

AVISTA CORP  
Form DEF 14A  
March 28, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No.    )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- 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)

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

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Notice of May 8, 2014

Annual Meeting and

2014 Proxy Statement

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**Important Voting Information**

Brokerage firms, banks and other nominees generally have the authority to vote their customers' shares when their customers do not provide voting instructions. However, with respect to certain specified matters, when such an entity does not receive instructions from its customers, shares cannot be voted on those matters. This is called a broker non-vote. Matters on which organizations that are members of the New York Stock Exchange (the NYSE) may not vote without instructions include the election of directors, matters relating to executive compensation and matters relating to certain corporate governance issues. For Avista Corporation, this means that NYSE member organizations may not vote shares on Proposals 1, 3, 4 and 5 if you have not given instructions on how to vote. Broker non-votes are not counted. Please be sure to give specific voting instructions so that your shares can be voted.

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

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

**More Information is available**

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

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE  
SHAREHOLDER MEETING TO BE HELD ON THURSDAY, MAY 8, 2014**

**This Proxy Statement and the 2013 Annual Report are available on the Internet at**

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

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

**Your immediate attention is appreciated.**

March 28, 2014

Dear Fellow Shareholder:

On behalf of the Board of Directors (the Board), it is my pleasure to invite you to the Avista Corporation (Avista or the Company) 2014 Annual Meeting of Shareholders (the Annual Meeting). The doors open at 7:30 a.m. and the Annual Meeting will begin promptly at 8:15 a.m.

Date:	Thursday, May 8, 2014	Place:	Avista Main Office Building
Time:	7:30 a.m. Doors Open		Auditorium
	7:45 a.m. Refreshments		1411 E. Mission Avenue
	<b>8:15 a.m. Annual Meeting Convenes</b>		Spokane, Washington

Information about the nominees for election as members of the Board and other business of the Annual 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 2013 Annual Report. Your vote is important regardless of the number of shares you own.

For your convenience, we are pleased to offer an audio webcast of the Annual Meeting if you cannot attend in person. If you choose to listen to the webcast, go to [www.avistacorp.com](http://www.avistacorp.com) shortly before the meeting time and follow the instructions for the webcast. You can also listen to a replay of the webcast, which will be archived at [www.avistacorp.com](http://www.avistacorp.com) for one year.

Thank you for your continued support.

Sincerely,

**Scott L. Morris**

Chairman of the Board,

President & Chief Executive Officer

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

Investor Relations (509) 495-4203

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

**Investor Relations Department by April 11, 2014.**

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**AVISTA CORPORATION**

**1411 East Mission Avenue**

**Spokane, Washington 99202**

**NOTICE OF ANNUAL MEETING**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE  
ANNUAL MEETING TO BE HELD ON THURSDAY, MAY 8, 2014**

**This proxy statement and the 2013 Annual Report are available on the Internet at**

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

**Date:** Thursday, May 8, 2014  
**Time:** 8:15 a.m., Pacific Time  
**Place:** Avista Main Office Building Auditorium

**Record Date:** 1411 E. Mission Avenue, Spokane, Washington  
March 7, 2014

**Meeting Agenda:**

- 1) Election of nine directors.
- 2) Ratification of the appointment of Deloitte & Touche LLP ( Deloitte ) as the Company s independent registered public accounting firm for 2014.
- 3) Reapproval of the material terms of performance goals under the Company s Long-Term Incentive Plan.
- 4) Amendment of the Company s Restated Articles of Incorporation to reduce certain shareholder approval requirements.
- 5) Advisory (non-binding) vote on executive compensation.
- 6) Transaction of other business that may come before the meeting or any adjournment or postponement thereof.

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

By Order of the Board,



Karen S. Feltes

Senior Vice President & Corporate Secretary

Spokane, Washington

March 28, 2014

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**AVISTA CORPORATION**  
**1411 East Mission Avenue**  
**Spokane, Washington 99202**

**PROXY STATEMENT**  
**FOR THE ANNUAL MEETING**  
**TO BE HELD ON MAY 8, 2014**

**ABOUT THE ANNUAL MEETING**

**Why am I receiving these materials and who is soliciting my vote?**

The Board is soliciting your vote in connection with the Annual Meeting or at any adjournment or postponement thereof. The Company intends to mail this Proxy Statement and accompanying proxy card to shareholders on or about March 28, 2014.

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

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

- 1) Election of nine directors.
- 2) Ratification of the appointment of Deloitte as the Company's independent registered public accounting firm for 2014.
- 3) Reapproval of the material terms of performance goals under the Company's Long-Term Incentive Plan.

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- 4) Amendment of the Company's Restated Articles of Incorporation to reduce certain shareholder approval requirements.
- 5) Advisory (non-binding) vote on executive compensation.
- 6) Transaction of other business that may come before the meeting or any adjournment or postponement thereof.

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

The Board recommends a vote:

- 1) For the election of nine directors.
- 2) For ratification of the appointment of Deloitte as the Company's independent registered public accounting firm for 2014.
- 3) For reapproval of the material terms of performance goals under the Company's Long-Term Incentive Plan.
- 4) For the amendment of the Company's Restated Articles of Incorporation to reduce certain shareholder approval requirements.
- 5) For the advisory (non-binding) vote on executive compensation.

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

The Company's common stock is the only class of securities with general voting rights. The Board has set March 7, 2014, as the record date for the Annual Meeting (the Record Date). Only shareholders who own common stock at the close of business on the Record Date may attend and vote at the Annual Meeting.

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

Each share of common stock is entitled to one vote. There is no cumulative voting. At the close of business on the Record Date, 60,129,338 shares of common stock were outstanding and entitled to vote.

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

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

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

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

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

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

by attending the Annual Meeting and voting in person.

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

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

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

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The Company's common stock is listed on the NYSE. Under NYSE rules, brokerage firms, banks and other nominees that are members of the NYSE generally have the authority to vote shares when their customers do not give voting instructions. However, NYSE rules prohibit member organizations from voting on certain types of matters without specific instructions from the beneficial owners. If a beneficial owner does not give instructions on such a matter, the member organization cannot vote on that matter. This is called a broker non-vote. Matters on which NYSE member organizations may not vote without instructions include the election of directors, matters relating to executive compensation and matters relating to certain corporate governance issues. For Avista, this means that NYSE member organizations may not vote on Proposals 1, 3, 4 and 5 unless you have given instructions on how to vote. Please be sure to give specific voting instructions so that your shares can be voted.

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

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

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

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

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

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

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

Proposal 1 election of directors. A nominee will be elected if the number of votes cast for exceeds the number of votes cast against. Abstentions or broker non-votes with respect to any shares will have no effect on the election of that director since those shares will not be voted at all. If you are the registered holder of the shares but give no instructions on the proxy card with respect to this proposal, the shares represented by that proxy card will be voted for each of the nominees. Shareholders may not cumulate votes in the election of directors. If an incumbent director does not receive a majority of votes cast with respect to his/her re-election in an uncontested election, he/she would continue to serve a term that would terminate on the date that is the earliest of: (i) the date of the commencement of the term of a new director selected by the Board to fill the office held by such director, (ii) the effective date of the resignation of such director, or (iii) December 31, 2014.

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 2014, will be approved if the number of votes cast for exceeds the number of votes cast against. Abstentions with respect to any shares will have no impact on the outcome of this proposal since those shares will not be voted at all. Brokers may vote on this proposal without instructions. If you are the registered holder of the shares but give no instructions on the proxy card with respect to this proposal, the shares represented by that proxy card will be voted for this proposal.

Proposal 3 the proposal for reapproval of the material terms of performance goals under the Company's Long-Term Incentive Plan will be approved if the number of votes cast for exceeds the number of votes cast against. Abstentions and broker non-votes with respect to any shares will have no impact on the outcome of Proposal 3 since those shares will not be voted at all. If you are the registered holder of the shares but give no instructions on the proxy card with respect to this proposal, the shares represented by that proxy card will be voted for this proposal.

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

Proposal 5 the advisory (non-binding) vote on executive compensation will be approved if the number of votes cast for exceeds the number of votes cast against. Abstentions and broker non-votes with respect to any shares will have no impact on the outcome of Proposal 5 since those shares will not be voted at all. If you are the registered holder of the shares but give no instructions on the proxy card with respect to this proposal, the shares represented by that proxy card will be voted for this proposal.

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

The expense of soliciting proxies will be borne by the Company. Proxies will be solicited by the Company primarily by mail, but may also be solicited personally and by telephone at nominal expense to the Company by



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directors, officers, and regular employees of the Company. In addition, the Company has engaged AST Phoenix Advisors at a cost of \$6,500 plus out-of-pocket expenses, to solicit proxies in the same manner. The Company will also request banks, brokerage houses, custodians, nominees, and other record holders of the Company's common stock to forward copies of the proxy soliciting material and the Company's 2013 Annual Report to Shareholders to the beneficial owners of such stock, and the Company will reimburse such record holders for their expenses in connection therewith.

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

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

## **CORPORATE GOVERNANCE MATTERS**

### **Corporate Governance Principles**

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

### **Board Leadership Structure**

The Board does not have a policy as to whether the role of Chief Executive Officer ( CEO ) should be separate from that of Chairman of the Board (the 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 Chairman and CEO have not been separated except 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 to the Company's corporate governance structure. Having a single leader for both the Company and the Board eliminates the potential for confusion or duplication of effort, and provides clear leadership for the Company, the Board and the markets.

The Board has examined the questions of the separation of the positions of the Chairman and the CEO and the independence of the Chairman. The Board has concluded that it should not have a rigid policy as to these issues but, rather, should consider them, together with other relevant

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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 considered the right form of leadership for the Company and the Board.

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

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### **Duties of the Chairman**

The Chairman's duties include:

chairing all meetings of the Board in a manner that effectively utilizes the Board's time and which takes full advantage of the skills, expertise and experience that each director has to offer;

working with the Lead Director to establish schedules and agendas for Board meetings, with input from other directors and management;

providing input to the Chair of the Governance Committee on new Board member candidates and the selection of the Board Committee members;

facilitating and encouraging constructive and useful communication between the Board and management;

recommending an agenda to the Board for its approval for each shareholder meeting;

providing leadership to the Board in the establishment of positions that the Board should take on issues to come before shareholder meetings; and

presiding at all shareholder meetings.

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, as well as for ensuring 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.

### **Lead Director**

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

maintaining an active, positive and collaborative relationship with the Chairman and the CEO and keeping an open line of communication that provides for dissemination of information to the Board and discussion before actions are finalized;

serving as primary liaison between independent directors and the Chairman and CEO;

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presiding at all meetings at which the Chairman is not present, including executive sessions of the independent directors held at each regularly scheduled Board meeting;

calling meetings of the independent directors when necessary and appropriate; and

working with the Chairman to set meeting schedules and agendas for the Board meetings, including soliciting input from the other independent directors on items for the Board agendas, to ensure that appropriate agenda items are included and that there is adequate time for discussion of these items.

The Lead Director is available for communications and consultation with major shareholders. The Company has a mechanism for shareholders to communicate with the Lead Director and non-management directors as a group, or on an individual basis. (See Communications with Shareholders on page 9.)

### **Director Independence**

The Board has been, and continues to be, a strong proponent of director independence. It is the policy of the Board that a majority of the directors be independent from management and that the Board not engage in transactions that would conflict with the best interests of the Company's business. Independence determinations

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are made on an annual basis at the time the Board approves nominees for election at the next Annual Meeting of Shareholders and, if a director joins the Board between Annual Meetings of Shareholders, at such time. To assist in this determination, the Board adopted Categorical Standards for Independence of Directors (the Categorical Standards ).

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

During its annual review, the Board considered whether there were any transactions (see related party transactions below) or relationships between directors or any member of their immediate family (or any entity of which a director or an immediate family member is an executive officer, general partner, or significant equity holder) and members of the Company's senior management or their affiliates. The purpose of the review is to determine whether any such relationships or transactions existed that are 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 with the exception of Mr. Morris, who is considered an inside director because of his employment as President and CEO of the Company.

## **Related Party Transactions**

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

SEC rules require that the Company disclose any related party transaction in which the amount involved exceeds \$120,000 in the last year. The Governance Committee has determined that the Company has no related party transactions that were reportable for 2013.

In making its determination, 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 2013. The Board specifically considered the following relationships, which it determined were immaterial to the director's independence:

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 2013 or in any of the prior three years did not exceed the threshold amount in the Categorical Standards.

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Mr. Taylor is a Board member of a corporation that owns and operates radio stations in Idaho, Washington and Oregon. In 2013, the Company's ad agency purchased radio advertisements on some of those stations in arm's-length transactions. The amount paid to that company in 2013 or in any of the prior three years did not exceed the threshold amount in the Categorical Standards.

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### **Board Meetings**

The Board strongly encourages its members to attend all Board and Committee meetings and the Annual Meeting of Shareholders. The Board held five meetings in 2013. The attendance at all Board and Committee meetings was 99%. All directors attended the prior year's Annual Meeting of Shareholders and are planning to attend the upcoming Annual Meeting.

### **Meetings of Independent Directors**

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

### **Committees**

The Board has six standing Committees: Audit Committee, Compensation Committee, Governance Committee, Finance Committee, Environmental and Operations Committee and Executive Committee. Each of these Committees is comprised solely of independent directors, with the exception of the Executive Committee, which is chaired by Mr. Morris. Each Committee of the Board has adopted a charter that has been approved by the Board. The charters are reviewed on a periodic basis and amendments are made as needed. Each Committee also performs an annual self-assessment relative to its purpose, duties, and responsibilities. The Committee charters are located on the Company's website at [www.avistacorp.com](http://www.avistacorp.com). A written copy of our Committee charters will be provided free of charge to any person upon request to the General Counsel's office at 1411 East Mission Avenue, P.O. Box 3727 (MSC-12), Spokane, Washington 99220.

***Audit Committee*** Assists the Board in overseeing the integrity of and the risks related to the Company's financial statements, the Company's compliance program, 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, 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, as amended (the "Exchange Act") and the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). The Audit Committee oversees the Company's risk assessment and risk management processes. Only independent directors sit on the Audit Committee. The Audit Committee consists of directors Burke, Stanley, and Blake. Chair. The Board has determined that Mr. Burke is an Audit Committee Financial Expert, as defined in the SEC rules. Eight meetings were held in 2013.

***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 our CEO and 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 20.

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



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The Compensation Committee consists of directors Kelly, Klein, and Taylor Chair. Six meetings were held in 2013.

***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 and its committees, evaluating Board effectiveness and organizational structure and setting director compensation (see the section on Director Compensation on page 48). This Committee also develops Board membership criteria and reviews potential director candidates. Recommendations for director nominees are presented to the full Board for approval. See Proposal 1 Director Qualifications and Process for Selecting Board Nominees below. Only independent directors sit on this Committee. The Governance Committee consists of directors Blake, Racicot, Taylor, and Kelly Chair. Four meetings were held in 2013.

***Environmental and Operations Committee*** Assists the Board in overseeing risks associated with the Company's business and operational risks, other than financial risks. This includes regulatory compliance, environmental compliance, energy resources, transmission and distribution operations, employee safety performance, corporate, cyber and physical security, business continuity and technology strategy. Only independent directors sit on this Committee. The Committee consists of directors Anderson, Racicot, and Klein Chair. Four meetings were held in 2013.

***Finance Committee*** Assists the Board in overseeing that corporate management has in place strategies, budgets, forecasts, and financial plans and programs, including adequate liquidity, to enable the Company to meet its goals and objectives and oversees the associated risks. The Finance Committee's activities and 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, Stanley, and Anderson Chair. Five meetings were held in 2013.

***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 2013.

## **CEO Succession Plan**

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



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

### **Corporate Governance Guidelines**

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

### **Director Orientation and Continuing Education**

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

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

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

### **Information on Company Website**

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

### **Communications with Shareholders**

Annually, the Company contacts 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 are conducted by teleconference. The Company will continue to solicit shareholder input on issues of concern to them.

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

does not relate to the business or affairs of the Company or the functioning or constitution of the Board or any of its Committees;

relates to routine or insignificant matters that do not warrant the attention of the Board;

is an advertisement or other commercial solicitation or communication;

is frivolous or offensive; or

is otherwise not appropriate for delivery to directors.

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

**Board Risk Oversight**

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

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**PROPOSAL 1 ELECTION OF DIRECTORS**

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

The Board has a robust and effective director nomination and evaluation process in place. 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 of each candidate 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 believes that it must continue to renew itself. During the last seven years, six directors have joined the Board and the average tenure of the Board as of December 31, 2013 is 9.7 years. The Board consists of directors with a range of experience at policy-making levels in business, government and other areas that are relevant to the Company's activities. The Board does not have a diversity policy, but does include diversity as one of the criteria it considers when evaluating any candidate for the Board. The Board takes into account diversity of experience, skills and background, as well as diversity in race, gender, and culture when considering individual candidates.

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

The Governance Committee will consider written recommendations for candidates for the Board that are made by shareholders. Recommendations must include detailed biographical material indicating the qualifications of the candidate for the Board, and must include a written statement from the candidate of willingness and availability to serve. The Governance Committee will consider any candidate recommended in good faith by a shareholder. In evaluating director nominees, the Governance Committee considers the following, among other criteria:

the appropriate size of the Board;

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

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

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familiarity with the energy/utility industry;

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

experience in the regulatory arena;

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

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

knowledge of the customers, community, and employee base.

While candidates for director are usually nominated by the Board (after consideration and recommendation by the Governance Committee, as discussed above), shareholders may directly nominate candidates for election as directors. However, in order to do so, shareholders must follow the procedures set forth in the Company's Bylaws, discussed under 2015 Annual Meeting of Shareholders, starting on page 57. The Chair of the meeting may refuse to acknowledge any nomination not made in compliance with the Bylaws.

**Nominees**

Nine directors are to be elected to hold office for a one-year term, and/or until a qualified successor is elected. The Company's Restated Articles of Incorporation provide for up to 11 directors. The Bylaws currently provide that the number of directors will be fixed from time to time by resolution of the Board, not to exceed 11. The Board has fixed the number at nine.

Upon recommendation from the Governance Committee, the Board has nominated Erik J. Anderson, Kristianne Blake, Donald C. Burke, John F. Kelly, Rebecca A. Klein, Scott L. Morris, Mark F. Racicot, Heidi B. Stanley and R. John Taylor to be re-elected as directors for a one-year term to expire at the Annual Meeting of Shareholders in 2015. On February 11, 2014, Rick R. Holley, who was a member of the Board and the Environmental and Operations Committee and Finance Committee during 2013, informed the Board that effective February 15, 2014 he was submitting his resignation due to other business commitments and would not be standing for re-election at the Annual Meeting of Shareholders. 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.



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

**ERIK J. ANDERSON**

**Director since 2000**

Chair of Finance Committee, Member of Environmental and Operations Committee

*Mr. Anderson, age 55, has been President of WestRiver Management, LLC, a private investment company, since 2002. He is also chair of Tachyon Networks, Inc., an advanced satellite-based internet solutions company, Executive chair of TopGolf, Inc., an entertainment company, and a member of the Board of Symform, Inc., a revolutionary cloud storage and backup service providing free or affordable unlimited online storage. From 1998 to 2002, Mr. Anderson was CEO of Matthew G. Norton, Co., a private investment company. In addition, his experience includes tenures at the private equity firm of Frazier & Company, LP, and vice president of Goldman, Sachs & Co. Mr. Anderson is the founder of America's Foundation for Chess. He holds a master's and bachelor's degree in Industrial Engineering from Stanford University and a bachelor's degree (Cum Laude) in Management Engineering from Claremont McKenna College. Mr. Anderson also serves on the board of Ecova, Inc. (Ecova), a subsidiary of the Company.*

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

**KRISTIANNE BLAKE**

**Director since 2000**

Chair of Audit Committee, Member of Governance and Executive Committees

*Ms. Blake, age 60, has been president of the accounting firm of Kristianne Gates Blake, P.S., since 1987. She has served for 18 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 previously served 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.

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**DONALD C. BURKE, CPA**

**Director since 2011**

Member of Finance and Audit Committees

*Mr. Burke, age 53, currently serves as an independent trustee to approximately 100 registered mutual funds for the Goldman Sachs mutual fund complex. Prior to assuming this role, from 2006 to 2010, Mr. Burke served as a trustee for numerous global funds that were advised by BlackRock, Inc. From 2006 to 2009, he was a managing director of BlackRock and served as the president and CEO of the BlackRock U.S. mutual funds. In this role, Mr. Burke was responsible for all of the accounting, tax and regulatory reporting requirements for over 300 open and closed-end mutual funds. Mr. Burke joined BlackRock in connection with the merger with Merrill Lynch Investment Managers ( MLIM ), taking a lead role in the integration of the two firms' operating infrastructures. While at MLIM, Mr. Burke was the Head of Global Operations and Client Services and also served as the Treasurer and Chief Financial Officer of the MLIM mutual funds. He started his career with Deloitte & Touche (formerly Deloitte Haskins & Sells). Mr. Burke is a certified public accountant and received a Bachelor of Science degree in Accounting and Economics from the University of Delaware and a Master of Business Administration in Taxation from Pace University. Mr. Burke also serves on the board of Ecova.*

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

**JOHN F. KELLY**

**Director since 1997**

Lead Director; Chair of Governance Committee and Member of Compensation and Executive Committees

*Mr. Kelly, age 69, is currently the president & CEO of John F. Kelly & Associates, a consulting company he founded in 2004, that is located in Winter Park, Florida. Mr. Kelly is a retired chair, president and CEO of Alaska Air Group, where he also served as a Board member from 1989 to May 2003. He was chair of Alaska Airlines from 1995 to February 2003, CEO from 1995 to 2002, and president from 1995 to 1999. He served as chair of Horizon Air from February 1991 to November 1994, and from February 1995 until May 2003. Mr. Kelly has a BA in Business from the University of Puget Sound, has over 40 years of business experience and has been a board member and chair of numerous boards and committees (both profit and non-profit organizations). Mr. Kelly is a former board member of the Dream Foundation. He also serves on the board of Ecova.*

Leadership Experience	Mr. Kelly has over 35 years of business experience in the airline industry, serving in numerous management capacities, including roles as chair, CEO and president. He also brings experience in marketing, sales, corporate governance, compensation, mergers and acquisitions, consulting, and human resources. He currently is president and CEO of a consulting firm.
Business and Association	He has been very involved in the Seattle, Washington business and cultural communities including chairing the Washington Roundtable and other nonprofit boards.

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### Board Leadership

His experience and business skills, as well as his open communication style have aided the Board both as a Board and Committee member and in his role as the Lead Director for over four years.

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**REBECCA A. KLEIN**

**Director since 2010**

Chair of Environmental and Operations Committee and Member of Compensation Committee

*Ms. Klein*, age 48, is Principal of Klein Energy, LLC, an energy consulting company based in Austin, Texas. Over the last 20 years she has worked in Washington, DC and in Texas in the energy, telecommunications and national security arenas. Ms. Klein's professional experience also includes service with KPMG Consulting (now Bearing Point) where she headed the development of the company's Office of Government Affairs and Industry Relations in Washington, DC. She also served as a Senior Fellow with Georgetown University's McDonough School of Business. Since January 2008, she has served as chair and vice chair of the board of the Lower Colorado River Authority, a public power utility owning generation, transmission, and water services across the central Texas area. In addition, she is chair of Power Across Texas, a non-profit that focuses on advancing information about clean, affordable and reliable energy in the state. Ms. Klein earned a Juris Doctor from St. Mary's University School of Law in San Antonio, Texas. She also holds a Master of Arts in National Security Studies from Georgetown University and a Bachelor of Arts in Human Biology from Stanford University. She is a member of the State Bar of Texas.

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

**SCOTT L. MORRIS**

**Director since 2007**

Chairman of the Board and Chair of Executive Committee

*Mr. Morris*, age 56, has been Chairman, President and CEO of the Company since January 2008. From May 2006 to December 2007, he served as the Company's President and Chief Operating Officer (COO). Mr. Morris also serves as chair of the Company's subsidiaries, including Ecova. Mr. Morris has been with the Company since 1981 and his experience includes management positions in construction and customer service and general manager of the Company's Oregon and California utility business. He was appointed as a vice president in November 2000 and in February 2002 he was appointed as a senior vice president. He is a graduate of Gonzaga University and received his master's degree from Gonzaga University in organizational leadership. He also attended the Stanford Business School Financial Management Program and the Kidder Peabody School of Financial Management. Mr. Morris serves on the boards of the Washington Roundtable, Greater Spokane Incorporated, Gonzaga University, the Western Energy Institute, Edison Electric Institute, American Gas Association, the Federal Reserve Bank of San Francisco and is the Chair of Innovate Washington. He has served on a number of Spokane non-profit and economic development Boards.

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
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Company's subsidiary, Ecova. He is the only officer of the Company to sit on the Avista Board and the Ecova board.

Business and Policy  
Experience

He has experience leading a number of economic development and business association boards. He also serves on the board of the Federal Reserve Bank of San Francisco.

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**MARC F. RACICOT**

**Director since 2009**

Member of Governance and Environmental and Operations Committees

*Mr. Racicot*, age 65, served as president and CEO of the American Insurance Association from August, 2005 to February, 2009. Prior to that, he was a partner at the law firm of Bracewell & Giuliani, LLP from 2001 to 2005. He is a former governor (1993 to 2001) and attorney general (1989 to 1993) of the state of Montana. Mr. Racicot was nominated by President Bush and unanimously elected to serve as the chair of the Republican National Committee from 2002 to 2003 prior to assuming the position of chair of the Bush/Cheney Re-election Committee from 2003 to 2004. He previously served as a director for Siebel Systems, Allied Capital Corporation and Burlington Northern Santa Fe Corporation and presently serves as a director for Plum Creek Timber Company, Inc., Massachusetts Mutual Life Insurance Company, and The Washington Companies. In addition, throughout his career, Mr. Racicot has strongly committed himself to children, education and community issues. He was appointed to the board of The Corporation for National and Community Service by President Clinton and has also served on the boards of Carroll College, Jobs for America's Graduates and United Way in Helena, Montana. Mr. Racicot is also a past chair of America's Promise, where his predecessor was Secretary of State Colin Powell.

Government and Policy

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.

Experience

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 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.

Experience

Governance

Mr. Racicot has served on a number of public company boards and chaired a number of board committees.

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**HEIDI B. STANLEY**

**Director since 2006**

Member of Finance and Audit Committees

*Ms. Stanley, age 57, 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 CEO and chair of Sterling Savings Bank from January 2009 to October 2009. From January 2008 to December 2008, she served as director, vice chair, president & CEO. From October 2003 to December 2007, she served as director, vice chair and COO. Prior to this, she held a variety of leadership positions with increasingly higher levels of managerial responsibility. Ms. Stanley also served as director of Sterling's Subsidiary Company INTERVEST Mortgage Investment Company. Prior to joining Sterling in 1985, Ms. Stanley worked for IBM in San Francisco, California and Tucson, Arizona. Ms. Stanley is the 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 the Spokane Symphony board. Ms. Stanley graduated from Washington State University with a Bachelor of Arts degree in Business Administration.*

Financial and

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

Banking Leadership Experience

Business

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

Associations

Community Development

Ms. Stanley has been active in the Spokane area and recently chaired Greater Spokane Incorporated, a regional chamber/economic development organization.

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**R. JOHN TAYLOR**

**Director since 1985**

Chair of Compensation Committee and Member of Governance and Executive Committees

*Mr. Taylor*, age 64, is the Chair and CEO of the Green Leaf Re Insurance Company. The Company was formed in 2013 to reinsure various types of crop insurance in the western and mid-western United States. Mr. Taylor has over 30 years experience in multi-state insurance operations in the agriculture sector. Prior to 2013, Mr. Taylor held similar positions with affiliated insurance agencies and companies. In addition, he is director of Pacific Empire Radio Corporation of Lewiston, Idaho, a twelve station Northwest radio group. Mr. Taylor is an attorney and has been a member of the Idaho State Bar since 1976.

Leadership

Experience

Mr. Taylor has extensive experience as a CEO, President and COO of several multi-state insurance operations.

Community Development  
Experience

Mr. Taylor has been an active member of the Lewiston, Idaho community serving in a number of capacities for community and statewide 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 for local and state organizations. He was a member of the Endowment Fund Investment Board of the state of Idaho from 1994 to 2012. He currently serves on the Board of Directors of the Idaho Heritage Trust, a statewide organization dedicated to the preservation of historical properties and sites.

Political Experience

He has held several local and statewide elected positions in the Idaho Republican Party, including service as State Treasurer.

Governance and

Legal Experience

Mr. Taylor brings to the Board valuable governance experience from his service as a director, chairman, and audit committee chair of both profit and non-profit organizations.

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



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**AUDIT COMMITTEE REPORT**

In accordance with its written charter adopted by the Board, the Audit Committee assists the Board in fulfilling its responsibility for oversight of the Company's systems of internal controls, including, without limitation, those established and maintained pursuant to the Exchange Act 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 2013, the Audit Committee met eight 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 2013 and discussed them with management and Deloitte & Touche LLP (Deloitte), the Company's independent registered public accounting firm. The Audit Committee reviewed with our 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 2013 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, 2013, with management, which has primary responsibility for the financial statements, and with Deloitte, which is responsible 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, 2013, for filing with the SEC. The Board approved the recommendation.

The Audit Committee also reviewed Management's Report on Internal Control Over Financial Reporting and the Auditor's Report on the effectiveness of internal control over financial reporting.

The Audit Committee reviewed and discussed with Deloitte all communications required by generally accepted auditing standards, including those promulgated by the Public Company Accounting Oversight Board (PCAOB) and by the SEC and, with and without management present, discussed and reviewed the results of the independent auditor's audit of the financial statements. The Audit Committee also discussed the results of the internal audit examinations, received and reviewed quarterly risk management reports, and received and reviewed annual compliance, technology and business continuity reports.

Deloitte provided the Audit Committee with the written communications required by the PCAOB Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence*. The Audit Committee discussed with Deloitte its internal quality-control reviews and procedures, the results of its external reviews and inspections, and any relationships that might impact its objectivity and independence. The Audit Committee also discussed with management, the internal auditors, and Deloitte, the quality and adequacy of the Company's systems of internal controls, and the internal audit functions, responsibilities, and staffing. The Audit Committee reviewed the audit plans, audit scopes, and identification of audit risks of the independent and internal auditors.

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The Audit Committee reviewed and approved Deloitte's services and fees. The Audit Committee also recommended to the Board, after reviewing the performance of Deloitte, its reappointment in 2014 as the Company's independent registered public accounting firm. The Board concurred in such recommendation. The Audit Committee also reviewed and approved the non-audit services performed by Deloitte and concluded that such services were consistent with the maintenance of independence.

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The Audit Committee performed the mandated tasks included in its charter. The Audit Committee also recommended to the Board the designation of Donald C. Burke as Audit Committee Financial Expert, solely for the purposes of compliance with the rules and regulations of the SEC implementing Section 407 of the Sarbanes-Oxley Act. The Board approved such recommendation.

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

Kristianne Blake Chair

Donald C. Burke

Heidi B. Stanley

**COMPENSATION DISCUSSION AND ANALYSIS**

The purpose of this Compensation Discussion and Analysis (the CD&A ) is to provide material information about the compensation objectives and policies for our named executive officers (the NEOs ) and to put in perspective the quantitative and narrative disclosures in the CD&A and the following compensation tables. Our NEOs for 2013 were:

Scott L. Morris, Chairman, President and CEO

Mark T. Thies, Sr. Vice President, CFO and Treasurer

Dennis P. Vermillion, Sr. Vice President Environmental Compliance Officer ( ECO ) and President of Avista Utilities

Marian M. Durkin, Sr. Vice President, General Counsel and Chief Compliance Officer ( CCO )

Karen S. Feltes, Sr. Vice President, Human Resources and Corporate Secretary

The CD&A also describes the following:

A summary of our business results and the alignment between executive pay and Company performance;

Our decision-making process on compensation design and pay levels, including our compensation governance approach;

Our compensation philosophy and objectives; and

A detailed description of the elements of the Company's executive compensation program.

*Executive Summary*

In 2013, our CEO and the Board established performance goals for the Company and aligned the short-term and long-term incentive plans with those goals. A key element of these plans is the focus on maintaining an attractive financial profile while creating long-term value for shareholders and customers.

As shown below, utility earnings per share ( EPS ) exceeded targets and other operational targets were met, helping produce a short-term incentive payout above target, even though non-utility EPS fell short of target. Return on equity ( ROE ) exceeded the target established for our CEO s performance-based restricted stock units ( RSUs ), allowing a portion of his RSUs to vest. Finally, our three year total shareholder return ( TSR ), determined on the basis of total appreciation for the period 2011-2013 with all dividends reinvested, did not achieve the threshold level relative to the Standard & Poor s ( S&P ) 400 Utilities Index, resulting in a forfeiture of performance share awards granted for that period.

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### **2013 Executive Compensation Highlights**

The compensation earned by our NEOs in 2013 reflects our corporate performance for the fiscal year, as well as the impact of the challenging economy;

The Compensation Committee approved base salary adjustments ranging from 1.6% to 12.8% for our NEOs based on market comparisons, its assessment of individual performance and other factors as discussed in more detail below;

Our 2013 utility EPS performance exceeded target, while our non-utility EPS performance was below target resulting in an annual cash incentive plan payment of 125% of target, which was 112.5% of base salary for our CEO and 75% of base salary for our other NEOs;

For our CEO, our ROE exceeded the target; therefore one-third of his RSUs granted in 2011, 2012 and 2013 and the associated dividend equivalents vested and were paid;

Our NEOs other than our CEO received one-third of their RSUs granted in 2011, 2012 and 2013, along with the associated dividend equivalents. The RSUs are time-based, and one-third vest each year over a three-year period; and

The Company's relative TSR over the three-year performance period was below the threshold performance required to earn a payout, and our NEOs did not earn any payment with respect to their 2011-2013 performance share award or the associated dividend equivalents.

### **Business Results Impact Compensation**

We establish target compensation for our NEOs at the beginning of each performance period. Actual pay will be at, above or below the target based on individual, organizational, and stock performance. Because a substantial portion of each NEO's compensation is in the form of equity, our NEO's actual compensation rises or falls with the stock price.

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We employ several quantitative criteria to assess the performance of our NEOs. Our objectives include achieving the EPS and ROE targets, exceeding TSR objectives relative to our peers, reducing our costs per customer, improving customer satisfaction, improving our response time to natural gas emergency calls, and improving reliability of service. The charts below illustrate the relationship between our 2013 performance and our CEO's 2013 compensation.

\* The target amount shown for our CEO's RSUs represent the grant date fair value and portion of awards made in each of 2011, 2012 and 2013 that could have vested if the 2013 ROE performance condition was met. The target amount for his performance shares represent the aggregate grant date fair value of the 2011 awards that could have vested if the TSR performance conditions were met from 2011 through 2013.

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**Compensation Governance Practices**

The Company highly values strong compensation governance practices. We believe our executive compensation practices align with our corporate values and provide a foundation for success. The governance practices that we employ, and those that we avoid, include:

<b>Practices We Employ</b>	<b>Practices We Avoid</b>
Pay is closely linked to performance	We do not provide perquisites
Undue risk is mitigated (see Risk Mitigation Overview on page 24)	We do not permit hedging or short sales of company stock
Stock ownership guidelines have been implemented consistent with market practices	We do not provide dividends or dividend equivalents on unearned performance awards or RSUs
A recoupment (i.e., clawback) policy is in place	We eliminated excise tax gross-ups for all new executives after November 13, 2009
Change-in-Control ( CIC ) severance requires a double trigger	We do not provide executive severance outside of a CIC
Our Compensation Committee reviews NEO tally sheets annually	We no longer provide additional Supplemental Executive Retirement Plan ( SERP ) service credits as a recruitment tool for hiring executives
Our Compensation Committee is composed entirely of independent directors	
Our Compensation Committee engages an independent compensation consultant	
Our Compensation Committee regularly has executive sessions without management present	

**2013 Say on Pay Advisory Vote**

At the May 2013 Annual Meeting, shareholders expressed substantial support for the compensation of our NEOs, with approximately 95.5% of the votes cast for the Say on Pay advisory resolution approving our executive compensation. We view this outcome as a signal of strong shareholder support for our executive compensation philosophy, policies and practices. In addition to considering the Say on Pay advisory vote, our Senior Vice President, CFO and Treasurer; Senior Vice President, Human Resources and Corporate Secretary; and Senior Vice President, General Counsel and CCO proactively solicit input from shareholders regarding our governance and executive compensation programs. We believe this outreach to shareholders, together with our shareholders' ability to contact us at any time to express specific views on executive compensation, fosters open dialogue to assure we maintain the consistency and credibility of the program.

Following the shareholder meeting, we discussed our overall approach to executive compensation and governance and took into consideration feedback we received from meetings with various shareholders. Based on the feedback received and the results of the Say on Pay advisory vote, no significant changes were made to our overall approach to executive compensation and governance.

**Decision Making Process**

**Role of the Compensation Committee**

The Compensation Committee makes all compensation decisions regarding our CEO, our other NEOs and other executive officers, including the level of cash compensation and equity awards. Our CEO annually reviews each executive officer's performance ratings as determined by his or her direct manager and presents the ratings to the Compensation Committee for it to consider with respect to salary adjustments, annual incentive opportunity, and annual equity award amounts.

**Role of the Compensation Consultant**

The Compensation Committee selects and retains an independent compensation consultant to support its oversight of our executive compensation programs. For 2013, the Compensation Committee engaged Meridian



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Compensation Partners LLC ( Meridian ) as its independent compensation consultant. Meridian provides to the Compensation Committee consulting services solely relating to executive compensation and governance matters. In accordance with NYSE rules, the Compensation Committee determined that Meridian is independent and, further, that no conflict of interest exists between Meridian and the Company.

A representative of Meridian attended Compensation Committee meetings in 2013 and advised the Compensation Committee on all principal aspects of executive compensation, including the competitiveness of program design and award values and specific analyses with respect to our executive officers.

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

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

## **Role of Management**

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

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

## **Risk Mitigation Overview**

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

Short and long-term incentive payments are capped;

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Annual cash incentive design balances key performance metrics that are focused on financial results and system sustainability over time;

The total compensation program does not guarantee bonuses and has multiple financial and non-financial performance measures;

The Compensation Committee reviews both short-term and long-term financial scenarios to ensure the plan design does not encourage executives to take excessive risks but also does not discourage appropriate risks;

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

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Officers are prohibited from engaging in short-sales, pledging, or hedging the economic interest in their Company shares; and

The Company maintains a formal recoupment policy.

**Elements of Compensation**

**Compensation Philosophy and Objectives**

The Compensation Committee approves and implements a compensation program that focuses executives on the achievement of the Company’s specific annual, long-term, and strategic goals that align executives’ interests with those of shareholders by rewarding performance that maintains and improves shareholder value. The Compensation Committee believes that the overall compensation of our senior executives should be weighted toward variable performance-based compensation, linking a significant portion of their compensation with goals related to specific items of corporate performance that are likely to produce long-term shareholder and customer value.

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

Variable	74%	Variable	64%
Linked to Share Value	50%	Linked to Share Value	42%

**Competitive Analysis and Peer Group**

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

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The Compensation Committee annually compares each element of NEO total compensation against a peer group of publicly-traded companies within the energy/utility industry of similar revenue size and market capitalization. In 2013, the Compensation Committee modified its benchmarking approach to focus on compensation as disclosed in proxy statements. For 2013, our NEO compensation was compared with market data from a customized group of utilities ( Proxy Peer Group ) to better represent the Company’s business, size and competitive market for talent. All market data from the Proxy Peer Group was gathered from publicly available sources, including proxy statements, Form 8-Ks, and Form 4s. The use of publicly disclosed data allows the Company to maintain a consistent peer group without being restricted by private survey participation, which varies year to year. In previous years, proxy data was provided to the Committee. However, it was viewed as a secondary reference point and survey data was the primary market benchmark. For the Proxy Peer Group in 2013, the Committee used twenty-one companies from the S&P 400 Utilities Index because the Compensation Committee believes the companies in the Proxy Peer Group better represent the Company’s competitors for executive officers. The median revenues and market capitalization of the Proxy Peer Group were \$2.3 billion and \$3.1 billion, respectively, as compared with Avista’s revenues of \$1.6 billion and market capitalization of \$1.4 billion. The companies comprising the Proxy Peer Group were:

AGL Resources, Inc.	Hawaiian Electric Industries, Inc.	OGE Energy Corporation
Alliant Energy Corporation	IDACORP, Inc.	PNM Resources, Inc.
Aqua America, Inc.	MDU Resources Group, Inc.	Portland General Electric Company
Atmos Energy Corporation	National Fuel Gas Company	UGI Corporation
Black Hills Corporation	Northwest Natural Gas Company	Vectren Corporation
Cleco Corporation	NorthWestern Corporation	Westar Energy, Inc.
Great Plains Energy, Inc.	NV Energy, Inc.	WGL Holdings, Inc.

As in prior years, for 2013 the Compensation Committee also used the Towers Watson Energy Services Executive Compensation database for additional compensation data on comparable diversified energy companies with revenues between \$1 billion and \$3 billion. The median revenues of the companies in the survey were \$1.8 billion. The advantage of also considering survey information is that it provides competitive data for all of our executive officer positions. The Compensation Committee uses all of these sources of data to help it make informed decisions about market compensation practices.

**Performance Management**

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

At the beginning of each calendar year, the Compensation Committee has our CEO develop specific performance targets and goals for his role based on strategic goals set by the Board. The Compensation Committee reviews and approves our CEO’s goals at its annual February meeting and presents the goals to the full Board for its information and review. The Compensation Committee reviews quarterly our CEO’s performance relative to his targets and provides quarterly status updates to the full Board. At the end of the year, the Compensation Committee reviews our CEO’s year-end results as part of its overall CEO annual performance review process.

**Base Salary**

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Our NEOs are provided with an annual base salary to compensate them for services rendered during the year. The Compensation Committee reviews the base salary of all executive officers at least annually. The factors that influence the Compensation Committee's decisions in setting the annual base salary for our NEOs include the

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market data provided by its consultant and each NEO's job complexity, experience and breadth of knowledge in the utility and diversified energy industry. The Compensation Committee also considers each NEO's responsibilities, which may include electric and natural gas utility operations, as well as subsidiary operations, and recognizes that the Company operates in several states, thereby requiring quality relationships and interaction with multiple regulatory agencies.

***2013 Base Salaries***

In addition to considering the factors noted above, the Compensation Committee also reviews performance results from the prior year to determine how our CEO performed against specific targets and operational goals established at the beginning of the prior year. For 2012, our CEO's key performance goals were generally related to strategic planning, financial performance, safety targets, diversified energy resource management, regulatory and legislative matters, succession planning, governance, and customer value delivery. For 2013, the Compensation Committee agreed that our CEO had met the established goals for 2012 performance.

The Compensation Committee also reviewed performance ratings of each of the other NEOs to determine appropriate adjustments in base salary. The Compensation Committee noted that the market data provided by Meridian showed that the base salary for several NEOs and our CEO were below market levels. After the adjustments shown below, base salaries generally are within a range above and below the median of the Proxy Peer Group. The table below outlines the changes to base salary in 2013 for our NEOs.

	2012 Salary	%	2013 Salary
		Increase	
S. L. Morris	\$ 675,000	8.9%	\$ 735,000
M. T. Thies	\$ 372,000	4.8%	\$ 390,000
D. P. Vermillion	\$ 312,000	12.8%	\$ 352,000
M. M. Durkin	\$ 310,000	1.6%	\$ 315,000
K. S. Feltes	\$ 271,000	5.2%	\$ 285,000

**2013 Executive Officer Annual Cash Incentive**

The 2013 Executive Officer Annual Cash Incentive Plan (the "Plan") was designed to align the interests of our NEOs and senior management with both shareholder and customer interests to achieve overall positive financial and operational performance for the Company. These goals are reflected in the Plan by having 60% of the total incentive opportunity tied to EPS targets and the remaining 40% tied to key components of utility operation. Each metric is independent, which allows the Plan to pay a portion of the award to our CEO or other NEOs upon the attainment of one goal even if the other goals are not met.

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

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The following chart shows the Plan performance goals for each performance metric, the weighting of each metric, and the 2013 actual results of each metric.

Metric	Weighting	Threshold	Target	Exceeds	Actual	2013 Results	Details
<b>Earnings Components</b>							
Utility EPS*	50%	\$ 1.64	\$ 1.70	\$ 1.78	\$ 1.84	Met 150%	Payout can vary 0%-150% based on performance level.
Non-Utility EPS*	10%	\$ 0.06	\$ 0.09	\$ 0.12	\$ 0.05	Not Met	Payout can vary 0%-150% based on performance level.
<b>Utility Operations Components</b>							
Cost Per Customer*	20%	\$ 380.77	\$ 378.74	\$ 374.69	\$ 363.00	Met 150%	The Operating and Maintenance (O&M) cost is directly related to maintaining reliable, cost-effective service levels. Payouts can vary 0%-150% based on performance level.
Customer Satisfaction Rating	8%	NA	90%	NA	95%	Met 100%	This rating is derived from a Voice of the Customer survey conducted each quarter by an independent agency. The survey is used to track satisfaction levels of customers that have had recent contact with our call center or service center. This is a hit or miss target and the payout is either 100% or 0% based on achievement of objective.
Reliability Index	8%	NA	1.00	NA	1.31	Met 100%	This measure is derived from the combination of three indices that track average restoration time for sustained outages, average number of sustained outages per customer, and percent of customers experiencing more than three sustained outages during the year. This is a hit or miss target and the payout is either 100% or 0% based on achievement of objective.
Response Time	4%	NA	93%	NA	97%	Met 100%	This metric measures the percentage of time the Company responds within targeted time goals for dispatched natural gas emergency calls. This is a hit or miss target and the payout is either 100% or 0% based on achievement of objective.

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\* Payout levels are interpolated on a straight-line basis for results between the threshold performance level and the maximum level.

The Compensation Committee sets target goals for these performance metrics that are rigorous, but reasonably achievable with strong management performance. Maximum performance levels were designed to be difficult to achieve given historical performance and the Company's forecasted results at the time the performance metrics were approved. Over the last ten years, the actual performance results of the Plans have averaged 79% of target and ranged from a low of 15% of target to a high of 125% of target as shown in the chart below.

### *2013 Executive Officer Annual Cash Incentive Target Award Opportunity*

Individual annual cash incentive awards are set as a percentage of base salary. The Compensation Committee compares annual cash incentive opportunity levels against the Proxy Peer Group. As discussed previously, the Compensation Committee targets overall total compensation levels, which include base salaries, short-term incentives and long-term incentives within a range of 15% above or below the market median. For 2013, the Compensation Committee maintained the target incentive award opportunities of 90% of base salary for our CEO and 60% of base salary for all other NEOs, which aligns with the range of 15% above or below the market median. The actual total amounts paid could increase (up to 140% of target) or decrease (as low as 0% of target) depending on the Company's actual performance.

### *2013 Results for the Executive Officer's Annual Cash Incentive Plan*

After the end of the year, the Compensation Committee assesses the performance of the Company against each Plan objective, comparing the actual year-end results to the pre-determined threshold, target, and exceeds levels for each objective, and an overall percentage amount for meeting the objectives is calculated and audited. The results also are reviewed by the Finance Committee.

Based on this review, at its February 2014 meeting the Compensation Committee determined that the Company exceeded the target performance level for Utility EPS but did not satisfy the threshold performance for Non-Utility EPS. The Company satisfied the maximum performance level for O&M Cost Per Customer and met the targets for all three non-financial metrics: customer satisfaction, reliability, and response time. The actual performance result of the 2013 executive officer's annual cash incentive plan was 125% of target. As a result, and at the same meeting, the Compensation Committee authorized payment of cash incentives equal to 112.5% of base salary (125% of 90%) for our CEO, and 75% of base salary (125% of 60%) for all our other NEOs.

## **Long-Term Equity Compensation**

The Compensation Committee believes that equity-based compensation is the most effective way to create a long-term link between shareholder returns and the compensation provided to NEOs and other key management.





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This program encourages participants to focus on long-term Company performance and provides an opportunity for executive officers and designated key employees to maintain ownership in the Company through grants of Company stock that can be earned based on either service or performance, and sometimes both, over a three-year cycle. Through the use of long-term performance awards and RSUs, the Company can compensate executives for sustained increases in the Company's stock performance, as well as long-term growth relative to its peer group for the relevant cycle.

The Company's current Long-Term Incentive Plan ( LTIP ) authorizes various types of equity awards. As with all the components of executive compensation, the Compensation Committee determines all material aspects of the long-term incentive awards who receives an award, the form of the award, the amount of the award, the timing of the award, as well as any other aspect of the award it may deem material. For 2013, our program continued to be heavily weighted toward performance-based equity awards, 75% of the value being granted in the form of performance shares and 25% being granted in the form of RSUs. Our 2013 long-term incentive form and mix were the same as in 2012.

When making decisions for grant amounts, the Compensation Committee considers competitive market data and which executives have the greatest ability to influence overall Company performance. In addition, and as previously discussed, the Compensation Committee targets overall total compensation levels, which include base salaries, short-term incentives and long-term incentive within a range of 15% above or below the median of the Proxy Peer Group.

### *Performance-Based Equity Awards*

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

### *Range of Award Opportunity for Performance Shares*

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

Individual grant amounts are set at the beginning of each year. The Compensation Committee compares long-term incentive opportunity levels against the Proxy Peer Group. As discussed previously, the Compensation Committee targets overall total compensation levels that include base salaries, short-term incentives and long-term incentives within a range of 15% above or below the market median. In 2013, the Compensation

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Committee noted that the market data provided by Meridian showed that the same target number of shares granted in the previous year would continue to position total compensation levels for our CEO and all other NEO s close to the

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market median of the Proxy Peer Group. For 2013, no adjustments were made to the target number of performance shares granted to our NEOs. The table below outlines the target number of performance share grants in 2013 for the performance period between 2013 and 2015 for our NEOs.

	2012 Grant(#)	% Change	2013 Grant(#)
S. L. Morris	42,500	0%	42,500
M. T. Thies	12,000	0%	12,000
D. P. Vermillion	12,500	0%	12,500
M. M. Durkin	12,000	0%	12,000
K. S. Feltes	12,000	0%	12,000

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

*2011-2013 Performance Shares Settlement*

For performance shares granted in 2011 for the performance period ending December 31, 2013, the Compensation Committee held a special meeting on January 10, 2014 to review, certify, and settle the issuance of shares to executive officers. The Company's TSR was 44.9% during the performance cycle, which placed the Company at the 24<sup>th</sup> percentile among the S&P 400 Utilities Index. Based on these results, our CEO and our other NEOs forfeited the performance share awards granted in 2011. No accrued cash dividend equivalents were paid out on performance shares covered by the 2011 grant.

*Restricted Stock Units*

The Company awards RSUs to improve retention and link compensation to the value of the Company common stock. For all NEOs and other executive officers other than our CEO, the vesting of RSUs is time-based, and the RSUs vest and shares are issued in three equal annual increments, provided the executive remains employed by the Company on the last day of each year of the three-year period. Dividend equivalents on time-based RSUs accrue and are paid in cash if and when the underlying RSUs vest. If the related RSUs are forfeited, the accrued cash dividends are also forfeited.

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For our CEO, the RSUs vest and shares are issued in three equal annual increments provided our CEO remains employed by the Company on the last day of each year of the three-year period and the Company has attained the performance target. In order for any annual portion of our CEO's RSUs to vest, the Company's ROE for the year must exceed a hurdle rate equal to the Company's weighted average cost of debt. Dividend equivalents accrue on the unvested RSUs and, if the performance target is met, the dividend equivalents are paid in cash at the same time that the underlying RSUs vest and are paid in shares. If the Company does not achieve the minimum ROE performance target, no shares or dividend equivalents are earned.

Using a weighted average cost of debt, the Compensation Committee determined early in 2013 that a 5.85% ROE hurdle rate was appropriate for 2013. For 2013, we achieved an ROE of 8.73% and the hurdle rate was met; therefore, our CEO received one-third of his RSUs and associated cash dividend equivalents.

NEO	Realized Value Paid in 2013					
	Performance Shares		Restricted Stock Units			Total Realized Value
	#	Value	#	Value	Dividend Equivalents	
S. L. Morris	0	\$ 0	12,233	\$ 343,625	\$ 29,685	\$ 373,310
M. T. Thies	0	\$ 0	5,033	\$ 140,169	\$ 12,240	\$ 152,409
D. P. Vermillion	0	\$ 0	5,100	\$ 142,035	\$ 12,443	\$ 154,478
M. M. Durkin	0	\$ 0	5,033	\$ 140,169	\$ 12,240	\$ 152,409
K. S. Feltes	0	\$ 0	5,633	\$ 156,879	\$ 12,972	\$ 169,851

**Performance Based Stock Options**

In February 2012, the Ecova Board approved a one-time grant of performance-based non-qualified stock options ( NQSOs ) for our NEOs who also serve as officers of Ecova. This included all NEOs with the exception of Mr. Vermillion, who does not serve as an officer of Ecova. The Compensation Committee agreed to have the Ecova Board take this action as they believed it was in the shareholder's interest that our NEOs be motivated to drive and maximize the value of Ecova's business and be rewarded when certain performance metrics are achieved at Ecova. The vesting of the NQSOs is performance-based— one-third of the NQSOs were scheduled to vest in 2013 and one-third will vest in each of 2014 and 2015 if Ecova achieves 15% growth in earnings before interest, taxes, depreciation and amortization ( EBITDA ) for the relevant year; however, if Ecova achieves a cumulative EBITDA growth rate of 30% after two years or 45% after three years, then all previously unvested NQSOs will vest. If the performance condition is not met, the NQSOs will not vest.

The 2013 vesting increments did not vest because Ecova's EBITDA growth was below the threshold performance required for vesting.

**Perquisites**

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

**Other Benefits**

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

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

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### **Supplemental Executive Retirement Plan**

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

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

Prior to 2011, the Compensation Committee had approved additional years of SERP service credit for two NEOs in an effort to recruit them to join the Company and move to Spokane, Washington. Although this type of pay practice was used in the past as a recruitment tool, the Compensation Committee recognizes that there have been market changes over the past few years in supplemental pension plan design and changes in compensation governance views on the use of supplemental pensions. Therefore, the Compensation Committee decided in 2011 to no longer provide additional SERP service credits as a recruitment incentive.

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

### **Executive Deferred Compensation**

The Company also maintains an Executive Deferred Compensation Plan (the EDC Plan). Each NEO may voluntarily participate in this EDC Plan on the same terms and conditions as all other eligible employees who reach a set compensation level. This EDC Plan is competitive in the market and provides eligible employees and executives with a tax-efficient savings method. Additional information about this EDC Plan, including 2013 contributions and year-end account balances, can be found in the Non-Qualified Deferred Compensation Plan table on page 41.

### **Company Self-Funded Death Benefit Plan**

To provide death benefits to beneficiaries of executive officers who die during their term of office, the Company maintains an executive death benefit plan that will provide an executive officer's designated beneficiary with a lump sum payment equal to twice the executive officer's final annual base salary, payable within 30 days of the executive's death. Prior to January 1, 2008, the plan continued to provide the death benefit to the beneficiaries of executives who died after retirement. Effective January 1, 2008, the post-retirement death benefit was eliminated for any individual who became an executive officer after that date. Individuals who were executive officers prior to January 1, 2008 continue to be eligible for the post-retirement death benefit. For an officer who is eligible for the post-retirement death benefit, in the event of his or her death after retirement, the designated beneficiary will receive a lump sum equal to twice the retired executive officer's total annual pension benefit.

Death benefits are paid from the general assets of the Company. The present value of this benefit for each NEO can be found in the Potential Payment Upon Termination or Change in Control Tables starting on page 42.

**Supplemental Executive Disability Plan**

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



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the date of disability reduced by the aggregate amount, if any, of disability benefits provided for under the Company's Long-Term Disability Plan for employees, workers' compensation benefits, and any benefit payable under provisions of the Federal Social Security Act. Benefits will be payable until the earlier of the executive officer's date of retirement or age 65. The present value of this benefit for each NEO can be found in the Potential Payment Upon Termination or Change in Control Tables on page 42-47.

## **Change in Control and Severance Benefits**

In 2013, none of the executive officers had severance benefits, except for termination in connection with a CIC. The Compensation Committee believes it is in the interest of shareholders to provide severance to our executive officers in the event of a CIC, thereby reducing the inherent conflict of our executive officers pursuing a transaction that may result in their personal job loss. There are no CIC agreements that provide cash severance benefits in excess of three times base salary and bonus. The CIC agreements all have double triggers that provide for a severance payment only upon the occurrence of both a CIC and qualified termination.

Additional information regarding the CIC agreements, including definitions of key terms and a quantification of benefits that would have been received by our NEOs had termination occurred on December 31, 2013, due to a CIC, is found in the Potential Payment Upon Termination or Change in Control Tables on page 42-47.

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

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

Code Section 162(m) limits the tax deduction that a publicly held corporation may take with respect to annual compensation in excess of \$1 million for any fiscal year paid to certain executive officers. As defined by the Code, the \$1 million limit does not apply to compensation that qualifies as performance-based compensation. When consistent with the Company's compensation philosophy and objectives, the Compensation Committee structures its compensation plans so that all compensation expense may be deductible for tax purposes. However, in light of the need to maintain flexibility in administering our executive compensation program, the Compensation Committee retains discretion to recommend to the Board executive compensation that may not be deductible.

## **Compensation Governance Matters**

### *Recoupment Policy*

The Compensation Committee believes that if the Company is required to prepare an accounting restatement as a result of misconduct or a material error, incentive payouts based on the original results should be revised. Therefore, the Board has adopted a formal recoupment policy

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

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*Stock Ownership Guidelines*

The Board has implemented a stock ownership policy for the Company’s executive officers. The policy requires executive officers to own shares based on their position and salary, as well as to achieve set ownership levels based on a multiple of salary. The exact multiple for each NEO depends on each executive officer’s position and salary. The value for each executive’s ownership level is based on the closing stock price as reported on the day on which the Compensation Committee holds a special meeting to review, certify, and settle the issuance of shares to executive officers. The policy requires executive officers to achieve the required ownership level within five years from the program’s inception in 2010, or from the executive officer’s employment date or applicable promotion.

The objectives of having a stock ownership policy are to:

Strengthen alignment of the executives’ financial interests with those of shareholders;

Enhance executive long-term perspective and focus on shareholder value growth;

Reinforce “pay at risk” philosophy and provide an additional basis for sharing in Company success or failure as reflected in shareholder returns; and

Align Company practice with corporate governance best practices.

The specific ownership requirements and certain other components of the policy are as follows:

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

Annually in February, the Compensation Committee reviews the ownership levels to assure adherence to the guidelines. In 2013, the Compensation Committee conducted its annual review to assess that each officer was at or moving toward the required ownership level for his or her position. Although several officers had not yet met the required ownership level, after review, the Compensation Committee determined that those officers were making appropriate progress toward the required level.

*Anti-Hedging Policy*

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

**Compensation Committee Report**

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

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

John Taylor Chair

Rebecca Klein

John Kelly

**Table of Contents****Compensation Committee Interlocks and Insider Participation**

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

**EXECUTIVE COMPENSATION TABLES****Summary Compensation Table 2013(1)**

Name and Principal Position	Year	Salary(2)	Stock Awards \$(3)	Stock Options (\$)	Non-Equity Incentive Plan Compensation \$(4)	Change in Pension and Non-Qualified Deferred Compensation Earnings \$(5)	All Other Compensation \$(6)	Total
								Compensation (\$)
S. L. Morris Chairman of the Board,	2013	\$ 723,461	\$ 1,305,334		\$ 813,894	\$ 0	\$ 53,255	\$ 2,895,944
	2012	\$ 673,847	\$ 1,420,093	\$ 135,250	\$ 245,860	\$ 969,583	\$ 50,165	\$ 3,494,798
President & CEO M. T. Thies	2011	\$ 662,307	\$ 1,356,481		\$ 537,363	\$ 890,122	\$ 49,273	\$ 3,495,546
	2013	\$ 386,538	\$ 357,720		\$ 289,904	\$ 29,911	\$ 15,300	\$ 1,079,373
Sr. Vice President, CFO & Treasurer D. P. Vermillion	2012	\$ 365,769	\$ 545,190	\$ 33,813	\$ 88,970	\$ 117,078	\$ 13,460	\$ 1,164,280
	2011	\$ 341,153	\$ 331,268		\$ 184,530	\$ 77,386	\$ 11,025	\$ 945,362
Sr. Vice President & ECO M. M. Durkin	2013	\$ 344,309	\$ 371,974		\$ 258,231	\$ 0	\$ 14,429	\$ 988,943
	2012	\$ 310,385	\$ 560,803		\$ 75,498	\$ 383,559	\$ 13,907	\$ 1,344,152
Sr. Vice President, General Counsel & CCO K. S. Feltes	2011	\$ 304,039	\$ 331,268		\$ 164,455	\$ 301,136	\$ 13,413	\$ 1,114,311
	2013	\$ 314,037	\$ 357,720		\$ 235,528	\$ 46,781	\$ 11,475	\$ 965,541
Sr. Vice President & Corporate Secretary	2012	\$ 305,385	\$ 545,190	\$ 33,813	\$ 74,282	\$ 170,519	\$ 11,250	\$ 1,140,439
	2011	\$ 288,655	\$ 331,268		\$ 156,133	\$ 123,624	\$ 11,025	\$ 910,705
Sr. Vice President & Corporate Secretary	2013	\$ 282,308	\$ 357,720		\$ 211,731	\$ 20,422	\$ 11,475	\$ 883,656
	2012	\$ 267,308	\$ 545,190	\$ 33,813	\$ 65,020	\$ 253,636	\$ 11,250	\$ 1,176,217
Sr. Vice President & Corporate Secretary	2011	\$ 253,654	\$ 372,722		\$ 137,201	\$ 186,846	\$ 11,025	\$ 961,448

- (1) This table summarizes the compensation paid to, granted to, or earned by each of our NEOs for each of the last three fiscal years.
- (2) Amounts earned in the applicable year; includes regular pay, paid time-off and holiday pay. The total amounts shown in this column also include any amounts that an NEO elected to defer in accordance with the Executive Deferred Compensation Plan. (See the Non-Qualified Deferred Compensation Plan table on page for more information.)
- (3) Values shown represent the aggregate grant date fair value calculated in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 Compensation Stock Compensation for RSUs and performance share awards granted in each of the years reported. Assumptions used in the calculation of these amounts are included in Note 19 of the Company's audited financial statements for the year ended December 31, 2013 included in the Company's Annual Report on Form 10-K filed with the SEC. In the case of performance share awards, the amounts reported in the Stock Awards column represent the aggregate grant date fair value of the target number of performance shares that may become vested if the applicable performance criteria are satisfied, and computed in accordance with ASC 718. The aggregate grant date fair value for the target number of performance shares was calculated by using a Monte Carlo simulation, which produces a probable value for the awards. Performance share awards vest at the end of the vesting term, however the number of shares delivered vary based upon the attained level of performance and may range from 0 to 2.0 times the target number of performance shares awarded. For the 2013 performance share grant, if the maximum level of performance is achieved and using the closing stock price of \$28.19 as reported on December 31, 2013 to calculate the value and add the dividend equivalents using an annual amount of \$1.22 per share as declared in

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2013 multiplied by three years, then the value of the payouts would be: Mr. Morris \$2,707,250; Mr. Thies \$764,400; Mr. Vermillion \$796,250; Ms. Durkin \$764,400; and Ms. Feltes \$764,400.

- (4) Amounts shown represent the annual short-term cash incentive awards paid in 2014 that were earned by our NEOs for 2013 performance in accordance with the 2013 Executive Officer Annual Cash Incentive Plan.
- (5) Any increase in the present value of the accrued pension benefit at normal retirement age (the earliest age at which retirement benefits may be received by the NEO without any reduction in benefits) for any NEO between December 31, 2012 and December 31, 2013 is reported in this column. All NEOs (except Messrs. Morris and Vermillion) experienced an increase in the present value of their respective accrued pension benefits during 2013. Because of the changes in the discount rates, Messrs. Morris and Vermillion each experienced a decrease in the present value of their accrued pension benefits between December 31, 2012 and December 31, 2013 in the amounts of \$410,545 and \$78,578, respectively. The present value as of December 31, 2013 utilizes the RP2000 mortality table projected to 2014 for males and females and a 5.1% discount rate for the retirement plan and a 5.03% discount rate for the SERP. There were no above-market earnings for the Company's Executive Deferred Compensation Plan.
- (6) Includes employer matching contributions under both the EDC Plan and the Investment and Employee Stock Ownership Plan (the 401(k) plan). The Company makes matching contributions on behalf of all its employees who make regular contributions of their wages, salary, cash incentive, and overtime to the 401(k) plan during the plan year. The Company matching contribution to the 401(k) plan is equal to \$0.75 for every \$1.00 of regular employee contributions up to a maximum 6% of compensation for non-union employees hired prior to January 1, 2006. For non-union employees hired after that date, the Company matching contribution is equal to \$1.00 for every \$1.00 of regular employee contributions up to a maximum of 6% of compensation. The Company matching contribution under the

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EDC Plan is equal to \$0.75 for every \$1.00 contributed up to a maximum of 6% of the executive's base pay less the maximum contribution allowed under the 401(k) plan assuming the participant has contributed the maximum allowed by law. Amounts shown in the All Other Compensation column for 2013 include the following:

Name	EDC Plan Company Match	401(k) plan Company Match	Paid Time Off (Cash Outs)	Total All Other Compensation
S. L. Morris		\$ 11,475	\$ 41,780	\$ 53,255
M. T. Thies		\$ 15,300		\$ 15,300
D. P. Vermillion	\$ 2,954	\$ 11,475		\$ 14,429
M. M. Durkin		\$ 11,475		\$ 11,475
K. S. Feltes		\$ 11,475		\$ 11,475

**Grants of Plan-Based Awards 2013**

Name	Grant Date(1)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(2)			Estimated Future Payouts Under Equity Incentive Plan Awards(3)			All Other Stock Awards: Number of Shares of Stock or Units (#)(5)	Grant Date Fair Value of Stock and Option Awards (\$)(6)
		Threshold(\$)	Target(\$)	Maximum(\$)	Threshold(#)	Target(#)	Maximum(#)		
S. L. Morris									
Annual Cash Award	02/07/13	\$ 396,900	\$ 661,500	\$ 926,100					
Performance Award	02/07/13				17,000	42,500	85,000		\$ 990,250
Restricted Stock Units (4)	02/07/13					12,100	12,100		\$ 315,084
M. T. Thies									
Annual Cash Award	02/07/13	\$ 140,400	\$ 234,000	\$ 327,600					
Performance Award	02/07/13				4,800	12,000	24,000		\$ 279,600
Restricted Stock Units	02/07/13							3,000	\$ 78,120
D. P. Vermillion									
Annual Cash Award	02/07/13	\$ 126,720	\$ 211,200	\$ 295,680					
Performance Award	02/07/13				5,000	12,500	25,000		\$ 291,250
Restricted Stock Units	02/07/13							3,100	\$ 80,724
M. M. Durkin									
Annual Cash Award	02/07/13	\$ 113,400	\$ 189,000	\$ 264,600					
Performance Award	02/07/13				4,800	12,000	24,000		\$ 279,600
Restricted Stock Units	02/07/13							3,000	\$ 78,120
K. S. Feltes									
Annual Cash Award	02/07/13	\$ 102,600	\$ 171,000	\$ 239,400					
Performance Award	02/07/13				4,800	12,000	24,000		\$ 279,600
Restricted Stock Units	02/07/13							3,000	\$ 78,120

- (1) The grant date is the date the Compensation Committee and/or the Board approves the grant of performance share awards, RSUs or non-equity incentive awards.
- (2) Potential annual cash incentive awards granted to NEOs for 2013 performance in accordance with the 2013 Executive Officer Annual Cash Incentive Plan. The amounts actually paid to our NEOs for 2013 performance appear in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table. See the CD&A for further explanation.
- (3) Performance share awards are granted under the LTIP and vest over a three-year period. The number of shares earned at the end of the three-year period depends on the level of performance achieved. See the CD&A for further explanation.

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- (4) In 2013, Mr. Morris was awarded RSUs under the LTIP that vest over a three-year period. One-third of the shares vest and shares are issued on an annual basis, provided that Mr. Morris is employed on the last day of the year and the Company achieves the minimum annual ROE performance target established for that year. Dividend equivalents accrue on the unvested RSUs and, if the performance target is met, the dividend equivalents are paid in cash at the same time the underlying RSUs vest. Therefore, if the Company does not achieve the annual ROE performance target, no RSUs or dividend equivalents are earned. See the CD&A for further explanation.
- (5) In 2013, our NEOs, other than Mr. Morris, were awarded RSUs under the LTIP that vest over a three-year period. One-third of the shares vest and are issued on an annual basis, provided that the NEO is employed on the last day of the vesting period. Dividend equivalents accrue on the unvested RSUs and are paid in cash at the same time the underlying RSUs vest. Therefore, if an NEO's employment ends prior to the last day of the vesting period, no RSUs or dividend equivalents are earned.
- (6) The amounts shown for the grant date fair value of the target number of performance share awards were calculated in accordance with ASC 718. Assumptions used in the calculation of these amounts are included in Note 19 of the Company's audited financial statements for the year ended December 31, 2013 included in the Company's Form 10-K filed with the SEC on February 26, 2014. The grant date fair value for the target number of performance shares was calculated using a Monte Carlo simulation to produce a probable value for the awards, which resulted in a fair value per share lower than the closing price per share on the grant date.



**Table of Contents****Employment Agreements**

We currently do not have employment agreements with our NEOs, with the exception of Ms. Durkin and Mr. Thies. Please refer to the Pension Benefits Table on page 40 for a discussion of the provisions that relate to the grant of additional service credit for pension purposes, and to the Potential Payments Upon Termination or Change in Control discussion on page 42, for a discussion of the change in control provisions, including the recent modification to the golden parachute excise tax gross-up provisions.

**Outstanding Equity Awards at Year-End 2013**

Name	Date of Grant	Option Awards			Stock Awards		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Rights That Have Not Vested (\$)(6)
		Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) (1)	Option Exercise Price (\$)(2)	Option Expiration Date(3)	Number of Shares or Units of Stock that Have Not Vested (#)(4)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(5)	
S. L. Morris	02/02/2012					17,000	\$ 479,230
S. L. Morris	02/02/2012					4,033	\$ 113,690
S. L. Morris	02/28/2012	100,000	\$ 4.46	02/28/2022			
S. L. Morris	02/07/2013					42,500	\$ 1,198,075
S. L. Morris	02/07/2013					8,066	\$ 227,381
M. T. Thies	02/02/2012					4,800	\$ 135,312
M. T. Thies	02/02/2012				3,000	\$ 84,570	
M. T. Thies	02/28/2012	25,000	\$ 4.46	02/28/2022			
M. T. Thies	02/07/2013					12,000	\$ 338,280
M. T. Thies	02/07/2013				2,000	\$ 56,380	
D. P. Vermillion	02/02/2012					5,000	\$ 140,950
D. P. Vermillion	02/02/2012				3,033	\$ 85,500	
D. P. Vermillion	02/07/2013					12,500	\$ 352,375
D. P. Vermillion	02/07/2013				2,066	\$ 58,241	
M. M. Durkin	02/02/2012					4,800	\$ 135,312
M. M. Durkin	02/02/2012				3,000	\$ 84,570	
M. M. Durkin	02/28/2012	25,000	\$ 4.46	02/28/2022			
M. M. Durkin	02/07/2013					12,000	\$ 338,280
M. M. Durkin	02/07/2013				2,000	\$ 56,380	
K. S. Feltes	02/02/2012					4,800	\$ 135,312
K. S. Feltes	02/02/2012				3,000	\$ 84,570	
K. S. Feltes	02/28/2012	25,000	\$ 4.46	02/28/2022			
K. S. Feltes	02/07/2013					12,000	\$ 338,280
K. S. Feltes	02/07/2013				2,000	\$ 56,380	

- (1) As discussed on page 32 in the CD&A, in February 2012, the Ecova Board approved a one-time grant of performance-based NQSOs for our NEOs who also serve as officers of Ecova. The vesting of the NQSOs is performance-based one-third of the NQSOs were scheduled to vest in 2013 and one-third will vest in each of 2014 and 2015 if Ecova achieves 15% growth in EBITDA for the relevant year. However, if Ecova achieves a cumulative EBITDA growth rate of 30% after two years or 45% after three years, then all previously unvested NQSOs will vest. If the performance condition is not met, the NQSOs will not vest.

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- (2) Option exercise price is the fair market value at the time of the grant, based on the valuation of Ecova as of February 1, 2012 performed by Duff & Phelps LLC.
- (3) Options have a term of ten years from the grant date.

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- (4) Number of time-based RSUs that remain unvested as of December 31, 2013. (RSUs vest and shares are issuable over a three-year period, provided the NEO remains employed on the last day of each year of the vesting period.)
- (5) The market value of RSUs is based on the closing stock price (\$28.19) as reported on December 31, 2013.
- (6) Performance share awards reflect the number of performance shares at the threshold performance level. The market value is based on the closing stock price (\$28.19) as reported on December 31, 2013. The value for the 2012 performance share award is shown at the threshold level (40%) based on results (less than threshold) for the first two years of the 2012-2014 performance period. The value for the 2013 performance share awards are shown at the target level (100%) based on results (greater than threshold) for the first year of the 2013-2015 performance period.

**Option Exercises and Stock Vested 2013**

Name	Option Awards		Stock Awards(1)(2)	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
S. L. Morris			0(1)	\$ 0
S. L. Morris			4,166(3)	\$ 117,023
S. L. Morris			4,033(3)	\$ 113,287
S. L. Morris			4,034(3)	\$ 113,315
M. T. Thies			0(1)	\$ 0
M. T. Thies			1,033(2)	\$ 28,769
M. T. Thies			3,000(2)	\$ 83,550
M. T. Thies			1,000(2)	\$ 27,850
D. P. Vermillion			0(1)	\$ 0
D. P. Vermillion			1,033(2)	\$ 28,769
D. P. Vermillion			3,033(2)	\$ 84,469
D. P. Vermillion			1,034(2)	\$ 28,797
M. M. Durkin			0(1)	\$ 0
M. M. Durkin			1,033(2)	\$ 28,769
M. M. Durkin			3,000(2)	\$ 83,550
M. M. Durkin			1,000(2)	\$ 27,850
K. S. Feltes			0(1)	\$ 0
K. S. Feltes			1,633(2)	\$ 45,479
K. S. Feltes			3,000(2)	\$ 83,550
K. S. Feltes			1,000(2)	\$ 27,850

- (1) For the performance period ended December 31, 2013, our total shareholder return placed us in the 24<sup>th</sup> percentile of companies included in our peer group, which resulted in forfeiture of the performance shares granted in 2011 for the 2011-2013 performance period and the related dividend equivalents.
- (2) Our NEOs were granted RSUs in 2011, 2012 and 2013, of which one-third vests each year if an NEO remains employed on December 31. Therefore, one-third of each grant vested. Our NEOs received the last one-third of their RSUs granted in 2011 and one-third of their RSUs granted in 2012 and 2013. Value is based on the closing stock price (\$27.85) as reported on January 2, 2014, the day on which the shares were issuable to the recipient. Dividend equivalents were paid in cash at the same time the underlying RSUs vested.
- (3) Mr. Morris was granted RSUs in 2011, 2012 and 2013, of which one-third vests each year based on his continued employment on December 31 and the Company achieving the minimum ROE performance target. The 2013 performance target for the portion of the 2011, 2012 and the 2013 RSUs that could vest at the end of 2013 was 5.85%. During 2013, we achieved an ROE of 8.73%, which exceeded the target and resulted in vesting of one-third of each of the three grants. Value is based on the closing stock price (\$28.09) as reported on February 6, 2014, the day the Compensation Committee certified that the performance target was met and the shares were issuable. Dividend equivalents were paid in cash at the same time the underlying RSUs vested.

**Table of Contents****Pension Benefits 2013**

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

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

Name	Plan Name	Number of Years Credited Service (#)(1)	Present Value of Accumulated Benefit (\$)	Payments During Last Year (\$)
S. L. Morris	Retirement Plan	32.17	\$ 1,542,611	\$ 0
	SERP pre 2005(2)	23.17	\$ 129,153	\$ 0
	SERP 2005+(3)	30.00	\$ 3,399,939	\$ 0
M. T. Thies (4)	Retirement Plan	5.25	\$ 111,823	\$ 0
	SERP pre 2005(2)	NA	NA	\$ 0
	SERP 2005+(3)	5.25	\$ 207,878	\$ 0
D. P. Vermillion	Retirement Plan	25.83	\$ 985,188	\$ 0
	SERP pre 2005(2)	16.83	\$ 160,055	\$ 0
	SERP 2005+(3)	25.83	\$ 628,026	\$ 0
M. M. Durkin (5)	Retirement Plan	8.42	\$ 297,925	\$ 0
	SERP pre 2005(2)	NA	NA	\$ 0
	SERP 2005+(3)	8.42	\$ 356,259	\$ 0
K. S. Feltes	Retirement Plan	15.67	\$ 677,815	\$ 0
	SERP pre 2005(2)	6.67	NA	\$ 0
	SERP 2005+(3)	15.67	\$ 465,764	\$ 0

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



**Table of Contents****Non-Qualified Deferred Compensation Plan 2013**

The following table shows the non-qualified deferred compensation activity for our NEOs accrued through December 31, 2013:

Name	Executive Contributions in Last Fiscal Year \$(1)	Registrant Contributions in Last Fiscal Year (Company Match) \$(2)	Aggregate Earnings in Last Fiscal Year \$(3)	Aggregate Withdrawals/Distributions (\$)	Aggregate Balance at Last Fiscal Year-End (\$)
S. L. Morris	\$ 0	\$ 0	\$ 99,460	\$ 0	\$ 440,349
D. P. Vermillion	\$ 2,000	\$ 2,954	\$ 190,815	\$ 0	\$ 1,588,613

- (1) Eligible employees may elect to defer up to 75% of their base annual salary and up to 100% of their annual bonus. This column represents deferrals of this compensation during the last year. See the Summary Compensation Table on page 36 for further explanation.
- (2) The Company matching contribution under the EDC Plan is equal to \$0.75 for every \$1.00 contributed up to a maximum of 6% of the executive's base pay less the maximum contribution allowed under the 401(k) plan assuming the participant has contributed up to the limit set forth in Code Section 402(g) for the plan year. See All Other Compensation column of the Summary Compensation Table for further explanation.
- (3) Earnings reflect the market returns of the NEO's respective investment allocations. The earnings accrued for deferred compensation are determined by actual earnings of Avista common stock and selected mutual funds. None of the earnings are included as compensation on the Summary Compensation Table since none are above market earnings. The Compensation Committee selects the mutual funds that are available for investment under the EDC Plan, and the participants may allocate their accounts among these investments, including Avista common stock. The investments currently available include the following:

Investment	Ticker Symbol	One Year Return as of 12/31/13
American Funds EuroPacific Growth Fund	RERFX	20.54%
Aston Montag & Coldwell Growth Fund Class I	MCGIX	27.59%
Avista Common Stock	AVA	20.64%
American Beacon Large Cap Value Fund	AADEX	34.93%
PIMCO Total Return Fund (Instl.)	PTTRX	-1.92%
RS Partners Fund (Class A)	RSPFX	42.15%
Vanguard Small Cap Index Signal Fund	VSISX	37.79%
T. Rowe Price Mid-Cap Growth Fund	RPMGX	36.89%
T. Rowe Price Personal Strategy Balanced Fund	TRPBX	18.09%
Vanguard Short Term Treasury Fund Investor Shares	VFISX	-0.10%
Vanguard Total Bond Market Index Signal Fund	VBTSX	-2.15%
Wells Fargo Advantage Index Fund	WFIOX	32.08%
Wells Fargo Cash Investment Money Market Fund	WFIXX	0.03%

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

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

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Specifically, an NEO receives payments only if, in connection with a CIC, the executive officer's employment is terminated involuntarily by the Company or voluntarily by the officer for good reason. Good reason includes

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assignment of any duties inconsistent with the executive officer's position, authority, duties or responsibilities or any other action that results in a material diminution in such position, authority, duties or responsibilities or material diminution in the executive's base annual salary, or requiring the executive officer to be based at any location over 50 miles from the location the executive officer was assigned to preceding the CIC.

The agreements also provide compensation and benefits to our NEOs during employment following a CIC of the Company. Pursuant to the terms of the agreements, during the two or three years following a CIC of the Company, an NEO will receive an annual base salary equal to at least 12 times the highest monthly base salary paid to such executive officer in the 12 months preceding the CIC. In addition, each NEO will receive an annual bonus at least equal to such executive officer's highest bonus paid by the Company under the Company's Executive Officer Annual Cash Incentive Plan for the three years preceding the CIC (the "Recent Annual Bonus").

If employment is terminated by the Company without cause or by such executive officer for good reason during the first three years after a CIC, the executive officer will receive a payment equal to the sum of: (i) the earned but unpaid base salary due to such executive officer as of the date of termination; (ii) a proportionate annual bonus due to such executive officer for the portion of the year worked prior to the termination, based on the higher of the Recent Annual Bonus and the NEO's annual bonus for the last year (the "Highest Annual Bonus"); and (iii) a lump sum payment equal to two or three times (depending on the officer's level) the sum of the NEO's annual base salary and the Highest Annual Bonus plus an amount equal to the 2010 bonus (paid in 2011). The NEO will also receive all unpaid vacation pay, may continue to receive employee welfare benefits for up to a three-year period from the date of termination, and may receive outplacement assistance.

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

The excise tax amount in the tables below is based on the Company's best estimate of the individual's liabilities under Code Sections 280G and 4999, assuming the NEO was terminated in connection with a CIC on December 31, 2013, and that the payments could not be reduced in accordance with the change described above.

In November 2010, the Board decided to change the "Highest Annual Bonus" to the target bonus for all new CIC agreements entered into on or after November 11, 2010.

If employment terminates for any reason other than for retirement, death or disability during a performance cycle, all performance-based awards are forfeited. If employment terminates due to retirement, death or disability, the payment amount is still determined at the end of the three-year performance cycle and is prorated based on the number of months of active service during the cycle. If employment terminates in connection with a CIC, RSUs are fully accelerated and performance shares have prorated acceleration.



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

	Potential Payment Upon Termination or Change in Control(1)					
	Termination Without Cause or With Good Reason after a Change in Control	Voluntary Termination	Retirement	Death	Disability	Involuntary Termination With or Without Cause
<b>Scott L. Morris</b>						
Chairman, President & CEO						
<b>Compensation Components</b>						
Severance (2)	\$ 4,715,676	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Value of Accelerated Equity (3)	\$ 3,362,684	\$ 0	\$ 3,128,289	\$ 3,128,289	\$ 3,128,289	\$ 0
Retiree Medical (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Health Benefits (5)	\$ 35,918	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Death Benefit (6)	\$ 0	\$ 0	\$ 0	\$ 1,470,000	\$ 0	\$ 0
Supplemental Disability Benefit (7)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,214,663	\$ 0
280-G Tax Gross-Up	\$ 2,668,928	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total</b>	<b>\$ 10,783,206</b>	<b>\$ 0</b>	<b>\$ 3,128,289</b>	<b>\$ 4,598,289</b>	<b>\$ 5,342,952</b>	<b>\$ 0</b>

- (1) All scenarios assume termination occurred on December 31, 2013 and a stock price of \$28.19, the closing price of Company stock on that date.
- (2) Amount equals three times the sum of the executive's annual base pay and the Highest Annual Bonus, plus an amount equal to the Highest Annual Bonus (2010 bonus, paid in 2011) prorated for the current fiscal year  $((\$735,000 + \$627,669) \times 3) + \$627,669$ .
- (3) Assumes full acceleration of RSUs and prorated acceleration of performance shares (granted in 2012 and 2013) upon termination in connection with a CIC, and also assumes prorated acceleration of performance shares and RSUs in the event of death, disability, and retirement, and assumes all shares are forfeited in the event of voluntary or involuntary termination with cause. Under death, disability, and retirement, achievement of performance goals were assumed to be 100%, although in actuality the participant must wait until the end of the performance period to receive his/her prorated amount using the actual performance for the entire measurement period.
- (4) Retiree medical benefits are generally available to all employees who meet age and service eligibility requirements.
- (5) For a CIC, Mr. Morris would be credited with two years of continued health coverage based upon coverage elected and cost of health coverage as of December 31, 2013.
- (6) The death benefit is explained in the CD&A under Company Self-Funded Death Benefit Plan. Amount shown is twice the annual base salary and is paid in a lump sum.
- (7) The supplemental disability benefit is 60% of base annual pay and is comprised of benefits available from the Avista Supplemental Executive Disability Plan, Long-term Disability Plan, Workers Compensation (if applicable), and Social Security. Amount shown is the present value of the annual disability benefit payable to age 65. Present value was determined by using an interest rate of 5.03% and the RP2000 mortality table projected to 2014 for males and females.

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	Potential Payment Upon Termination or Change in Control(1)						Involuntary Termination With or Without Cause
	Termination Without Cause or With Good Reason after a Change in Control	Voluntary Termination	Retirement	Death	Disability		
<b>Mark T. Thies</b>							
Senior Vice President CFO & Treasurer							
<b>Compensation Components</b>							
Severance (2)	\$ 2,033,460	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Value of Accelerated Equity (3)	\$ 985,735	\$ 0	\$ 907,750	\$ 907,750	\$ 907,750	\$ 907,750	\$ 0
Retiree Medical (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Health Benefits (5)	\$ 35,918	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Death Benefit (6)	\$ 0	\$ 0	\$ 0	\$ 780,000	\$ 0	\$ 0	\$ 0
Supplemental Disability Benefit (7)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,799,900	\$ 0	\$ 0
280-G Tax Gross-Up	\$ 1,089,295	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total</b>	<b>\$ 4,144,408</b>	<b>\$ 0</b>	<b>\$ 907,750</b>	<b>\$ 1,687,750</b>	<b>\$ 2,707,650</b>	<b>\$ 0</b>	<b>\$ 0</b>

- (1) All scenarios assume termination occurred on December 31, 2013 and a stock price of \$28.19, the closing price of Company stock on that date.
- (2) Amount equals three times the sum of the executive's annual base pay and the Highest Annual Bonus, plus an amount equal to the Highest Annual Bonus (2010 bonus, paid in 2011) prorated for the current fiscal year  $((\$390,000 + \$215,865) \times 3) + \$215,865$ .
- (3) Assumes full acceleration of RSUs and prorated acceleration of performance shares (granted in 2012 and 2013) upon termination in connection with a CIC, and also assumes prorated acceleration of performance shares and RSUs after death, disability, and retirement, and assumes all shares are forfeited in the event of voluntary or involuntary termination with cause. Under death, disability, and retirement, achievement of performance goals were assumed to be 100%, although in actuality the participant must wait until the end of the performance period to receive his/her prorated amount using the actual performance for the entire measurement period.
- (4) Retiree medical benefits are generally available to all employees who meet age and service eligibility requirements.
- (5) For a CIC, Mr. Thies would be credited with two years of continued health coverage based upon coverage elected and cost of health coverage as of December 31, 2013.
- (6) The death benefit is explained in the CD&A under Company Self-Funded Death Benefit Plan. Amount shown is twice the annual base salary and is paid in a lump sum.
- (7) The supplemental disability benefit is 60% of base annual pay and is comprised of benefits available from the Avista Supplemental Executive Disability Plan, Long-term Disability Plan, Workers Compensation (if applicable), and Social Security. Amount shown is the present value of the annual disability benefit payable to age 65. Present value was determined by using an interest rate of 5.03% and the RP2000 mortality table projected to 2014 for males and females.

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	Potential Payment Upon Termination or Change in Control(1)					Involuntary Termination With or Without Cause
	Termination Without Cause or With Good Reason after a Change in Control	Voluntary Termination	Retirement	Death	Disability	
<b>Dennis P. Vermillion</b>						
Sr. Vice President & Environmental Compliance Officer						
<b>Compensation Components</b>						
Severance (2)	\$ 1,301,780	\$				