

Voluntary Severance Program Overview

How does it work?

Requires a "Double Yes"

First Yes: Employee volunteers

- Employees self-identify to voluntarily leave the company by December 31, 2012.

Second Yes: Avista approves

- After weighing short & long term business needs, critical skill sets, ability to accommodate departure requests, the officers, with input from Directors and others decide which employee requests will be approved.



Enhanced Severance Plus Departure Incentive* For non-union employees					
Severance	Plus		Plus	Benefits	
Based on Service	Exempt	Non-Exempt	Departure Incentive	Not Retiring	Retiring
2 weeks per year of service	+4 weeks	+ 2 weeks	+ 12 weeks	6 months medical *	HRA contribution of \$3,000* (\$250/month 12 months)
Total Plan Payout not to exceed 1.5 years (78 weeks)				One leave cashed out*	One Leave to HRA*
Exempt Examples (Based on Years of Service): 5 Years = 26 weeks 15 Years = 46 weeks 30 years = 76 weeks					

Note: the option would be available only in 2012

* Subject to provisions of the Voluntary Severance Incentive Program Summary, Plan Document and other Benefit Plan Rules and Provisions

Key Dates and Action Steps to Keep in Mind

Action	Timing
All Employee Meetings	Tuesday, Wednesday, Thursday Oct. 23, 24, 25
Packets arrive at employee homes	By Monday October 29 The 45 day offer consideration period starts
Q & A Sessions and e.view updates	November dates to be determined
All Employee Meetings	November 27, 30, and December 3
Retirement Election Forms Due	November 30, 2012
1 st Yes-Volunteer Applications Due	December 14, 2012
2 nd Yes- Approved Applicants Notified	December 21, 2012
Last Day Worked for Approved Employees	December 31, 2012

If you have questions, please contact Human Resources at: human.resources@avistacorp.com

To Control Our Destiny, we need to do more

Our situation:

We've talked for several years about how important it is to **control our destiny** as the energy industry continues to change. We must be nimble and flexible to adapt to changing circumstances.

Internal and external forces continue to impact our business. We've faced many challenges in a number of ways, but it's not been enough. We need to slow the pace of growth in our costs.

Some things are out of our control, like the weather and how quickly the economy recovers. Yet they impact our revenues and financial situation.

Other factors are certainly within our control, such as how much we spend to operate our business and where we allocate our resources.

We'll work together to focus on what we can control.

To reduce the pace of growth in our costs, we'll **look at all of our options to reduce Operating & Maintenance expenses**. Our target is \$14 Million in sustained O&M savings. This will help ensure Avista's financial health and our future success.

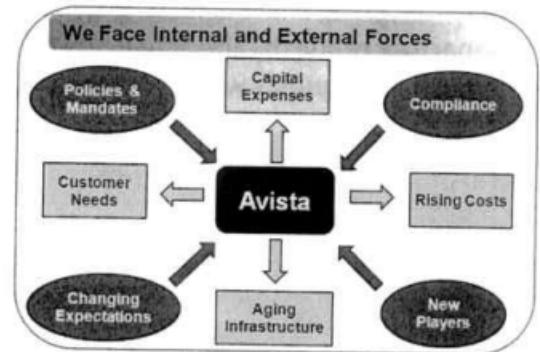
To achieve this goal, we will scrub budgets, evaluate current and future activities, reprioritize, reorganize & redistribute work.

We're also implementing a **Voluntary Severance Program** to all regular non-union full-time and part-time employees to **achieve immediate and sustainable savings** moving forward.

We've taken actions – but we need to do more

We continue to achieve value from **Performance Excellence** initiatives. And as planned, we are **redeploying the funds to other projects** that we could not otherwise fund.

Business Process Improvement is building new capabilities to continuously improve our processes. We expect to capture \$2.3 Million in value during the 3-year project.



Trends: Internal costs outpace customer growth

We continue to experience the following trends:

- Operating & Maintenance costs up 12% since 2010. Our 2012 O&M budget is \$256M.
- Capital expenditures are up 166% since 2000. We're investing \$250M annually in capital to maintain & upgrade generating and energy delivery systems.
- Medical benefits have increased 50% since 2005, and costs are climbing.
- Pension plan contributions are up 193% since 2005. It's expected to increase in 2013.

While costs continue to rise, our annual customer growth averages 1%.

We cannot sustain this situation

What we're doing about it

In 2012 we'll look at all options:

- Scrub budgets
- Evaluate all O&M activities current & future
- Implement voluntary severance program
- Reorganize, redistribute, reprioritize

In 2013 we'll know more and continue exploring options:

- Further scrub budgets
 - Continue to evaluate all O&M activities current & future
- If we don't meet our financial targets, involuntary severance could be considered.

Everyone will be affected by these changes – whether you accept the voluntary severance package or choose to stay. There will be many opportunities in the coming days and weeks to gather information, ask questions and receive the support you need to decide what's best for you and your family.