AVISTA CORP
Form PRE 14A
February 29, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

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

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

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

AVISTA CORPORATION

(Name of registrant as specified in its charter)

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

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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

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

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

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

(4) Proposed maximum aggregate value of the transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Table of Contents

Notice of May 10, 2012

Annual Meeting and

2012 Proxy Statement

Table of Contents

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) 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

Table of Contents

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 s 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
	8:15 a.m. Annual Meeting Convenes		Spokane, Washington

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

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 shortly before the meeting time and follow the instructions for the webcast. You can also listen to a replay of the webcast, which will be archived at www.avistacorp.com for one year.

Thank you for your continued support.

Sincerely,

Scott L. Morris

Chairman of the Board,

President & Chief Executive Officer

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

Investor Relations (509) 495-4203

If you require special accommodations at the Annual Meeting due to a disability, please call our

Investor Relations Department by April 13.

Table of Contents

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 1411 E. Mission Avenue, Spokane, Washington
Record Date:	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,

Karen S. Feltes

Senior Vice President & Corporate Secretary

Spokane, Washington

March 30, 2012

Table of Contents

TABLE OF CONTENTS

GENERAL	1
VOTING	1
CORPORATE GOVERNANCE MATTERS	2
PROPOSAL 1 ELECTION OF DIRECTORS	8
AUDIT COMMITTEE REPORT	16
EXECUTIVE COMPENSATION SUMMARY	17
COMPENSATION DISCUSSION AND ANALYSIS (CD&A)	18
COMPENSATION GOVERNANCE MATTERS	36
EXECUTIVE COMPENSATION TABLES	39
DIRECTOR COMPENSATION 2011	52
PROPOSAL 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	53
PROPOSAL 3 PROPOSED AMENDMENTS TO RESTATED ARTICLES OF INCORPORATION TO REDUCE CERTAIN SHAREHOLDER APPROVAL REQUIREMENTS	55
PROPOSAL 4 ADVISORY VOTE ON EXECUTIVE COMPENSATION	59
SECURITY OWNERSHIP OF MANAGEMENT AND OTHERS	60
SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	61
OTHER SECURITY OWNERSHIP	61
ANNUAL REPORT AND FINANCIAL STATEMENTS	61
OTHER BUSINESS	61
2013 ANNUAL MEETING OF SHAREHOLDERS	61
EXPENSE OF SOLICITATION	62
EXHIBIT A PROPOSED AMENDMENTS TO RESTATED ARTICLES OF INCORPORATION	63

Table of Contents

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.

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

Table of Contents

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.

Table of Contents

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 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.

Table of Contents

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

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.

Table of Contents

Committees

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

Audit Committee Assists the Board in overseeing the integrity of and the risks related to the Company s financial statements, the Company s compliance program dealing with legal and regulatory requirements, the qualifications and independence of the independent registered public accounting firm, the performance of the Company s internal audit function and independent registered public accounting firm, and the Company s systems of internal controls regarding accounting, financial reporting, disclosure, legal compliance and ethics that management and the Board have established, including without limitation all internal controls established and maintained pursuant to the Securities Exchange Act of 1934 (the Exchange Act) and by the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). The Audit Committee oversees the Company s risk assessment and risk management processes and the business continuity process. Only independent directors sit on the Audit Committee. During 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.

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.

Table of Contents

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. 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.

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;

6

Table of Contents

- 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.

Table of Contents

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;

Table of Contents

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

	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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

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.

Table of Contents

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

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.

Table of Contents

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

14

Table of Contents

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

The Board recommends a vote FOR all nominees for director.

Table of Contents

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.

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.

Table of Contents

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.

17

Table of Contents

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

Table of Contents

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 shareowners 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

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.

Table of Contents

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

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

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 53rd 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 85th percentile to a 200% opportunity for performance at the 100th 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, 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.

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 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.

Table of Contents

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:

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;

Table of Contents

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

Hawaiian Electric
IDACORP Inc
Lower Colorado River Authority
Mirant
New York Power Authority
Nicor
Santee Cooper
Southern Union Company
Unisource Energy
Vectren
Westar Energy

Table of Contents

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.

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.

Table of Contents

Allocation Among Compensation Components

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

Table of Contents

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.

Table of Contents

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.