S. Feltes	02/11/2010				1,633	\$ 42,050		
K. S. Feltes	02/03/2011						12,500	\$ 321,875
K. S. Feltes	02/03/2011				3,266	\$ 84,100		

- (1) Stock options were granted from 1998 to 2002. In 2003, the Compensation Committee discontinued awarding stock options to employees and NEOs. Options vested over a four-year period with 25% of the award vesting each year. In November 2006, the last options granted in 2002 vested based on the four-year vesting period and became exercisable. These options will expire November 2012.
- (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 restricted stock units that remain unvested as of December 31, 2011. (Restricted stock units vest over a three-year period 1/3 of the units vest and are issued on an annual basis.)
- (5) Market value of restricted stock units is based on the closing stock price (\$25.75) as reported on December 30, 2011.
- (6) Performance awards reflect the number of units granted at the target performance level. The market value is based on the closing stock price (\$25.75) as reported on December 30, 2011. The value for the 2010 Performance Share award is shown at the threshold level (50%) based on results (less than threshold) for the first two years of the 2010-2012 performance period. The value for the 2011 Performance Share awards are shown at the target performance level (100%) based on results (target level) for the first year of the 2011-2013 performance period. The NEOs earned a performance share payout for the 2009-2011 performance period. As a result, those performance shares are shown on the Option Exercises and Stock Vested table below.

**Table of Contents****Option Exercises and Stock Vested 2011**

Name	Option Awards		Stock Awards (1) (2)	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
S. L. Morris			46,260(1)	\$ 1,301,294
S. L. Morris			4,166(3)	112,190
S. L. Morris			4,167(3)	116,800
S. L. Morris			4,167(3)	121,384
S. L. Morris	20,000(3)	\$ 27,350		
M. T. Thies			11,250(1)	\$ 316,463
M. T. Thies			1,033(2)	27,560
M. T. Thies			1,033(2)	28,697
M. T. Thies			1,034(2)	29,860
D. P. Vermillion			6,300(1)	\$ 177,219
D. P. Vermillion			666(2)	17,769
D. P. Vermillion			1,033(2)	28,697
D. P. Vermillion			1,034(2)	29,860
M. M. Durkin			11,250(1)	\$ 316,463
M. M. Durkin			1,033(2)	27,560
M. M. Durkin			1,033(2)	28,697
M. M. Durkin			1,034(2)	29,860
K. S. Feltes			11,250(1)	\$ 316,463
K. S. Feltes			1,033(2)	27,560
K. S. Feltes			1,633(2)	45,365
K. S. Feltes			1,634(2)	47,188

- (1) Performance shares Performance at the 5<sup>th</sup> percentile for total shareholder return against companies included in our peer group resulted in a distribution of 90% of the initial units granted in 2009 for the 2009-2011 performance period. The NEOs received shares and cash dividend equivalents since total shareholder return fell slightly below target level. Value is based on the closing stock price (\$25.22) as reported on January 10, 2012, the day the Compensation Committee certified that the performance target was met. Dividend equivalents were paid in cash at \$2.91 per share based on the number of shares received.
- (2) The NEOs were granted restricted stock units in 2009, 2010 and 2011, of which 1/3 vests each year based on their employment on December 31. Therefore, one-third of each grant was vested. The NEOs received the last 1/3 of their units granted in 2009 and 1/3 of their units granted in 2010 and 2011. Value is based on the closing stock price (\$25.58) as reported on January 3, 2012, the day on which the shares were actually delivered to the recipient. Dividend equivalents were paid in cash at the same time that the underlying units vested and were paid in shares.
- (3) Mr. Morris was granted restricted stock units in 2009, 2010 and 2011, of which 1/3 vests each year based on Mr. Morris employment on December 31 and the Company achieving a minimum ROE performance target. The performance target for the 2009, 2010 and the 2011 grant was 6.19%, 6.05% and 5.74%, respectively. The performance target was achieved (8.67%) for all three grants. Therefore, one-third of each grant was released. Value is based on the closing stock price (\$25.83) as reported on February 2, 2012, the day the Compensation Committee certified that the performance target was met. Dividend equivalents were paid in cash at the same time that the underlying units vested and were paid in shares.

**Table of Contents****Pension Benefits 2011**

The table below reflects benefits accrued under the Retirement Plan for Employees and the SERP for the NEOs. The Company's Retirement Plan for Employees provides a retirement benefit based upon employees' compensation and years of credited service. The retirement benefit under the Retirement Plan is based on a participant's final average annual base salary for the highest 36 consecutive months during the last 120 months of service with the Company. Base salary for the NEOs is the amount under "Salary" in the Summary Compensation Table.

The SERP provides additional pension benefits to executive officers of the Company, who have attained the age of 55 and a minimum of 15 years of credited service with the Company. The plan is intended to provide benefits to executive officers whose pension benefits under the Company's Retirement Plan are reduced due to the application of limitations on qualified plans under the Code and the deferral of salary pursuant to the Executive Deferred Compensation Plan. When combined with the Retirement Plan, the plan will provide benefits to executive officers, who retire at age 62 or older, of 2.5% of the final average annual base salary during the highest 60 consecutive months during the last 120 months of service for each credited year of service up to 30 years. When combined with the Retirement Plan, the plan will provide higher benefits to the CEO, if he retires on or after age 65, of 3% of final average base salary during the highest 60 consecutive months during the last 120 months of service for each credited year of service up to 30 years. Benefits will be reduced for executives who retire before age 62. Reductions are either 4% or 5% for each year of retirement before age 62 as prescribed in the Retirement Plan.

Name	Plan Name	Number of Years Credited Service (#)(1)	Present Value of Accumulated Benefit (\$)	Payments During Last Year (\$)
S. L. Morris	Retirement Plan	30.17	\$ 1,286,753	\$ 0
	SERP pre 2005(2)	23.17	\$ 121,569	\$ 0
	SERP 2005+(3)	30.00	\$ 3,104,343	\$ 0
M. T. Thies (4)	Retirement Plan	3.25	\$ 61,738	\$ 0
	SERP pre 2005(2)	NA	NA	\$ 0
	SERP 2005+(3)	3.25	\$ 110,974	\$ 0
D. P. Vermillion	Retirement Plan	23.83	\$ 809,957	\$ 0
	SERP pre 2005(2)	16.83	151,303	\$ 0
	SERP 2005+(3)	23.83	\$ 507,028	\$ 0
M. M. Durkin (5)	Retirement Plan	6.42	\$ 202,548	\$ 0
	SERP pre 2005(2)	NA	NA	\$ 0
	SERP 2005+(3)	6.42	\$ 234,336	\$ 0
K. S. Feltes	Retirement Plan	13.67	\$ 523,572	\$ 0
	SERP pre 2005(2)	6.67	\$ 0	\$ 0
	SERP 2005+(3)	13.67	\$ 345,949	\$ 0

- (1) SERP participants are limited to a maximum of 30 years of credited service under the SERP no matter how many years of service they actually have with the Company. This column represents benefit service.
- (2)(3) Effective January 1, 2005 the SERP was modified to comply with requirements of Code Section 409A. This plan is noted as SERP 2005+. The plan prior to this date, SERP pre-2005, was grandfathered and is not subject to these requirements. SERP pre-2005 benefits were frozen as of December 31, 2004.
- (4) After ten years, Mr. Thies will receive a two for one credit for vesting service for each completed year of full-time service from year ten through year 12 (employment service). His ten-year employment anniversary triggers commencement of the additional vesting service credit. There is no two for one credit prior to completion of his tenth year of employment or after completion of his twelfth year of employment.
- (5) After five years, Ms. Durkin began to receive a two for one credit for vesting service for each completed year of full-time service from year six through year ten (employment service). Her five-year employment anniversary triggered commencement of the additional vesting service credit. There is no two for one credit after completion of her tenth year of employment.



**Table of Contents****Non-Qualified Deferred Compensation Plan 2011**

The following table shows the non-qualified deferred compensation activity for the NEOs accrued through December 31, 2011:

Name	Executive Contributions in Last Year (\$)(1)	Company Contributions in Last Year (Company Match) (\$)(2)	Aggregate Earnings in Last Year (\$)(3)	Aggregate Withdrawals/Distributions (\$)	Aggregate Balance at Last Year-End (\$)
S. L. Morris	\$ 0	\$ 0	\$ -16,400	\$ 0	\$ 293,539
D. P. Vermillion	\$ 2,000	\$ 2,388	\$ -50,983	\$ 0	\$ 1,228,824

- (1) Eligible employees may elect to defer up to 75% of their base annual salary, up to 100% of their annual bonus. This column represents deferrals of this compensation during the last year. See the Summary Compensation Table on page 39 for further explanation.
- (2) 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 up to the limit set forth in Code Section 402(g) for the plan year.
- (3) Earnings reflect the market returns of the NEOs' respective investment allocations. The earnings accrued for deferred compensation are determined by actual earnings of Avista common stock and selected mutual funds. None of the earnings are included as compensation on the Summary Compensation Table since none are above market earnings. The Compensation Committee selects the mutual funds that are available for investment under the plan, and the participants may allocate their accounts among these investments, including Avista common stock. The mutual funds currently available include the following:

Fund	Ticker Symbol	One Year Return as of 12/31/11
American Funds EuroPacific Growth	RERFX	-13.33%
Aston Montag & Coldwell Growth I	MCGIX	3.37%
Avista Common Stock	AVA	9.51%
American Beacon Large Cap Val	AADEX	-2.34%
PIMCO Total Return	PTTRX	4.16%
RS Investments Partners	RSPFX	-7.59%
TCM Small Cap Growth	TCMSX	-7.52%
T. Rowe Price Mid Cap Growth	RPMGX	-1.21%
T. Rowe Price Personal Strategy Balanced	TRPBX	-0.21%
Vanguard Short Term Treasury	VFISX	2.26%
Vanguard Total Bond Market Index	VBTSX	7.69%
Wells Fargo Advantage Index	WFI0X	1.90%
Wells Fargo Cash Investment Money Market	WFI1X	0.07%

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**Potential Payment Upon Termination or Change of Control**

The Company has Change of Control agreements with all of the NEOs. The cash components are paid in a lump sum and are based on a multiple of base salary. There are no Change of Control agreements that exceed three times base salary and bonus. The Change of Control agreements all have double triggers that provide for a severance payment only upon the occurrence of both a Change of Control and an adverse impact on the NEOs' employment.

Specifically, the NEOs receive payments only if, in connection with a Change of Control, the executive officer's employment is terminated involuntarily by the Company or voluntarily by the officer for good reason. Good reason includes assignment of any duties inconsistent with the executive officer's position, authority, duties or responsibilities or any other action which results in a material diminution in such position, authority, duties or responsibilities or material diminution in the executive's base annual salary, or requiring the executive officer to be based at any location over 50 miles from the location the executive officer was assigned to preceding the Change of Control.

The agreements also provide compensation and benefits to the NEOs during employment following a Change of Control of the Company. Pursuant to the terms of the agreements, during the two or three years following a Change of Control of the Company, an NEO will receive an annual base salary equal to at least 12 times the highest monthly base salary paid to such executive officer in the 12 months preceding the Change of Control. In addition, each NEO will receive an annual bonus at least equal to such executive officer's highest bonus paid by the Company under the Company's Annual Incentive Compensation Plan for the three years preceding the Change of Control (the Recent Annual Bonus). If employment is terminated by the Company without cause or by such executive officer for good reason during the first three years after a Change of Control, the executive officer will receive a payment equal to the sum of: (i) the earned but unpaid base salary due to such executive officer as of the date of termination; (ii) a proportionate annual bonus due to such executive officer for the portion of the year worked prior to the termination, based on the higher of the Recent Annual Bonus and the NEO's annual bonus for the last year (the Highest Annual Bonus); and (iii) a lump sum payment equal to two or three times the sum of the NEO's annual base salary (depending on executive's level) and the Highest Annual Bonus. The NEO will also receive all unpaid vacation pay, may continue to receive employee welfare benefits for up to a three-year period from the date of termination, and may receive outplacement assistance.

Prior to November 2009, our change of control agreements provided that if any payments to the NEO would be subject to the excise tax on excess parachute payments imposed by Code Section 4999, the agreements also provide that such executive officer may be entitled to a gross-up payment from the Company to cover the excise tax and any additional taxes on the gross-up payment. In November 2009, the Board eliminated the excise tax gross-up benefit for all new Change of Control Agreements entered into on or after November 13, 2009. Agreements already in place on that date have since been modified to provide that if payments (other than the gross-up payment) to the NEO do not exceed 110% of the maximum amount the NEO could receive without triggering the excise tax, the payments to such executive officer will be reduced to that maximum amount and such executive officer will not receive a gross-up payment.

The excise tax amount in the tables below is based on the Company's best estimate of the individual's liabilities under Code Sections 280G and 4999, assuming the NEO was terminated in connection with a Change of Control on December 30, 2011, and that the payments could not be reduced in accordance with the change described above.

In November 2010, the Board decided to change the highest annual bonus to target bonus for all new Change of Control Agreements entered into on or after November 11, 2010.

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Payments required by these agreements, as well as payments provided by the other Company compensation arrangements described above, are summarized in the tables below.

	Termination Without Cause or With Good Reason after a Change of Control	Potential Payment Upon Termination or Change of Control(1)				Involuntary Termination With or Without Cause
		Voluntary Termination	Retirement	Death	Disability	
<b>Scott L. Morris</b>						
Chairman, President & CEO						
<b>Compensation Components</b>						
Severance (2)	\$ 4,520,676	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Value of Accelerated Equity (3)	\$ 3,780,168	\$ 0	\$ 3,063,160	\$ 3,063,160	\$ 3,063,160	\$ 0
Retiree Medical (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Health Benefits (5)	\$ 35,198	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Death Benefit (6)	\$ 0	\$ 0	\$ 0	\$ 1,340,000	\$ 0	\$ 0
Supplemental Disability Benefit (7)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,324,405	\$ 0
280-G Tax Gross-Up	\$ 3,045,783	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total</b>	<b>\$ 11,381,825</b>	<b>\$ 0</b>	<b>\$ 3,063,160</b>	<b>\$ 4,403,160</b>	<b>\$ 5,387,565</b>	<b>\$ 0</b>

- (1) All scenarios assume termination occurred on December 30, 2011 and a stock price of \$25.75, the closing price of Company stock on that date.
- (2) Amount equals three times the highest base pay and annual bonus amounts for the prior three years plus an amount for to the 2011 bonus calculated on the basis of the highest annual bonus paid during the last three years prorated for the current fiscal year  $((670,000+627,669)\times 3)+627,669$ .
- (3) Assumes full acceleration of restricted stock and prorated acceleration of performance shares (granted in 2010 and 2011) upon termination in connection with a Change of Control, and also assumes prorated acceleration of performance shares and restricted stock in the event of death, disability, and retirement, and assumes all shares are forfeited in the event of voluntary or involuntary termination with cause. Under death, disability, and retirement, achievement of performance goals were assumed to be 100%, although in actuality the participant must wait until the end of the performance period to receive his/her prorated amount using the actual performance for the entire measurement period.
- (4) Retiree medical benefits are generally available to all employees who meet age and service eligibility requirements.
- (5) For a Change of Control, Mr. Morris would be credited with two years of continued health coverage based upon coverage elected and cost of health coverage as of December 30, 2011.
- (6) The death benefit is explained in the CD&A under Company Self-Funded Death Benefit Plan. Amount shown is twice the annual base salary and is paid in a lump sum.
- (7) The supplemental disability benefit is 60% of base annual pay and is comprised of benefits available from the Avista Corp. Supplemental Executive Disability Plan, Long-term Disability Plan, Workers Compensation (if applicable), and Social Security. Amount shown is the present value of the annual disability benefit payable to age 65. Present value was determined by using an interest rate of 4.80% and the RP2000 mortality table projected to 2011 for males and females.

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	Potential Payment Upon Termination or Change of Control(1)					
	Termination Without Cause or With Good Reason after a Change of Control	Voluntary Termination	Retirement	Death	Disability	Involuntary Termination With or Without Cause
<b>Mark T. Thies</b>						
Senior Vice President & CFO						
<b>Compensation Components</b>						
Severance (2)	\$ 1,898,460	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Value of Accelerated Equity (3)	\$ 791,936	\$ 0	\$ 747,159	\$ 747,159	\$ 747,159	\$ 0
Retiree Medical (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Health Benefits (5)	\$ 35,198	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Death Benefit (6)	\$ 0	\$ 0	\$ 0	\$ 690,000	\$ 0	\$ 0
Supplemental Disability Benefit (7)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,908,616	\$ 0
280-G Tax Gross-Up	\$ 1,002,340	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total</b>	<b>\$ 3,727,934</b>	<b>\$ 0</b>	<b>\$ 747,159</b>	<b>\$ 1,437,159</b>	<b>\$ 2,655,776</b>	<b>\$ 0</b>

- (1) All scenarios assume termination occurred on December 30, 2011 and a stock price of \$25.75, the closing price of Company stock on that date.
- (2) Amount equals three times the highest base pay and annual bonus amounts for the prior three years plus an amount for to the 2011 bonus calculated on the basis of the highest annual bonus paid during the last three years prorated for the current fiscal year  $((345,000+215,865)\times 3)+215,865$ .
- (3) Assumes full acceleration of restricted stock and prorated acceleration of performance shares (granted in 2010 and 2011) upon termination in connection with a Change of Control, and also assumes prorated acceleration of performance shares and restricted stock after death, disability, and retirement, and assumes all shares are forfeited in the event of voluntary or involuntary termination with cause. Under death, disability, and retirement, achievement of performance goals were assumed to be 100%, although in actuality the participant must wait until the end of the performance period to receive his/her prorated amount using the actual performance for the entire measurement period.
- (4) Retiree medical benefits are generally available to all employees who meet age and service eligibility requirements.
- (5) For a Change of Control, Mr. Thies would be credited with two years of continued health coverage based upon coverage elected and cost of health coverage as of December 30, 2011.
- (6) The death benefit is explained in the CD&A under Company Self-Funded Death Benefit Plan. Amount shown is twice the annual base salary and is paid in a lump sum.
- (7) The supplemental disability benefit is 60% of base annual pay and is comprised of benefits available from the Avista Corp. Supplemental Executive Disability Plan, Long-term Disability Plan, Workers Compensation (if applicable), and Social Security. Amount shown is the present value of the annual disability benefit payable to age 65. Present value was determined by using an interest rate of 4.80% and the RP2000 mortality table projected to 2011 for males and females.

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	Potential Payment Upon Termination or Change of Control(1)					Involuntary Termination With or Without Cause
	Termination Without Cause or With Good Reason after a Change of Control	Voluntary Termination	Retirement	Death	Disability	
<b>Dennis P. Vermillion</b>						
Sr. Vice President & Environmental Compliance Officer						
<b>Compensation Components</b>						
Severance (2)	\$ 1,207,780	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Value of Accelerated Equity (3)	\$ 641,128	\$ 0	\$ 596,369	\$ 596,369	\$ 596,369	\$ 0
Retiree Medical (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Health Benefits (5)	\$ 35,198	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Death Benefit (6)	\$ 0	\$ 0	\$ 0	\$ 610,000	\$ 0	\$ 0
Supplemental Disability Benefit (7)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 663,261	\$ 0
280-G Tax Gross-Up	\$ 651,836	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total</b>	<b>\$ 2,535,942</b>	<b>\$ 0</b>	<b>\$ 596,369</b>	<b>\$ 1,206,369</b>	<b>\$ 1,259,630</b>	<b>\$ 0</b>

- (1) All scenarios assume termination occurred on December 30, 2011 and a stock price of \$25.75, the closing price of Company stock on that date.
- (2) Amount equals three times the highest base pay and annual bonus amounts for the prior three years plus an amount for to the 2011 bonus calculated on the basis of the highest annual bonus paid during the last three years prorated for the current fiscal year  $((305,000+199,260)\times 2)+199,260$ .
- (3) Assumes full acceleration of restricted stock and prorated acceleration of performance shares (granted in 2010 and 2011) upon termination in connection with a Change of Control, and also assumes prorated acceleration of performance shares and restricted stock after death, disability, and retirement, and assumes all shares are forfeited in the event of voluntary or involuntary termination with cause. Under death, disability, and retirement, achievement of performance goals were assumed to be 100%, although in actuality the participant must wait until the end of the performance period to receive his/her prorated amount using the actual performance for the entire measurement period.
- (4) Retiree medical benefits are generally available to all employees who meet age and service eligibility requirements.
- (5) For a Change of Control, Mr. Vermillion would be credited with two years of continued health coverage based upon coverage elected and cost of health coverage as of December 30, 2011.
- (6) The death benefit is explained in the CD&A under Company Self-Funded Death Benefit Plan. Amount shown is twice the annual base salary and is paid in a lump sum.
- (7) The supplemental disability benefit is 60% of base annual pay and is comprised of benefits available from the Avista Corp. Supplemental Executive Disability Plan, Long-term Disability Plan, Workers Compensation (if applicable), and Social Security. Amount shown is the present value of the annual disability benefit payable to age 65. Present value was determined by using an interest rate of 4.80% and the RP2000 mortality table projected to 2011 for males and females.

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	Potential Payment Upon Termination or Change of Control(1)					Involuntary Termination With or Without Cause
	Termination Without Cause or With Good Reason after a Change of Control	Voluntary Termination	Retirement	Death	Disability	
<b>Marian M. Durkin</b>						
Senior Vice President, General Counsel & Chief Compliance Officer						
<b>Compensation Components</b>						
Severance (2)	\$ 1,621,874	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Value of Accelerated Equity (3)	\$ 791,936	\$ 0	\$ 747,159	\$ 747,159	\$ 747,159	\$ 0
Retiree Medical (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Health Benefits (5)	\$ 25,870	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Death Benefit (6)	\$ 0	\$ 0	\$ 0	\$ 580,000	\$ 0	\$ 0
Supplemental Disability Benefit (7)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 494,834	\$ 0
280-G Tax Gross-Up	\$ 819,756	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total</b>	<b>\$ 3,259,437</b>	<b>\$ 0</b>	<b>\$ 747,159</b>	<b>\$ 1,327,159</b>	<b>\$ 1,241,993</b>	<b>\$ 0</b>

- (1) All scenarios assume termination occurred on December 30, 2011 and a stock price of \$25.75, the closing price of Company stock on that date.
- (2) Amount equals three times the highest base pay and annual bonus amounts for the prior three years plus an amount for to the 2011 bonus calculated on the basis of the highest annual bonus paid during the last three years prorated for the current fiscal year  $((290,000+187,969)\times 3)+187,969$  - \$2 difference due to rounding.
- (3) Assumes full acceleration of restricted stock and prorated acceleration of performance shares (granted in 2010 and 2011) upon termination in connection with a Change of Control, and also assumes prorated acceleration of performance shares and restricted stock after death, disability, and retirement, and assumes all shares are forfeited in the event of voluntary or involuntary termination with cause. Under death, disability, and retirement, achievement of performance goals were assumed to be 100%, although in actuality the participant must wait until the end of the performance period to receive his/her prorated amount using the actual performance for the entire measurement period.
- (4) Retiree medical benefits are generally available to all employees who meet age and service eligibility requirements.
- (5) For a Change of Control, Ms. Durkin would be credited with two years of continued health coverage based upon coverage elected and cost of health coverage as of December 30, 2011.
- (6) The death benefit is explained in the CD&A under Company Self-Funded Death Benefit Plan. Amount shown is twice the annual base salary and is paid in a lump sum.
- (7) The supplemental disability benefit is 60% of base annual pay and is comprised of benefits available from the Avista Corp. Supplemental Executive Disability Plan, Long-term Disability Plan, Workers Compensation (if applicable), and Social Security. Amount shown is the present value of the annual disability benefit payable to age 65. Present value was determined by using an interest rate of 4.80% and the RP2000 mortality table projected to 2011 for males and females.

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	Potential Payment Upon Termination or Change of Control(1)					Involuntary Termination With or Without Cause
	Termination Without Cause or With Good Reason after a Change of Control	Voluntary Termination	Retirement	Death	Disability	
<b>Karen S. Feltes</b>						
Senior Vice President & Corporate Secretary						
<b>Compensation Components</b>						
Severance (2)	\$ 1,423,886	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Value of Accelerated Equity (3)	\$ 869,186	\$ 0	\$ 798,438	\$ 798,438	\$ 798,438	\$ 0
Retiree Medical (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Health Benefits (5)	\$ 13,779	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Death Benefit (6)	\$ 0	\$ 0	\$ 0	\$ 510,000	\$ 0	\$ 0
Supplemental Disability Benefit (7)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 208,360	\$ 0
280-G Tax Gross-Up	\$ 708,768	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total</b>	<b>\$ 3,015,619</b>	<b>\$ 0</b>	<b>\$ 798,438</b>	<b>\$ 1,308,438</b>	<b>\$ 1,006,799</b>	<b>\$ 0</b>

- (1) All scenarios assume termination occurred on December 30, 2011 and a stock price of \$25.75, the closing price of Company stock on that date.
- (2) Amount equals three times the highest base pay and annual bonus amounts for the prior three years plus an amount for to the 2011 bonus calculated on the basis of the highest annual bonus paid during the last three years prorated for the current fiscal year ((255,000+164,722)×3)+164,722 - \$2 difference due to rounding.
- (3) Assumes full acceleration of restricted stock and prorated acceleration of performance shares (granted in 2010 and 2011) upon termination in connection with a Change of Control, and also assumes prorated acceleration of performance shares and restricted stock after death, disability, and retirement, and assumes all shares are forfeited in the event of voluntary or involuntary termination with cause. Under death, disability, and retirement, achievement of performance goals were assumed to be 100%, although in actuality the participant must wait until the end of the performance period to receive his/her prorated amount using the actual performance for the entire measurement period.
- (4) Retiree medical benefits are generally available to all employees who meet age and service eligibility requirements.
- (5) For a Change of Control, Ms. Feltes would be credited with two years of continued health coverage based upon coverage elected and cost of health coverage as of December 30, 2011.
- (6) The death benefit is explained in the CD&A under Company Self-Funded Death Benefit Plan. Amount shown is twice the annual base salary and is paid in a lump sum.
- (7) The supplemental disability benefit is 60% of base annual pay and is comprised of benefits available from the Avista Corp. Supplemental Executive Disability Plan, Long-term Disability Plan, Workers Compensation (if applicable), and Social Security. Amount shown is the present value of the annual disability benefit payable to age 65. Present value was determined by using an interest rate of 4.80% and the RP2000 mortality table projected to 2011 for males and females.

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**DIRECTOR COMPENSATION 2011**

Prior to September 1, 2011, directors who were not employees of the Company received an annual retainer of \$98,000, of which a minimum of \$30,000 was paid in Company common stock. Directors were also paid \$1,500 for each meeting of the Board or any Committee meeting of the Board. Directors who served as Board Committee Chairs received an additional \$5,000 annual retainer, with the exception of the Audit Committee Chair, who received an additional \$10,000 annual retainer. The Lead Director received an additional annual retainer of \$15,000.

In addition, any non-employee director who served as director of a subsidiary of the Company received from the Company a meeting fee of \$1,500 for each subsidiary Board meeting the director attended. Directors Anderson, Blake and Kelly hold Board positions with a subsidiary of the Company.

Each year, the Governance Committee reviews all components of directors' compensation. During 2011, the Governance Committee engaged Towers Watson to assist in this review. The information provided by Towers Watson is used to compare the Company's current director compensation with peer companies in the utility industry and general industry companies of similar size. The companies comprising the Director Peer Group are those companies in the S&P Utility Mid-Cap, as well as NorthWestern Energy, Northwest Natural Gas Company, and Portland General Electric Company.

At its August 12, 2011 meeting, the Board reviewed survey results from Towers Watson were reviewed regarding current pay practices for director compensation. Although the Company has historically targeted compensation for non-employee directors at the 50<sup>th</sup> percentile of their utility peer group, the survey indicated that Avista director compensation was below the average. Therefore, the Board approved an increase in the directors' annual retainers as of September 1, 2011. Directors who are not employees of the Company now receive an annual retainer of \$116,000, of which a minimum of \$48,000 is paid in Company common stock. An annual retainer of \$5,000 was established for any non-employee director who serves as director of a subsidiary of the Company. An additional meeting fee of \$1,500 for each subsidiary Committee meeting that the director attends was also established.

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

The Company has a minimum stock ownership expectation for all Board members. Directors are now expected to achieve a minimum investment of \$236,000 or 11,000 shares, whichever is less, in Company common stock within four years of their becoming Board members and are expected to retain at least that level of investment during their tenure as Board members. Shares that have previously been deferred under the former Non-Employee Director Stock Plan count for purposes of determining whether a director has achieved the ownership expectation.

The ownership expectation illustrates the Board's philosophy of the importance of stock ownership for directors to further strengthen the commonality of interest between the Board and shareholders. The Governance Committee annually reviews director holdings to determine whether they meet ownership expectations. All directors currently comply based on their years of service completed on the Board.

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There were no annual stock option grants or non-stock incentive plan compensation payments to directors for services in 2011 and none are currently contemplated under the current compensation structure. The Company also does not provide a retirement plan or deferred compensation plan to its directors. Listed below is compensation paid to each director during 2011.

Director Name	Annual Retainer			Total Compensation (\$)
	Fees Earned or Paid in Cash \$(1)(2)	Director Compensation Paid in Stock \$(1)(2)	All Other Compensation \$(3)	
Erik J. Anderson	\$ 109,195	\$ 35,971		\$ 145,166
Kristianne Blake	\$ 103,703	\$ 53,964	\$ 18,688	\$ 176,355
Donald C. Burke	\$ 18,038	\$ 46,796		\$ 64,834
Roy L. Eiguren (4)	\$ 21,667	\$		\$ 21,667
Rick R. Holley	\$ 12,038	\$ 46,795		\$ 58,834
John F. Kelly	\$ 128,695	\$ 35,971	\$ 16,110	\$ 180,776
Rebecca A. Klein	\$ 30,364	\$ 103,969		\$ 134,333
Michael L. Noël	\$ 71,041	\$ 65,959		\$ 137,000
Marc F. Racicot	\$ 72,037	\$ 55,963		\$ 128,000
Heidi B. Stanley	\$ 99,529	\$ 35,971		\$ 135,500
R. John Taylor	\$ 77,037	\$ 55,963	\$ 22,019	\$ 155,019
<b>Totals</b>	<b>\$ 743,344</b>	<b>\$ 537,323</b>	<b>\$ 56,817</b>	<b>\$ 1,337,484</b>

- (1)(2) Directors have the option of taking \$68,000 of their annual retainer (\$104,000 as pro-rated for 2011) in Company common stock, in cash, or in a combination of stock and cash (a minimum of \$36,000 of their pro-rated annual retainer for 2011 was automatically paid in Company common stock). Amounts in these columns include cash retainers, Chair retainers, Board and Committee meeting fees, and fees for directors sitting on a subsidiary Board and attending subsidiary Board and Committee meetings. Anderson, Blake and Kelly are the only directors who currently sit on a subsidiary Board.
- (3) Amounts for Ms. Blake and Mr. Taylor include dividends paid on those shares that were deferred prior to December 31, 2004, under the former Non-Employee Director Stock Plan, as well as proceeds from the exercise of stock options. (Blake and Taylor are the only directors who deferred receipt of stock until a later date.) Amounts for Mr. Kelly include proceeds from the exercise of stock options. The Company does not provide perquisites or other personal benefits to its Board members.
- (4) Mr. Eiguren resigned from the Board effective February 5, 2011.

**PROPOSAL 2****RATIFICATION OF APPOINTMENT OF INDEPENDENT****REGISTERED PUBLIC ACCOUNTING FIRM**

The Board has appointed Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, Deloitte), as the Company's independent registered public accounting firm for continuing audit work in 2012. The Board has determined that it would be desirable to request that the shareholders ratify such appointment. Deloitte has conducted consolidated annual audits of the Company for many years, and is one of the world's largest firms of certified public accountants. A representative of Deloitte is expected to attend the Annual Meeting with the opportunity to make a statement if he/she desires to do so, and is expected to be available to respond to appropriate questions.

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Shareholder approval is not required for the appointment of Deloitte. However, the appointment is being submitted to shareholders for ratification. Should the shareholders fail to ratify the appointment of Deloitte, such failure (1) would have no effect on the validity of such appointment for 2012 (given the difficulty and expense of changing the independent registered public accounting firm mid-way through a year) and (2) would be a factor to

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be taken into account, together with other relevant factors, by the Audit Committee and by the full Board in the selection and appointment of the independent registered public accounting firm for 2013 (but would not necessarily be the determining factor).

**The Board recommends a vote FOR the proposal to ratify the selection of Deloitte & Touche LLP as the independent registered public accounting firm to audit the books, records, and accounts of the Company for the year 2012.**

***Auditors Fees***

Aggregate fees billed to the Company for the years ended December 31, 2011 and 2010 by Deloitte were as follows:

	<b>2011</b>	<b>2010</b>
Audit Fees (a)	\$ 1,729,600	\$ 1,529,310
Audit-Related Fees (b)	96,000	95,541
Tax Fees (c)	29,842	49,827
All Other Fees (d)	77,240	30,001
<b>Total</b>	<b>\$ 1,932,682</b>	<b>\$ 1,704,679</b>

(a) Fees for audit services billed in 2011 and 2010 consisted of:

Audit of the Company's annual consolidated financial statements and internal controls over financial reporting.

Reviews of the Company's quarterly reports on Form 10-Q.

Comfort letters, agreed-upon procedures, statutory and regulatory audits, consents, and other services related to SEC matters.

Audits of subsidiary financial statements.

(b) Fees for audit-related services billed in 2011 and 2010 consisted primarily of separate internal control audits and separate financial statement audits of affiliated entities.

(c) Fees for tax services billed in 2011 and 2010 consisted of income tax planning and advice.

(d) All other fees for 2011 and 2010 consisted of licensing of accounting literature research databases, attendance at training seminars and other miscellaneous projects.

In considering the nature of the services provided by Deloitte, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with Deloitte and Company management to determine that they are permitted under the Sarbanes-Oxley Act and under the rules and regulations concerning auditor independence promulgated by the SEC, the Public Company Accounting Oversight Board (PCAOB), and the American Institute of Certified Public Accountants.

Under the Sarbanes-Oxley Act, the Audit Committee is responsible for the appointment, compensation, and oversight of the work of the Company's independent registered public accounting firm. As part of this responsibility, the Audit Committee is required to pre-approve the audit and permissible non-audit services to be performed. The Audit Committee has adopted what it terms its Audit and Non-Audit Services Pre-Approval Policy (the Policy), which sets forth the procedures and conditions pursuant to which services proposed to be performed by the Company's independent registered public accounting firm may be pre-approved. All services provided by Deloitte in 2011 and 2010 were pre-approved in accordance with the Policy adopted by the Audit Committee.

The SEC's rules establish two alternatives for pre-approving services provided by the independent registered public accounting firm. Engagements for proposed services may either be specifically pre-approved by the Audit Committee (specific pre-approval) or entered into pursuant to detailed pre-approval policies and procedures established by the Audit Committee, as long as in the latter circumstance the Audit Committee is informed on a

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timely basis of any engagement entered into on such basis (general pre-approval). The Audit Committee combined these two approaches in its Policy after concluding that doing so will result in an effective and efficient procedure to pre-approve services to be performed by the Company's independent registered public accounting firm.

As set forth in this Policy, except for those categories of services where the Policy requires specific pre-approval, engagements may be entered into pursuant to general pre-approvals established by the Audit Committee. The Audit Committee will periodically review and generally pre-approve the categories of services that may, as contemplated by this Policy, be provided by the Company's independent registered public accounting firm without obtaining specific pre-approval from the Audit Committee, and will establish budgeted amounts for such categories. The Audit Committee may add or subtract to the list of general pre-approved services from time-to-time, based on subsequent determinations by the Audit Committee. Any general pre-approval will be set forth in writing and included in the Audit Committee minutes. Unless an engagement of the independent auditor to provide a particular service is entered into pursuant to and in accordance with the Audit Committee's general pre-approval then in effect, the engagement will require specific pre-approval by the Audit Committee.

Proposed services exceeding pre-approved cost levels or budget amounts previously established by the Audit Committee will also require specific pre-approval by the Audit Committee.

The Audit Committee intends to pre-approve services, whether specifically or pursuant to general pre-approvals, only if the provision of such services is consistent with SEC and PCAOB rules on auditor independence and all other applicable laws and regulations. In rendering specific or general pre-approvals, the Audit Committee will consider whether the independent registered public accounting firm's provision of specific services, or categories of services, would be inconsistent with the independence of the auditor.

### **PROPOSAL 3**

#### **PROPOSED AMENDMENTS TO**

#### **RESTATED ARTICLES OF INCORPORATION TO**

#### **REDUCE CERTAIN SHAREHOLDER APPROVAL REQUIREMENTS**

### **General**

The Board of Directors is proposing that the Company's Restated Articles of Incorporation, as amended (the Articles), be amended to reduce the approval standards for shareholder voting to a Majority of Votes Cast (as hereinafter defined), where permissible under Washington law (except as noted below), and otherwise to the lowest threshold permitted by Washington law. These amendments would affect different provisions of the Articles, which have different approval standards required for amendment, and therefore two separate sub-proposals are submitted, one for each group of amendments requiring the same approval standard.

### **Background**

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At the 2011 Annual Meeting of Shareholders a resolution proposed by a shareholder (the Shareholder Resolution ) was adopted that requested that the Board take the necessary steps to reduce the shareholder approval standard in the Articles and Bylaws to a Majority of Votes Cast wherever a higher standard was required. The text of the Shareholder Resolution is as follows:

Resolution: That the shareholders of Avista Corporation request our Board of Directors to take the steps necessary so that each shareholder voting requirement in our articles and by-laws, that calls for a greater than simple majority vote, be changed to a majority of votes cast for or against the proposal in compliance with applicable laws.

In the Company's Proxy Statement, dated March 31, 2011 (the 2011 Proxy Statement ), the Board recommended that shareholders vote against the Shareholder Resolution. This recommendation was based on the fact that in many respects the Shareholder Resolution is inconsistent with Washington law and the changes are not always in the best interests of the shareholders. Despite the Board's recommendation, the Shareholder Resolution was adopted, and this proposal (the Board Proposal ) is being made by the Board to comply with it.

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However, the Company is incorporated under the laws of the State of Washington, and, as indicated in the 2011 Proxy Statement, certain of the changes that would be covered by the Shareholder Resolution would conflict with Washington law and, therefore, cannot be implemented as proposed.

Under the Washington Business Corporation Act (the "WBCA"), the general rule is that if a quorum of a majority of shares entitled to vote on a proposed corporate action exists, such corporate action is approved if the number of votes actually cast favoring such corporate action exceeds the number of votes actually cast opposing such corporate action, unless the articles of incorporation or Washington law require a greater number of affirmative votes. For convenience, the aforesaid majority of votes cast standard is herein called a "Majority of Votes Cast." Consistent with the Shareholder Resolution, the Board proposal would change the approval standard to a Majority of Votes Cast, wherever permissible under Washington law (except as noted below under "Transactions with Directors"), and otherwise would reduce the approval standard to the lowest threshold permitted by Washington law.

The approval standards set forth in certain provisions of the Articles are already the lowest permissible under Washington law. No changes to these provisions are being proposed.

The specific amendments to the Articles that the Board is proposing, which are separated into two specific proposals according to the standard required for approval, are described below.

### **Proposal 3A**

#### **Proposed Amendments Requiring Approval of**

#### **Holders of 2/3 of the Outstanding Shares of Common Stock**

##### *Creation of New Class of Stock*

Article THIRD of the Articles currently require the approval of the holders of two-thirds of the total number of shares of common stock outstanding to create a new class of stock, including, for example, preference stock or any other class of stock senior to the common stock. Washington law would require the approval of the holders of at least two-thirds of the outstanding shares of common stock for an amendment to the Articles to create a new class of stock, as well as most other amendments to the Articles; provided, however, that Washington law permits the articles of incorporation of a corporation to require a greater or lesser vote, so long as the required vote is not less than a majority of all votes entitled to be cast. Thus, Proposal 3A would change the approval requirements for the creation of a new class of stock such that approval by the holders of only a majority of the outstanding shares of common stock entitled to vote would be required.

##### *Dispositions of Assets (including Mergers); Effect of New Statutes*

Article SEVENTH of the Articles contains two paragraphs (the eighth and ninth paragraphs of that Article) dealing with dispositions of assets, both of which were included in the Articles well before the State of Washington adopted the WBCA. The first such paragraph deals with dispositions of assets, with the Company presumably continuing to remain in business, while the second such paragraph deals with dispositions

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of assets to a new company for the purpose of that company taking over the business of the Company. In each case, the approval of the holders of two-thirds of the outstanding shares of common stock is required under the Articles.

Proposal 3A would eliminate these two paragraphs in their entirety because the WBCA now contains detailed provisions governing matters such as mergers and statutory share exchanges with another entity, the sale or other disposition of all or substantially all a corporation's assets and dissolution. These statutory provisions must be complied with in any event. As discussed above, however, the WBCA requires that any such transaction be approved by the holders of at least two-thirds of the outstanding shares of common stock, except that the law permits the articles of incorporation of the corporation to require a greater or lesser vote, so long as the required vote is not less than a majority of all votes entitled to be cast.

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Accordingly, Proposal 3A would (1) delete the two archaic paragraphs and (2) include a new paragraph to the effect that the approval of the holders of only a majority of the outstanding shares of common stock would be required for any such transaction.

Article SEVENTH of the Articles also contains a provision (the tenth paragraph of that Article) to the effect that, if approved by the holders of a majority of the outstanding shares of common stock, any statute enacted after the date of the inclusion of such provision in the Articles that affects the rights or powers of corporations or shareholders shall apply to the Company and its shareholders. Again, this provision was included in the Articles well before the State of Washington adopted WBCA. Proposal 3A would simply delete this paragraph because the WBCA applies to the Company and its shareholders unconditionally. No shareholder approval or consent is required in order for the Company and its shareholders to be bound by the WBCA.

### *Approval of Proposal 3A*

Under Washington law, an amendment to the Articles that reduces a voting requirement for a particular corporate action must be adopted by the same vote as is required under the voting requirements then in effect for approval of the corporate action. Therefore, Proposal 3A would be approved upon the affirmative vote of the holders of two-thirds of the total number of outstanding shares of common stock.

## **Proposal 3B**

### **Proposed Amendments Requiring Approval of**

### **Holders of 80% of the Outstanding Shares of Common Stock**

#### *80% Approval Requirement for Amendment of Certain Provisions*

The Articles provide that various provisions of the Articles may not be amended or repealed, and inconsistent provisions may not be included in the Articles or Bylaws, without the approval of the holders of 80% of the total number of shares of common stock outstanding, including:

the provisions regarding the number of directors, the filling of vacancies and the removal of directors by shareholders;

provisions regarding the calling of special meetings of shareholders;

the fair price provision (described below);

provisions regarding the adoption, alteration, amendment, change and repeal of the Bylaws of the Corporation

the provisions of the Bylaws of the Corporation relating to procedures for the nomination of Directors; and

each provision requiring such 80% approval requirement.

Proposal 3B would amend such provisions of the Articles to reduce such approval requirement to a majority of the outstanding shares of common stock, consistent with Washington law. Proposal 3B would also clarify that such provisions of the Articles do not impose any shareholder approval requirement in addition to the requirements, if any, of Washington law with respect to any such amendment or provision that is approved by the Board of Directors.

*Transactions with Interested Shareholders*

The Articles require the approval of the holders of 80% of the total number of shares of common stock outstanding for asset sales, mergers and certain other transactions with an Interested Shareholder (generally, a holder of 10% of the outstanding shares of common stock) unless certain specified conditions are met. This provision, which is sometimes called a fair price provision, was approved by the shareholders in 1987 in order to afford protection against an unequal treatment to shareholders in the context of two-tiered or front-end loaded tender offers.

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As noted above in the discussion of Proposal 3A, Washington law would require the approval of the holders of at least two-thirds of the outstanding shares of common stock for a sale of substantially all of the Company's assets or for a merger of the Company into another entity; provided, however, that Washington law would permit a lower approval standard to be contained in the Articles, so long as it is not less than a majority of all votes entitled to be cast. To be consistent with the approval requirements for dispositions of essential assets and mergers, Proposal 3B would amend the Articles to require the approval by the holders of a majority of the outstanding shares of common stock for asset sales, mergers and certain other transactions with an Interested Shareholder.

### *Approval of Proposal 3B*

Under the existing provisions of the Articles, as discussed above, and under Washington law, Proposal 3B would be approved upon the affirmative vote of the holders of 80% of the outstanding shares of common stock.

## **Transactions with Directors**

The Articles currently require the approval of either the Board of Directors (or Executive Committee) or the holders of a majority of all the outstanding shares of capital stock of the Corporation entitled to vote to authorize or ratify a transaction in which a director of the Corporation contracts with the Corporation either as a vendor, purchaser or otherwise (or in which a firm in which the director is a member, director, shareholder or is otherwise interested contracts with the Corporation). The Shareholder Resolution calls for the amendment of the Articles to require only the approval of a Majority of Votes Cast to authorize such a transaction.

The Board of Directors has considered carefully the ramifications of the proposed amendment to the Articles, as suggested by the Shareholder Resolution, in the context of the approval of transactions with directors. The Board has concluded that it would not be in the best interests of shareholders and that it cannot, in good faith, recommend to shareholders an amendment that would require that transactions with directors (if not approved by the Board or the Executive Committee) be approved only by a Majority of Votes Cast. The Board firmly believes that a higher approval standard, such as that currently contained in the Articles, is in the best interest of shareholders and should be required to approve such transactions with directors.

Accordingly, notwithstanding the Shareholder Resolution, the Board of Directors is not recommending any amendment to the provision of the Articles that currently requires that transactions with directors (if not approved by the Board or the Executive Committee) be authorized or ratified by a majority of the outstanding shares of capital stock entitled to vote.

## **Recommendation of the Board**

In light of the apparent views of the Company's shareholders, as evidenced by the adoption of the Shareholder Resolution at the 2011 Annual Meeting of Shareholders, the Board of Directors believes the Articles should be amended as described above. Accordingly, the Board recommends that the shareholders approve Proposals 3A and 3B. Notwithstanding the Shareholder Resolution, however, the Board is not recommending any amendment to the provision of the Articles with respect to the approval of transactions with directors.

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The text of Article THIRD, Article FIFTH, Article SEVENTH and Article EIGHTH, as they would be amended if the proposal were adopted, is set forth in Exhibit A to this proxy statement.

**The Board recommends a vote FOR Proposals 3A and 3B to reduce shareholder approval requirements.**

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**PROPOSAL 4**

**ADVISORY VOTE ON EXECUTIVE COMPENSATION**

As required by the Exchange Act, the Board is submitting a separate resolution, to be voted on by shareholders in a non-binding vote, approving, on an advisory basis, the Company's executive compensation.

The text of the resolution in respect of this Proposal 4 is as follows:

Resolved, that the shareholders approve, on an advisory basis, the compensation of the Company's NEOs as disclosed in the Company's proxy statement, pursuant to the compensation disclosure rules of the SEC, under the CD&A, Executive Compensation Tables and the related narrative disclosure.

The Board recommends a vote for this resolution. As described in this proxy statement under the CD&A, the Company's compensation program is designed to focus Company executives on the achievement of specific annual, long-term and strategic goals set by the Company. The goals are structured to align executives' interests with those of shareholders by rewarding performance that maintains and improves shareholder value. The following features of the compensation structure reflect this approach:

Executive compensation programs have both short and long-term components.

Annual cash incentive components focus on both the actual results and the sustainability and quality of those results.

The total compensation program does not provide for guaranteed bonuses and has multiple performance measures.

The Company only has two executive employment agreements in place for NEOs, and they do not contain guarantees for salary increases, non-performance-based bonuses or equity compensation.

In 2010, the Company adopted a recoupment policy that authorizes the Board to recover incentive payouts based on performance results that are subsequently revised or restated to levels that would have produced payouts lower than the original incentive plan payouts.

The Board believes that the Company's current executive compensation program properly focuses our executives on the achievement of specific annual, long-term and strategic goals. The Board also believes that the Company's executive compensation program properly aligns the executives' interests with those of shareholders.

Shareholders are urged to read the CD&A section of this proxy statement which discusses in greater detail how the Company's compensation program implements the specific goals set by the Company.

**The Board recommends a vote FOR the approval, on an advisory basis, of the compensation of the Company's named executive officers.**

Although the advisory vote on Proposal 4 is non-binding, the Board and the Compensation Committee will review the results of the votes and, consistent with our record of shareholder engagement, are expected to take the outcome of the votes into consideration, along with other relevant factors, in making a determination concerning future executive compensation and the frequency of such advisory votes.

**Table of Contents****SECURITY OWNERSHIP OF MANAGEMENT AND OTHERS**

The following table shows the number of shares of common stock of the Company held beneficially, as of March 1, 2012, by the directors, the nominees for director, each of the executive officers named in the Summary Compensation Table, and directors and executive officers as a group. The directors and executive officers as a group beneficially own 1.29% of the outstanding common stock of the Company. No director or executive officer owns, nor do the directors and executive officers as a group own, in excess of 1% of the stock of any indirect subsidiaries of the Company. None of the directors or NEOs has pledged Company common stock as security.

Name	Shares Beneficially Owned			Other		Total
	Direct	Indirect	Exercisable Stock Options(1)	Deferred Shares(2)	Restricted Stock Units Not Yet Vested(3)	
Erik J. Anderson	14,867					14,867
Kristianne Blake	14,525		3,000	2,519		20,044
Donald C. Burke	2,157					2,157
Marian M. Durkin	43,579				12,099	55,678
Karen S. Feltes	20,345				13,899	34,244
Rick R. Holley	3,157					3,157
John F. Kelly	23,213					23,213
Rebecca A. Klein	5,913					5,913
Scott L. Morris	145,206	13,386(4)			24,597	183,189
Michael L. Noël		20,162(5)				20,162
Marc F. Racicot	6,587					6,587
Heidi B. Stanley	12,674	10,248(6)				22,922
R. John Taylor	8,788	4,000(7)	3,000	5,496		21,284
Mark T. Thies	37,195	5,751(8)			12,099	55,045
Dennis P. Vermillion	14,130	8,426(4)			12,199	34,755
All directors and executive officers as a group, including those listed above 24 individuals	<b>464,986</b>	<b>112,613</b>	<b>47,775</b>	<b>25,643</b>	<b>106,317</b>	<b>757,334</b>

- (1) All stock options held by directors and executive officers are exercisable within 60 days.
- (2) Shares deferred under the Executive Deferred Compensation Plan or under the former Non-Employee Director Stock Plan.
- (3) Restricted Stock units that have been granted to the executive officers, but have not yet vested. Restricted stock units vest in three equal annual increments, provided the officer remains employed by the Company. If the employment of an executive officer terminates, all unvested shares are forfeited.
- (4) Shares held in the Company's 401(k) plan.
- (5) Includes 19,502 shares held by Noël Consulting Company, Inc. and 660 shares held by Mr. Noël's adopted son, Shane Burroughs.
- (6) Shares held by Ms. Stanley's spouse, Ronald Stanley, in a profit-sharing plan not administered by the Company.
- (7) Shares held in an employee benefit plan not administered by the Company for which Mr. Taylor shares voting and investment power.
- (8) Shares held by Mr. Thies' spouse, Elizabeth Thies.

**Table of Contents****SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16 of the Exchange Act requires that executive officers, directors and holders of more than 10% of the Company's common stock file reports of their trading in Company equity securities with the SEC. Based solely on a review of Forms 3, 4 and 5 furnished to the Company with respect to 2011, the Company believes that all Section 16 filing requirements applicable to these persons were completed in a timely manner.

**OTHER SECURITY OWNERSHIP**

As of March 1, 2012, the following were beneficial owners of 5% or more of the Company's common stock:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Blackrock, Inc. 40 East 52 <sup>nd</sup> Street New York, NY, 10022	7,247,337 shares sole voting power	12.45%
The Vanguard Group, Inc.* 100 Vanguard Blvd. Malvern, PA 19355	88,714 shares sole voting power	5.47%
	3,100,611 shares sole dispositive power	
	88,714 shares shared dispositive power	
	3,189,325 shares aggregate amount beneficially owned by each reporting person	

\* Vanguard is the holder of the Company's 401(k) accounts.

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

A copy of the Company's 2011 Annual Report to Shareholders, which contains the Company's audited financial statements, accompanies this proxy statement.

**OTHER BUSINESS**

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The Board does not intend to present any business at the meeting other than as set forth in the accompanying Notice of Annual Meeting of Shareholders, and has no present knowledge that others intend to present business at the meeting. If, however, other matters requiring the vote of the shareholders properly come before the meeting or any adjournment(s) thereof, the individuals named in the proxy card will have discretionary authority to vote the proxies held by them in accordance with their judgment as to such matters.

### 2013 ANNUAL MEETING OF SHAREHOLDERS

#### General

The 2013 Annual Meeting of Shareholders is currently scheduled for Thursday, May 9, 2013, in Spokane, Washington. Matters to be brought before that meeting by shareholders are subject to the requirements described below.

The date and location of the 2013 Annual Meeting of Shareholders are subject to change. Any such change and any resulting change in the dates referred to below, would be specified by the Company in a report filed with the SEC. In addition, any change in the dates referred to below that results from a change in SEC rules or the Company's Bylaws would be similarly reported by the Company.

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### **Notice of Nominations and Other Business to Be Presented at Annual Meeting**

Notice of nominations of directors and other business to be presented by a shareholder at the 2013 Annual Meeting of Shareholders must be delivered to the Company as follows:

written notice of a shareholder's intent to nominate a person for election as a director at the 2013 Annual Meeting of Shareholders must be delivered to the principal executive offices of the Company to the attention of the Corporate Secretary on or before February 8, 2013, but not before November 9, 2012; and

written notice of a shareholder's intent to propose other business to be brought before the 2013 Annual Meeting of Shareholders must be delivered to the principal executive offices of the Company to the attention of the Corporate Secretary on or before February 8, 2013, but not before November 9, 2012.

In any case, the written notice of the shareholder must, in order for the matter to be eligible to be presented at the meeting, comply with all of the requirements and contain all of the information specified in the Company's Bylaws, without regard to whether the proposed nomination or other business is to be included in management's proxy soliciting materials or those of any other person.

### **Notice of Proposals to be Included in Management's Proxy Materials**

Proposals that shareholders seek to have included in management's proxy soliciting materials must be received by the Corporate Secretary on or before November 30, 2012 and, in order to be so included, must contain the information required by the SEC's Rule 14a-8 and otherwise comply with SEC rules. However, in order for a proposal to be eligible to be presented at the meeting, the shareholder must also comply with all of the requirements specified in the Company's Bylaws for nominating a person for election as a director and/or bringing other business before the meeting.

## **EXPENSE OF SOLICITATION**

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 2011 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.

By Order of the Board,

Karen S. Feltes

Senior Vice President & Corporate Secretary

Spokane, Washington

March 30, 2012

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**EXHIBIT A**

**PROPOSED AMENDMENTS TO  
RESTATED ARTICLES OF INCORPORATION**

The proposed amendments and restatements of specified provisions of the Restated Articles of Incorporation are set forth below. Text stricken through indicates deletions, and text in italics indicates additions.

**Article THIRD (Proposal 3A)**

Subdivision (l) of Article THIRD, which relates to the authorization of new classes of capital stock senior to the common stock, would be amended and restated as set forth below:

Subject to the limitations set forth in subdivision (j) of this Article THIRD (and subject to the rights of any class of stock hereafter authorized), and except as may be otherwise provided by law, upon the vote of a majority of all of the Directors of the Corporation and of the holders of record of two-thirds *a majority* of the total number of shares of the Corporation then issued and outstanding and entitled to vote (or, if the vote of a larger number or different proportion of shares is required by the laws of the state of Washington, notwithstanding the above agreement of the shareholders of the Corporation to the contrary, then upon the vote of the holders of record of the larger number or different proportion of shares so required) the Corporation may from time to time create or authorize one or more other classes of stock with such preferences, designations, rights, privileges, powers, restrictions, limitations and qualifications as may be determined by said vote, which may be the same or different from the preferences, designations, rights, privileges, powers, restrictions, limitations and qualifications of the classes of stock of the Corporation then authorized and/or the Corporation may increase or decrease the number of shares of one or more of the classes of stock then authorized.

**Article FIFTH (Proposal 3B)**

The fifth paragraph of Article FIFTH, which relates to the shareholder vote required to amend the provisions of Article FIFTH (which relates to the Board of Directors), would be amended and restated as set forth below:

Notwithstanding anything contained in these Articles of Incorporation to the contrary, the provisions of this Article FIFTH shall not be altered, amended or repealed, and no provision inconsistent therewith shall be included in these Articles of Incorporation or the Bylaws of the Corporation, without the affirmative vote of the holders of at least eighty percent (80%) *a majority* of the voting power of all of the shares of the Voting Stock, voting together as a single class; *it being understood that this paragraph shall not impose any shareholder approval requirement in addition to the requirements, if any, of applicable law with respect to any such alteration, amendment, repeal or inconsistent provision that shall have been approved by the Board of Directors.*

**Article SEVENTH (Proposal 3A)**

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The eighth, ninth and tenth paragraphs of Article SEVENTH, which relates, among other things, to sales of assets and mergers, would be deleted:

~~Any property of the Corporation not essential to the conduct of its corporate business may be sold, leased, exchanged, or otherwise disposed of, by authority of its Board of Directors and the Corporation may sell, lease, exchange or otherwise dispose of, all of its property and franchises, or any of its property, franchises, corporate rights, or privileges, essential to the conduct of its corporate business and purposes upon the consent of and for such consideration and upon such terms as may be authorized by a majority of all of the Directors and the holders of two thirds of the issued and outstanding shares of the Corporation having voting power (or, if the consent or vote of a larger number or different proportion of the Directors and/or shares is required by the laws of the state of Washington, notwithstanding the above agreement of the shareholders of the Corporation to the contrary, then upon the consent or vote of the larger number or~~

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different proportion of the Directors and/or shares so required) expressed in writing, or by vote at a meeting of holders of the shares of the Corporation having voting power duly held as provided by law, or in the manner provided by the Bylaws of the Corporation, if not inconsistent therewith.

Upon the affirmative vote of the holders of two thirds of the issued and outstanding shares of the Corporation having voting power given at a meeting of the holders of the shares of the Corporation having voting power duly called for that purpose or when authorized by the written consent of the holders of two thirds of the issued and outstanding shares of the Corporation having voting power and upon the vote of a majority of the Board of Directors, all of the property, franchises, rights and assets of the Corporation may be sold, conveyed, assigned and transferred as an entirety to a new company to be organized under the laws of the United States, the state of Washington or any other state of the United States, for the purpose of so taking over all the property, franchises, rights and assets of the Corporation, with the same or a different authorized number of shares of stock and with the same preferences, voting powers, restrictions and qualifications thereof as may then attach to the classes of stock of the Corporation then outstanding so far as the same shall be consistent with such laws of the United States or of Washington or of such other state (provided that the whole or any part of such stock or of any class thereof may be stock with or without a nominal or par value), the consideration for such sale and conveyance to be the assumption by such new company of all of the then outstanding liabilities of the Corporation and the issuance and delivery by the new company of shares of stock (any or all thereof either with or without nominal or par value) of such new company of the several classes into which the stock of the Corporation is then divided equal in number to the number of shares of stock of the Corporation of said several classes then outstanding. In the event of such sale, each holder of stock of the Corporation agrees so far as he may be permitted by the laws of Washington forthwith to surrender for cancellation his certificate or certificates for stock of the Corporation and to receive and accept in exchange therefor, as his full and final distributive share of the proceeds of such sale and conveyance and of the assets of the Corporation, a number of shares of the stock of the new company of the class corresponding to the class of the shares surrendered equal in number to the shares of stock of the Corporation so surrendered, and in such event no holder of any of the stock of the Corporation shall have any rights or interests in or against the Corporation, except the right upon surrender of his certificate as aforesaid properly endorsed, to receive from the Corporation certificates for such shares of said new company as herein provided. Such new company may have all or any of the powers of the Corporation and the certificate of incorporation and bylaws of such new company may contain all or any of the provisions contained in the Articles of Incorporation and Bylaws of the Corporation.

Upon the written assent, in person or by proxy, or pursuant to the affirmative vote, in person or by proxy, of the holders of a majority in number of the shares then outstanding and entitled to vote (or, if the assent or vote of a larger number or different proportion of shares is required by the laws of the state of Washington notwithstanding the above agreement of the shareholders of the Corporation to the contrary, then upon the assent or vote of the larger number or different proportion of the shares so required) (1) any or every statute of the state of Washington hereafter enacted, whereby the rights, powers or privileges of the Corporation are or may be increased, diminished, or in any way affected, or whereby the rights, powers or privileges of the shareholders of corporations organized under the law under which the Corporation is organized are increased, diminished or in any way affected or whereby effect is given to the action taken by any part less than all of the shareholders of any such corporation shall, notwithstanding any provision which may at the time be contained in these Articles of Incorporation or any law, apply to the Corporation, and shall be binding not only upon the Corporation but upon every shareholder thereof, to the same extent as if such statute had been in force at the date of the making and filing of these Articles of Incorporation and/or (2) amendments to said Articles authorized at the time of the making of such amendments by the laws of the state of Washington may be made, provided, however, that (a) the provisions of Article THIRD hereof limiting the preemptive rights of shareholders, requiring majority voting in the election of Directors and regarding entry in the capital stock account of consideration received upon the sale of shares of capital stock without nominal or par value and all of the provisions of Article FIFTH hereof shall not be altered, amended, repealed, waived or changed in any way, unless the holders of record of at least two thirds of the number of shares entitled to vote then outstanding shall consent thereto in writing or affirmatively vote therefor in person or by proxy at a meeting of shareholders at which such change is duly considered.

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The following paragraph would be inserted after the existing seventh paragraph of Article SEVENTH:

*In any circumstance in which Washington law would require the approval of shareholders to authorize (1) the merger of the Corporation with or into another entity or a statutory share exchange with another entity, (2) a sale, lease, exchange or other disposition of property of the Corporation or (3) the dissolution of the Corporation, the requisite shareholder approval shall be the affirmative vote of the holders of a majority of the outstanding shares of capital stock entitled to vote on such transaction, unless Washington law shall require a higher standard.*

The existing twelfth paragraph of Article SEVENTH, which relates to the shareholder vote required to amend specified provisions of Article SEVENTH, would be amended as set forth below:

Notwithstanding anything contained in these Articles of Incorporation to the contrary, the paragraph in this Article SEVENTH relating to the adoption, alteration, amendment, change and repeal of the Bylaws of the Corporation, the paragraph in this Article SEVENTH relating to the calling and conduct of special meetings of the shareholders and this paragraph, and the provisions of the Bylaws of the Corporation relating to procedures for the nomination of Directors, shall not be altered, amended or repealed, and no provision inconsistent therewith shall be included in these Articles of Incorporation or the Bylaws of the Corporation, without the affirmative vote of the holders of at least ~~eighty percent (80%)~~ a majority of the voting power of all the shares of the Voting Stock, voting together as a single class; *it being understood that this paragraph shall not impose any shareholder approval requirement in addition to the requirements, if any, of applicable law with respect to any such alteration, amendment, repeal or inconsistent provision that shall have been approved by the Board of Directors.*

## **Article EIGHTH**

Subdivision (a) of Article EIGHTH, which relates to specified Business Combinations, would be amended and restated, in part, to read as set forth below:

- (a) In addition to any affirmative vote required by law or these Articles of Incorporation, and except as otherwise expressly provided in subdivision (b) of this Article EIGHTH:

[clauses (1), (2), (3), (4) and (5), each of which sets forth a type of transaction that constitutes a Business Combination for purposes of Article EIGHTH, would not be changed]

shall require the affirmative vote of the holders of at least 80% a majority of the voting power of all of the shares of the Voting Stock, voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required or that the vote of a lower percentage may be specified, by law or in any agreement with any national securities exchange or otherwise. The term Business Combination as used in this Article EIGHTH shall mean any transaction which is referred to in any one or more of paragraphs (1) through (5) of this subdivision (a).

The last paragraph of Article EIGHTH, which relates to the shareholder vote required to amend the provisions of Article EIGHTH, would be amended and restated to read as set forth below:

Notwithstanding anything contained in these Articles of Incorporation to the contrary, the provisions of this Article EIGHTH shall not be altered, amended or repealed, and no provision inconsistent therewith shall be included in these Articles of Incorporation or the Bylaws of the Corporation, without the affirmative vote of the holders of at least ~~eighty percent (80%)~~ a majority of the voting power of all of the shares of the Voting Stock, voting together as a single class; *it being understood that this paragraph shall not impose any shareholder approval requirement in addition to the requirements, if any, of applicable law with respect to any such alteration, amendment, repeal or inconsistent provision that shall have been approved by the Board of Directors.*

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**AVISTA CORP.**

**1411 EAST MISSION**

**P.O. BOX 3727**

**SPOKANE, WA 99220-3727**

**VOTE BY INTERNET - [www.proxymvote.com](http://www.proxymvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M41331-P20557-Z57162 KEEP THIS PORTION FOR YOUR RECORDS

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. DETACH AND RETURN THIS PORTION ONLY**

**AVISTA CORP.**

**The Board of Directors recommends a vote FOR each Nominee.**

1. Election of Directors			
<b>Nominees:</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>
1a. Erik J. Anderson	..	..	..
1b. Kristianne Blake	..	..	..

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1c. Donald C. Burke	..	..	..
1d. Rick R. Holley	..	..	..
1e. John F. Kelly	..	..	..
1f. Rebecca A. Klein	..	..	..
1g. Scott L. Morris	..	..	..
1h. Michael L. Noel	..	..	..
1i. Marc F. Racicot	..	..	..
1j. Heidi B. Stanley	..	..	..
1k. R. John Taylor	..	..	..

**For                      Against                      Abstain**

**The Board of Directors recommends a vote FOR item 2.**

2. Ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for 2012.	..	..	..
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**The Board of Directors recommends a vote FOR Proposal 3A and 3B to reduce shareholder approval requirements.**

3. Amendment of the Company's Restated Articles of Incorporation to reduce certain shareholder approval requirements:			
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3A. Amendment Requiring Approval of Holders of 2/3 of the Outstanding Shares of Common Stock.	..	..	..
	..	..	..

3B. Amendments Requiring Approval of Holders of 80% of the Outstanding Shares of Common Stock

**The Board of Directors recommends you to vote FOR the following proposal.**

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

Signature [PLEASE SIGN WITHIN THE BOX]

Date

Signature (Joint Owners)

Date

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**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:**

The Notice and Proxy Statement and Annual Report are available at [www.proxyvote.com](http://www.proxyvote.com).

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**PROXY/VOTING INSTRUCTION CARD**

**This proxy is solicited on behalf of the Board of Directors of Avista Corp.**

**For the Annual Meeting of Shareholders on Thursday, May 10, 2012**

The undersigned hereby appoints Scott L. Morris and Karen S. Feltes, and each of them, with full power of substitution, the proxies of the undersigned, to represent the undersigned and vote all shares of Avista Corp. Common Stock which the undersigned may be entitled to vote at the Annual Meeting of Shareholders to be held on May 10, 2012, and any adjournments thereof, as indicated on the reverse side.

If the undersigned is a participant in the Avista Investment and Employee Stock Ownership Plan, this card directs The Vanguard Group, as the Plan Administrator, to authorize Broadridge, as the Proxy Agent, to vote, as designated on the reverse, all of the shares of Avista Common Stock held of record in the undersigned's Plan account.

If you are a participant in the Avista 401(k) Savings Plan (The Plan), this proxy covers all shares for which the undersigned has the right to give voting instructions to Vanguard Fiduciary Trust Company, Trustee of the Avista 401(k) Savings Plan. This proxy, when properly executed, will be voted as directed. If no direction is given to the Trustee by 5:00 p.m. Eastern Time on May 8, 2012, the Plan's Trustee will vote the shares held in the Plan in the same proportion as votes received from other participants in the Plan.

This proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. **If no direction is given, this proxy will be voted FOR items 1, 2, 3A, 3B and 4.**

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**\*\*\* Exercise Your *Right* to Vote \*\*\***

**Important Notice Regarding the Availability of Proxy Materials for the  
Shareholder Meeting to Be Held on May 10, 2012.**

**Meeting Information**

**AVISTA CORPORATION**

**Meeting Type:** Annual Meeting  
**For holders as of:** March 9, 2012  
**Date:** May 10, 2012    **Time:** 8:15 a.m.  
**Location:** Avista Main Office Building

1411 E. Mission Avenue

Spokane, WA 99202

You are receiving this communication because you hold shares in the above named company.

*AVISTA CORP.*

*1411 EAST MISSION*

*P.O. BOX 3727*

*SPOKANE, WA 99220-3727*

This is not a ballot. You cannot use this notice to vote these shares. This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. You may view the proxy materials online at [www.proxyvote.com](http://www.proxyvote.com) or easily request a paper copy (see reverse side).

We encourage you to access and review all of the important information contained in the proxy materials before voting.

**See the reverse side of this notice to obtain proxy materials and voting instructions.**

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**Before You Vote**

How to Access the Proxy Materials

**Proxy Materials Available to VIEW or RECEIVE:**

NOTICE AND PROXY STATEMENT      ANNUAL REPORT

**How to View Online:**

Have the 12-Digit Control Number available (located on the following page) and visit: *www.proxyvote.com*.

**How to Request and Receive a PAPER or E-MAIL Copy:**

If you want to receive a paper or e-mail copy of these documents, you must request one. There is NO charge for requesting a copy. Please choose one of the following methods to make your request:

- |                         |  |
|-------------------------|--|
| 1) <i>BY INTERNET:</i>  | <a href="http://www.proxyvote.com">www.proxyvote.com</a>                   |
| 2) <i>BY TELEPHONE:</i> | 1-800-579-1639   |
| 3) <i>BY E-MAIL*:</i>   | <a href="mailto:sendmaterial@proxyvote.com">sendmaterial@proxyvote.com</a> |

\* If requesting materials by e-mail, please send a blank e-mail with the information that is printed in the box marked by the arrow (located on the following page) in the subject line.

Requests, instructions and other inquiries sent to this e-mail address will NOT be forwarded to your investment advisor. Please make the request as instructed above on or before April 26, 2012.

**How To Vote**

Please Choose One of the Following Voting Methods

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**Vote In Person:** Many shareholder meetings have attendance requirements including, but not limited to, the possession of an attendance ticket issued by the entity holding the meeting. Please check the meeting materials for any special requirements for meeting attendance. At the meeting, you will need to request a ballot to vote these shares.

**Vote By Internet:** To vote now by Internet, go to [www.proxyvote.com](http://www.proxyvote.com). Have the 12-Digit Control Number available and follow the instructions.

**Vote By Mail:** You can vote by mail by requesting a paper copy of the materials, which will include a proxy card.

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**Voting Items**

**The Board of Directors recommends a vote FOR each Nominee.**

**The Board of Directors recommends a vote FOR Proposals 3A and 3B to reduce shareholder approval requirements.**

1. Election of Directors

**Nominees:**

1a. Erik J. Anderson

1b. Kristianne Blake

1c. Donald C. Burke

1d. Rick R. Holley

1e. John F. Kelly

1f. Rebecca A. Klein

1g. Scott L. Morris

1h. Michael L. Noël

1i. Marc F. Racicot

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

3A. Amendments Requiring Approval of Holders of 2/3 of the Outstanding Shares of Common Stock.

3B. Amendments Requiring Approval of Holders of 80% of the Outstanding Shares of Common Stock.

**The Board of Directors recommends you vote FOR the following proposal.**

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

1j. Heidi B. Stanley

1k. R. John Taylor

**The Board of Directors recommends a vote FOR  
item 2.**

2. Ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for 2012.

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