

AVISTA CORP  
Form DEF 14A  
March 29, 2002

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 Pursuant to § 240.14a-11(c) or § 240.14a-12

AVISTA CORPORATION

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(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(I)(4) and 0-11.
- (1) Title of each class of securities to which transaction applies:
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- (4) Proposed maximum aggregate value of transaction:
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- (3) Filing  
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Filed:

**Prompt return of the enclosed proxy card will save the expense of an additional mailing.  
Your immediate attention is appreciated.**

March 29, 2002

Dear Shareholder:

On behalf of the Board of Directors, it is my pleasure to invite you to the 2002 Annual Meeting of Shareholders. The doors open at 9:15 a.m. and the Annual Meeting will begin promptly at 10:00 a.m.

Date:	Thursday Morning, May 9, 2002	Place:	Avista Corp. Main Office Building
Time:	9:15 a.m. Doors Open		Auditorium
	9:30 a.m. Refreshments		1411 E. Mission Avenue
	10:00 a.m. Annual Meeting Convenes		Spokane, Washington

Please take the opportunity to review the enclosed Annual Report, Proxy Statement, and 2001 Financial Report. **Whether or not you plan to attend the Annual Meeting in person, you should complete, sign, and date your proxy card, and return it as soon as possible in the enclosed envelope.** Voting your proxy prior to the meeting will allow for a more efficient and timely meeting. Also, 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. Or, you can listen to a replay of the webcast at [www.avistacorp.com](http://www.avistacorp.com) until May 16, 2002.

Thank you for your continued support.

Sincerely,

**Gary G. Ely**  
Chairman of the Board,  
President & Chief Executive Officer

Avista Corp. P.O. Box 3727 Spokane, Washington 99220-3727  
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 19.**

**AVISTA CORP.**  
1411 East Mission Avenue  
Spokane, Washington 99202

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**NOTICE OF THE 2002 ANNUAL MEETING OF SHAREHOLDERS**

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- Date:** Thursday, May 9, 2002
- Time:** 10:00 a.m., Pacific Time
- Place:** Avista Corp. Main Office Building Auditorium  
1411 E. Mission Avenue  
Spokane, Washington
- Record Date:** March 19, 2002
- Meeting Agenda:**
- 1) Election of three directors.
  - 2) To transact other business that may come before the meeting or any adjournment(s).

For your convenience, we re 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. Or, you can listen to a replay of the webcast at [www.avistacorp.com](http://www.avistacorp.com) until May 16, 2002.

By Order of the Board of Directors,

Terry L. Syms  
Vice President & Corporate Secretary

Spokane, Washington  
March 29, 2002

**PROXY STATEMENT VOTING PROCEDURES**

This proxy statement is furnished in connection with the solicitation by the Board of Directors of Avista Corp. of proxies for use at the Annual Meeting of Shareholders. It is expected that this Proxy Statement and accompanying form of proxy will be mailed to shareholders on or about March 29, 2002.

**YOUR VOTE IS IMPORTANT.** Whether or not you plan to attend our Annual Meeting of Shareholders in person, please complete, sign, and date your proxy card, and return it as soon as possible in the enclosed envelope.

At the close of business on the record date, March 19, 2002, there were 47,682,357 shares of Avista Corp. Common Stock outstanding and entitled to vote at the Annual Meeting. Shares represented at the meeting by properly executed proxies will be voted at the meeting. If the shareholder specifies a choice, the shares will be voted as indicated. A proxy may be revoked at any time prior to the Annual Meeting.

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

With respect to the election of directors, each record holder of Common Stock will be entitled to vote cumulatively. The shareholder may give one nominee for election as many votes as the number of directors to be elected, multiplied by the number of shares held by that shareholder or may distribute such votes among any two or more of such nominees. The nominees elected will be those receiving the largest number of votes cast by the holders of the Common Stock, up to three individuals for the 2002 Annual Meeting. The outcome of the vote will be determined by reference to the number of votes cast. Withheld votes are not considered votes cast and, therefore, will have no effect.

**PROPOSAL 1  
ELECTION OF DIRECTORS**

Three directors are to be elected for a term of three years until 2005 and, in each case, until their successors are elected and qualified. The Company's Restated Articles of Incorporation provide for up to eleven (11) directors divided into three (3) classes, with each director serving a three-year term. The Bylaws currently fix the number of directors at eleven (11). Messrs. Meyer and Zaloudek, whose terms are set to expire in May 2002, will not be standing for re-election. The Board of Directors has nominated Roy L. Eiguren, Gary G. Ely, and Jessie J. Knight, Jr. to be elected as directors for a three-year term to expire at the Annual Meeting of Shareholders in 2005. The Bylaws have been amended, effective upon the election of directors at the Annual Meeting, to reduce the number of directors to ten (10), so that there will be three (3) directors in the classes of 2003 and 2005 and four (4) directors in the class of 2004. Unless authority to vote is withheld as to any nominee, the individuals named as proxies on the proxy card will vote for the election of the nominees listed below or, in the discretion of such individuals, will vote cumulatively for the election of one or more of the nominees. The Board of Directors has no reason to believe that any nominee will be unable to serve as a director. If any of the nominees should become unavailable, your shares will be voted for a Board-approved substitute.

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

**\* Indicates Nominees for Election**

**ERIK J. ANDERSON**

**Director since 2000 (Current term expires 2004)**

Mr. Anderson, age 43, is Chief Executive Officer of Matthew G. Norton, Co., a private investment company, and President of its subsidiaries, Northwest Building, LLC and affiliated company, MGN Opportunity, LLC. Recently, he accepted a position as Chairman of Tachyon, Inc., an advanced satellite-based internet solutions company. Prior to 1998, Mr. Anderson was Chief Executive Officer of Trillium Corporation. In addition, his experience includes tenures as both a partner at the private equity firm of Frazier & Company, LP and as a Vice President of Goldman, Sachs & Co. Mr. Anderson serves on the board of the Washington State University Foundation. He also serves on the advisory boards for Northwest Venture Partners and Northwest Capital Partners II.

**KRISTIANNE BLAKE**

**Director since 2000 (Current term expires 2004)**

Mrs. Blake, age 48, is a certified public accountant and President of the accounting firm of Kristianne Gates Blake, P.S. Prior to founding her firm in 1987, she was a partner with Deloitte & Touche. Mrs. Blake is a trustee of the Frank Russell Investment Company, the Russell Insurance Funds, and the WM Group of Funds. She is also a published author. Mrs. Blake is currently serving as board chair for both St. George's School and the Inland Empire YMCA. She previously served on the boards of the Spokane Area Chamber of Commerce, Spokane Intercollegiate Research and Technology Institute, Washington State Securities Advisory Committee, Washington State Higher Education Coordinating Board, and the United Way of Spokane County. Mrs. Blake also serves on the board of Avista Advantage, Inc.

**DAVID A. CLACK**

**Director since 1988 (Current term expires 2004)**

Mr. Clack, age 67, is managing director of Meridian Capital, LLC, a private investment banking firm headquartered in Seattle, Washington. He is Chairman of NVA Holdings, LLC, and is also on the board of Lifespan Biosciences, Inc. Previously, and for over five years, Mr. Clack was President of Clack and Co., a private investment firm headquartered in Spokane, Washington.

**GARY G. ELY\***

**Director since 2001 (For a term expiring in 2005)**

Mr. Ely, age 54, is Chairman of the Board, President and Chief Executive Officer of the Company. He has been President and Chief Executive Officer since November 10, 2000, and was elected Chairman of the Board on May 11, 2001. He has been employed by the Company since 1967. His experience includes management positions in engineering, operations, marketing, and natural gas. He was appointed Vice President of Marketing in 1986, Vice President of Natural Gas in 1991, Senior Vice President of Generation in 1996, Executive Vice President in 1999, and acting President and CEO in October 2000. Mr. Ely also serves as Chairman of the Board of Avista Corp.'s subsidiaries, including Avista Advantage, Avista Labs, and Avista Energy. He has been an active member of various professional and business organizations, including serving on the American Gas Association Government Relations Policy Committee and the University of Idaho Presidential Advisory Committee. Mr. Ely is also a member of the Washington State Business Roundtable. In addition, he has served on the boards of the Pacific Coast Gas Association, Northwest Electric Light and Power Association, the Northwest Gas Association, and the Spokane Valley Chamber of Commerce. Through appointment by the Washington State Governor, Mr. Ely also served on the Energy Facility Siting Committee, and was a member of the Washington State Building Code Council, which developed the State Energy Code.

**ROY LEWIS EIGUREN\***

**Director Nominee (For a term expiring in 2005)**

Mr. Eiguren, age 50, is a senior partner at Givens Pursley, LLP, one of Idaho's largest law firms. He has been with the firm since 1984. Prior to the time of entering private practice, Mr. Eiguren worked as Special Assistant to the Administrator of the Bonneville Power Administration and also served as Chief of the Legislative and Administrative Affairs Division of the Idaho Attorney General's Office. Mr. Eiguren is Chairman of the Idaho State Capitol Commission and currently serves as a board member of the University of Idaho Foundation. He is a member of the University of Idaho College of Law Advisory Council and serves on the environmental and public affairs committees of the Idaho Association of Commerce and Industry. He is also a past chairman of the Boise Metro Chamber of Commerce, and was a member of the Idaho Coordinating Committee for the United States Olympic Committee, 2002 Salt Lake City Winter Games.

**SARAH M. R. (SALLY) JEWELL**

**Director since 1997 (Current term expires 2003)**

Mrs. Jewell, age 46, has been Executive Vice President and Chief Operating Officer of Recreational Equipment, Inc. ( REI ) since April 2000. Prior to that time, she spent nineteen years in the banking industry in the areas of energy banking, national accounts, credit administration, head of business banking activities in Washington, and finally as President of the Commercial Banking Group of Washington Mutual Bank. Mrs. Jewell serves on the boards of REI and of Premera, parent company of Premera Blue Cross and Medical Service Corp. Mrs. Jewell was recently appointed by Governor Locke to the Board of Regents of the University of Washington.

**JOHN F. KELLY**

**Director since 1997 (Current term expires 2003)**

Mr. Kelly, age 57, has been a board member of Alaska Air Group since 1989 and has served as Chairman, President and CEO of that company, as well as Chairman of Alaska Airlines, since 1995. He also served as CEO of Alaska Airlines from 1995 to January 2002, President from 1995 to 1997, and Chief Operating Officer from November 1994 to February 1995. He has served as Chairman of the Board of Horizon Air since February 1991. Mr. Kelly is a director of the Washington State Roundtable and a board member of the Air Transport Association and of the Northwestern University Transportation Center Business Advisory Committee.

**JESSIE J. KNIGHT, JR.\***

**Director since 1999 (For a term expiring in 2005)**

Mr. Knight, age 51, is President and CEO of the San Diego Regional Chamber of Commerce and is Executive Vice President of Navillus Associates, LLC, a real estate development partnership located in San Francisco. From 1993 through 1998, Mr. Knight served as a Commissioner of the California Public Utilities Commission as managing commissioner over the telecommunications and electric industries of the state. Mr. Knight was the Vice President of Marketing for the San Francisco Chronicle and San Francisco Examiner newspapers for seven years. He spent ten years in senior management positions in marketing and finance for the Dole Foods Company (principally in the pineapple industry) and as Director of Marketing for its U.S. and Canadian canned pineapple businesses and in its Latin American operations. He is former Vice Chairman of the World Affairs Council of Northern California and is presently a standing member of the Council on Foreign Relations.

**BOBBY SCHMIDT**

**Director since 1997 (Current term expires 2004)**

Mr. Schmidt, age 61, has been President for over five years of Schmidt Trading, Inc., a commodity trading and investment firm located in Hilton Head Island, South Carolina. Mr. Schmidt has extensive experience as a commodity trader, working for many years as an independent trader in Chicago. He was a member of the Chicago Board of Trade and while at the Board of Trade, he was associated with Refco, a commodity clearing company. Previously, Mr. Schmidt was the Chief Financial Officer of Carson Pirie Scott, and also served as an advisor to the Illinois State Legislature. Mr. Schmidt also serves on the board of Avista Energy, Inc.

**R. JOHN TAYLOR**

**Director since 1985 (Current term expires 2003)**

Mr. Taylor, age 52, has been Chairman and CEO for over five years of AIA Services Corporation, and is also Chairman of the recently formed CropUSA Insurance Company. Both companies are insurance agencies with operations throughout the United States. Previously, Mr. Taylor served as President of AIA Services and was its Chief Operating Officer. In addition, he is a member of the board of directors of Pacific Empire Radio Corporation of Lewiston, Idaho, a member of the board of trustees of The Idaho Heritage Trust, and a member of the State of Idaho Endowment Fund Investment Board. Mr. Taylor also serves on the board of Avista Communications, Inc.

**BOARD OF DIRECTORS OF AVISTA CORP.  
CORPORATE GOVERNANCE GUIDING PRINCIPLES**

**Director Accountability** Directors act as representatives of the shareholders. Directors help define and shape the vision of the corporation, review strategic objectives and business plans, and provide direction and guidance to executive management. Directors strive to ensure that strategies, budgets, forecasts, financial plans, and adequate resources are in place to enable the corporation to meet its objectives. Directors encourage accountability, business excellence, a high-performance environment, and retention of high-caliber people.

**Director Commitment** Directors must commit time outside of Board meetings to understand the business and related issues, to stay updated, and to prepare for Board and committee meetings. Directors must also make themselves available to executive management to provide advice and counsel outside of Board meetings. Directors are expected to attend all meetings of the Board and all meetings of Board committees of which they are members. Directors must sit on at least one Board committee. The Board recognizes that occasional meetings may need to be scheduled on short notice when the participation of a director is not possible. A significant conflict may also arise from time to time that might prevent a director from attending a quarterly meeting. However, it is expected that each director will make every effort to keep such absences to a minimum.

**Director Independence** Directors must exercise unbiased and independent judgment. Directors must be diligent and prudent in overseeing the corporation's business and performance. Directors must be free from any material direct or indirect potential benefit other than as a shareholder. Outside directors allow time in an executive session immediately after each quarterly Board meeting to discuss items of interest or urgency.



**Director Selection** The Board has established guidelines, as well as a position profile, for the recruitment and selection of directors. Among other things, these guidelines are to better prepare the Board to identify corporate needs as director retirements/vacancies occur and as the needs of the business change, as well as to clearly convey what is expected of a Board member. The Board will consist of individuals with the necessary business expertise and professional specialization to allow for success in today's highly competitive business arena and who meet the criteria set forth in the above guiding principles.

**Board Composition** The Board will, as set forth in the Articles of Incorporation, consist of no more than eleven directors and generally only one employee—the Chief Executive Officer—will be a director. Should business reasons dictate, the Board retains the flexibility to increase the number of employee directors. But, in any event, the majority of the Board will always consist of outside directors.

**Board Committees** Each committee of the Board meets at least quarterly. The Chair of each committee reports items discussed by the respective committee to the full Board at each quarterly meeting or more often if deemed necessary. Committee assignments are designed in part to build the skills of directors and the Board as a whole. The committees include members who have special skills relevant to its work. Committee membership is rotated, as appropriate, to address the changing needs of the business and to assist directors in learning the business as a whole. The Board has established certain Board committees as set forth in this proxy statement. Only outside directors sit on the committees of Audit, Finance, Compensation & Organization, and Corporate Governance.

**Board Communications/Access to Management** Senior management regularly attends Board meetings at the invitation of the Board, and directors have access to Company management for information. The Chief Executive Officer provides directors with business updates and related industry information on a monthly basis. In addition, directors receive timely and relevant information on any emerging items of significant interest. Directors and executives strive to ensure that there is a sharing of information between each other that builds an effective partnership and enhances the corporation's opportunity to maximize shareholder value.

**Board Agendas/Materials** The Chairman of the Board and the Chair of each Board committee are actively engaged in setting meeting agendas. In addition, a preliminary agenda is provided to directors in advance of Board and committee meetings for their review and input. Directors are also provided with pertinent background material for their review in advance of meetings.

**Leadership Development/Succession Planning** The Board has charged the Compensation & Organization Committee with establishing succession plans for the Chief Executive Officer and other executive management. The Chief Executive Officer is expected to update the Board at least annually with respect to leadership development and succession plans for executives and other key positions.

**Evaluation of the Chief Executive Officer/Senior Officers** The Compensation & Organization Committee is charged with overseeing an annual evaluation of the Chief Executive Officer. The Committee facilitates the evaluation discussion with the full Board, and provides feedback to the Chief Executive Officer with respect to said evaluation. The Chief Executive Officer is charged with overseeing annual evaluations of executive management and apprising the Board of executive management performance.

**Former Chairman of the Board and/or Chief Executive Officer's Board Membership** When the Chairman and/or the Chief Executive Officer who is an employee and who also serves as a director resigns, a resignation from the Board is required at the same time.

**Director Retirement Age/Term Limits/Performance** The Bylaws of the Company provide that a director who is seventy years of age or more shall retire from the Board effective at the Annual Meeting of Shareholders held in the year in which his/her term expires. The Board has no evidence to suggest that setting term limits has a significant potential to enhance the individual performance/quality of directors. Performance expectations for directors are set forth in the Board member position profile. The Corporate Governance Committee is charged with monitoring overall Board effectiveness.

**Shareholder Confidential Voting** Confidential voting will be used for all matters to be voted upon by shareholders except (1) as necessary to meet any legal requirements, (2) when a shareholder requests disclosure of the shareholder's vote to management, (3) in any dispute regarding authenticity of proxies and ballots, and (4) in the event of a proxy contest if the other party soliciting proxies does not agree to comply with confidential voting.

#### MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors held nine Board meetings in 2001. The average attendance during 2001 at all meetings of the Board and at all Board committee meetings was 99.5 percent.

**AUDIT** The duties and responsibilities of this Committee are set forth in the Committee's charter included in the back of this proxy statement. Only outside directors sit on the Committee. The Committee consists of directors Blake, Clack, Knight and Schmidt Chair. Five meetings were held in 2001.

**FINANCE** Strives to ensure that corporate management has in place strategies, budgets, forecasts and financial plans and programs to enable the Company to meet its goals and objectives. The 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 objectives and take any necessary action; and overseeing and monitoring employee benefit plan investment performance and approving changes in investment policies, managers and strategies. Only outside directors sit on the Committee. The Committee consists of directors Jewell, Meyer and Anderson Chair. Three meetings were held in 2001.

**CORPORATE GOVERNANCE** Advises the Board on corporate governance matters. Such matters include recommending guidelines for the role, composition, and size of the Board, as well as evaluating Board effectiveness and organizational structure. The Committee also develops Board membership criteria and reviews potential director candidates. Recommendations for director nominees are presented to the full Board for approval. Director nominations by shareholders may be submitted in accordance with the procedures set forth below. Only outside directors sit on the Committee. The Committee consists of directors Anderson, Blake, Taylor and Jewell Chair. Four meetings were held in 2001.

**COMPENSATION & ORGANIZATION** Considers and approves compensation and benefits of executive officers of the Company, and reviews compensation and benefits of executive officers of the Company's affiliates. The Committee keeps itself apprised of employee benefit plans overall. The Committee also reviews management proposals with respect to organizational structure and executive personnel and makes recommendations to the full Board, as appropriate. In addition, the Committee oversees succession planning for the Chief Executive Officer, as well as other executive officers and key positions. Only outside directors sit on the Committee. The Committee consists of directors Taylor, Zaloudek and Kelly Chair. Four meetings were held in 2001.

**ENVIRONMENTAL & SAFETY** Assists the Board in monitoring and overseeing the Company's environmental compliance and employee safety performance and provides appropriate policy guidance to executive management on environmental issues. The Committee is responsible to the Board of Directors and reports regularly to the Board on activities of the Committee. The Committee consists of Scott Morris, Senior Vice President and Environmental Compliance Officer of the Company, as well as directors Blake and Clack Chair. Four meetings were held in 2001.

**EXECUTIVE** Has and may exercise, when the Board is not in session, all the powers of said Board which may be lawfully delegated, subject to such limitations as may be provided in the Bylaws or by resolutions of the Board. Generally, such action would only be taken to expedite Board authorization for certain corporate business matters when it is not timely or practical for the entire Board to meet. The Committee consists of directors Blake, Clack, Taylor and Ely Chair. No meetings were held in 2001.

### **DIRECTOR NOMINATIONS**

The Corporate Governance Committee will consider written recommendations for the Board of Directors that are made by shareholders. Recommendations must include detailed biographical material indicating the qualifications the candidate would bring to the Board, and must include a written statement from the candidate of willingness and availability to serve. While recommendations may be considered at any time, recommendations for a specific Annual Meeting must be received by December 1 of the preceding year. Recommendations should be directed to the Vice President & Corporate Secretary of the Company, 1411 East Mission Avenue, P.O. Box 3727, Spokane, Washington 99220. Shareholders may only nominate directors for election at meetings of shareholders in accordance with the procedures set forth in the Bylaws of the Company.

### **DIRECTOR COMPENSATION**

During 2001, directors who were not employees of the Company received an annual retainer of \$30,000. Of that amount, two-thirds was paid automatically in Company Common Stock pursuant to provisions of the Non-Employee Director Stock Plan. Directors are also paid \$1,200 for each meeting of the Board of Directors or any committee meeting of the Board. Directors who serve as Board committee chairs and, therefore, have added responsibility and time requirements associated with Board membership receive an additional \$4,000 annual retainer. Erik Anderson, Chair of the Finance Committee, received a one-time payment of \$20,000 for the extraordinary additional time and effort he expended in 2001 in providing support to the Company. In addition, any non-employee director who also serves as director of a subsidiary of the Company receives from the Company a meeting fee of \$1,200 for each subsidiary board meeting they attend. Directors Blake, Meyer, Schmidt, and Taylor hold board positions with subsidiaries of the Company.

Outside directors also receive an annual, non-qualified stock option grant of 3,000 shares following each year's annual meeting in accordance with the Non-Employee Director Stock Option Program. Stock options granted under this plan are reflected in the Security Ownership of Management Table. The stock options are granted at 100% of fair market value, which assures that directors receive a benefit only when the stock price increases.

The Board of Directors has set a stock ownership expectation for all members of the Board. Directors are expected to achieve a minimum investment of \$100,000 in Company Common Stock within five years of their becoming a Board member and retain that level of investment during their tenure as Board members. This guideline, the Non-Employee Director Stock Plan, and the Non-Employee Director Stock Option Program illustrate the Board's philosophy of increased stock ownership for all members of the Board in order to further strengthen the commonality of interest between the Board of Directors and shareholders.

### SECURITY OWNERSHIP OF MANAGEMENT

The following table shows the number of shares of Common Stock of the Company held beneficially, as of March 1, 2002, by the directors, any nominee for director, each of the executive officers named in the Summary Compensation Table, and directors and executive officers as a group. No director or executive officer owns any of the Company's Preferred Stock. Also, directors and executive officers as a group do not own in excess of 1% of the outstanding Common Stock of the Company. And, no director or executive officer owns, nor do the directors and executive officers as a group own, in excess of 1% of the stock of any indirect subsidiaries of the Company.

Name	Amount and Nature of Beneficial Ownership				
	Direct	Indirect	Number of Shares Underlying Options Exercisable Within 60 Days(1)	Number of Shares Underlying Other Options(1)	Total
Erik J. Anderson	1,136		1,500	1,500	4,136
Kristianne Blake	1,560		3,000	3,000	7,560
David A. Brukardt	100	1,559(2)	20,175	46,425	68,259
David A. Clack	8,402	10,256(3)	6,000	3,000	27,658
Jon E. Eliassen(4)	7,966	14,728(5)	25,375	66,125	114,194
Gary G. Ely	7,098	71,353(6)	51,875	240,625	370,951
Roy Lewis Eiguren	830				830
Robert D. Fukai (Resigned 10/19/01)	6,888	12,735(5)			19,623
Sarah M. R. (Sally) Jewell	6,637		6,000	3,000	15,637
John F. Kelly	4,526		6,000	3,000	13,526
Jessie J. Knight, Jr.	3,848		6,000	3,000	12,848
David J. Meyer	10,922(7)	9,531(8)	40,375	71,125	131,953
Eugene W. Meyer(9)(11)	7,423	12,880(10)	6,000	3,000	29,303
Scott L. Morris	229	4,520(5)	11,175	57,325	73,249
Bobby Schmidt	31,039		6,000	3,000	40,039
R. John Taylor	11,188	9,243(12)	6,000	3,000	29,431
Daniel J. Zaloudek(11)	4,407		6,000	3,000	13,407
All directors and executive officers as a group, including those listed above 23 individuals	115,800	186,244	264,500	674,700	1,241,244

- (1) Avista Corp. Common Stock options granted under the Long-Term Incentive Plan. Options reflected in the Other Options column are not exercisable within sixty days.
- (2) Includes 570 shares held in an IRA account, 850 shares held in the Company's 401(k) Investment Plan and 139 shares held in the Executive Deferral Plan.
- (3) Includes 2,000 shares held in the name of Clack & Co., 7,500 shares held in an IRA account, and 756 shares held by Mr. Clack's spouse.
- (4) Mr. Eliassen has announced his intention to retire in 2003 after almost 33 years of service. Upon his retirement, any unvested Avista Corp. common stock options will immediately vest and become exercisable in full (with the exception of any options granted on 11/8/01 that have not vested) and reflected under the Option Grants in 2001 table included in this proxy statement. Mr. Eliassen will have three years from the date of his retirement to exercise the options. Mr. Eliassen also holds 730 exercisable stock options of Bay Area Manufacturing, an indirect subsidiary of the Company.
- (5) Shares held in the Company's 401(k) Investment Plan.
- (6) Includes 34,442 shares held in the Company's 401(k) Investment Plan and 36,911 shares held in the Executive Deferral Plan.

- (7) Includes 2,730 restricted shares of Company Common Stock.
- (8) Includes 3,788 shares held in the Company's 401(k) Investment Plan and 5,743 shares held in an IRA account.
- (9) Holds 730 exercisable stock options of Bay Area Manufacturing, an indirect subsidiary of the Company.
- (10) Includes 600 shares held by Mr. Meyer as custodian for his son and 12,280 shares held in an IRA account.
- (11) Mr. Meyer and Mr. Zaloudek are not standing for re-election.
- (12) Includes 4,000 shares held in an employee benefit plan not administered by the Company for which Mr. Taylor shares voting and investment power; 454 shares held by Mr. Taylor's spouse of which shares he disclaims beneficial ownership; and 876 shares held by Mr. Taylor as custodian for his children. Also includes 3,913 shares for which Mr. Taylor has deferred receipt to a later date in accordance with the provisions of the Non-Employee Director Stock Plan.

#### **OTHER SECURITY OWNERSHIP**

As of March 1, 2002, the following was known by the Company to be the beneficial owner of more than 5% of the outstanding shares of the Company's Common Stock:

William H. Gates III 3,187,500 shares, or 6.7%, of the outstanding Common Stock  
Mr. Gates, One Microsoft Way, Redmond, WA 98052 and Cascade Investments, LLC have shared voting power and shared investment power as to all 3,187,500 shares. Mr. Gates is the sole member of Cascade Investments, LLC.

#### **SECTION 16(a) BENEFICIAL OWNERSHIP COMPLIANCE REPORTING**

Section 16 of the Securities Exchange Act of 1934, as amended, requires that officers, directors, and holders of more than 10% of the Common Stock file reports of their trading in Company equity securities with the Securities and Exchange Commission (SEC). Based solely on a review of Forms 3, 4, and 5 furnished to the Company during 2001, the Company believes that all Section 16 filing requirements applicable to the Company's reporting persons were completed in a timely manner except for a purchase of 400 shares by Vice President David A. Brukardt in 2001, which was inadvertently not reported on a timely basis. This transaction was subsequently reported to the SEC in accordance with the rules.

#### **EXECUTIVE COMPENSATION BOARD COMPENSATION & ORGANIZATION COMMITTEE REPORT**

To Shareholders:

The Compensation & Organization Committee of the Board of Directors (the Committee) reviews and approves compensation and benefit levels for executive officers. The Committee also establishes specific strategic corporate performance goals, which correspond to short-term and long-term compensation opportunities for executive officers. The Committee is comprised of Board members who are not employees of the Company.

The primary objective in establishing compensation opportunities for executive officers is to support the Company's goal of maximizing the value of shareholders' interests. To achieve this objective, the Committee believes it is critical to:

Hire, develop, reward, and retain the most competent executives possible by providing compensation opportunities which are competitive in the marketplace.

Tie a significant portion of pay to performance so that rewards vary with the achievement of annual and longer-term results.

Promote a close identity of interest between management and shareholders and encourage decision-making that enhances shareholder value. The Committee believes that this objective is best achieved by tying incentive opportunities to the attainment of corporate and individual goals and through regular grants of stock options.

Section 162(m) of the Internal Revenue Code of 1986, as amended, generally limits the deductibility of non-performance-based compensation in excess of \$1 million paid in any one year to the chief executive officer and the other four highest-paid executive officers. The Long-Term Incentive Plan was designed to meet the requirements of performance-based compensation under Section 162(m). When consistent with its compensation philosophy and objectives, the Committee intends to structure compensation plans so that all compensation expense is deductible for tax purposes.

### **Components of Compensation**

As indicated, the Committee believes that executive officer compensation should be closely aligned with the performance of the Company, and that such compensation should assist in attracting and retaining key executives critical to the Company's long-term success. To that end, the Committee's philosophy is that the total compensation program should consist of an annual base salary, an annual incentive (the amount of which is dependent on corporate and individual performance), and long-term incentives (e.g., stock options and performance-based stock opportunities).

The Committee considers but does not target executive officer compensation at the median of similarly situated executives at the Company's competitors. Rather, the Committee believes that its total compensation opportunities for executive officers must provide compensation potential to attract and retain executive officers that possess the necessary talent and skill to further the Company's success.

#### **Base Salary**

The Committee reviews each executive officer's base salary at least annually. The factors that influence Committee decisions regarding base salary include: levels of pay among executives in the utility and diversified energy industry, internal pay-equity considerations, level of responsibilities and job complexity, prior experience, breadth of knowledge, and job performance, including the Committee's subjective judgment as to individual contribution. The Committee considers some or all of these factors as appropriate; there are no formal weightings given to any factor. Based on these factors, the Committee granted executive officers, other than the CEO, base salary increases, effective March 1, 2001, that ranged from 0% to 24% the median increase was 5.1%.

In light of the Company's financial condition in 2001, the CEO, the other executive officers, as well as other senior management, voluntarily took 15% salary reductions from September 1 through December 31.

#### **CEO Compensation**

Gary G. Ely has been Chairman of the Board of the Company since May 11, 2001 and has been President and CEO of the Company since November 10, 2000. Mr. Ely's extensive experience, business and industry expertise, and leadership abilities have been critical to the Company's progress in 2001 and to restoring its financial stability. The Committee engages an external consulting firm to conduct an annual review of total compensation levels and data for CEO's in the utility and diversified energy industry to determine appropriate base salary and long and short-term incentives. The Committee utilized that data, the factors outlined above under Base Salary, and also took into consideration that Mr. Ely's responsibilities include both electric and gas utility operations, as well as diverse subsidiary operations. In addition, the Company operates in several states, thereby requiring quality relationships and interaction with multiple regulatory agencies. The Committee determined (and the full

Board concurred) that, effective March 1, 2001, the appropriate base salary for Mr. Ely should be \$500,000, which reflects the midpoint level of the market. As previously noted, in light of the Company's financial condition in 2001, Mr. Ely voluntarily took a 15% salary reduction from September 1 through December 31, 2001. Mr. Ely, as well as the other executive officers, did not receive an incentive award under the Executive Incentive Compensation Plan as outlined below. Mr. Ely did receive stock option grants under the Long-Term Incentive Compensation Plan as set forth in the Option Grants Table.

**Annual Incentive Compensation**

The 2001 Executive Incentive Compensation Plan provided the opportunity for executive officers to earn an annual incentive based on corporate performance. The Committee established the target amount as a specified percentage of each executive officer's salary. The target bonus percentages ranged from 40% to 80% of base salary depending on position. In the event that certain corporate performance goals were achieved, executive officers would have been entitled to receive the full award. In the event that certain performance goals were exceeded, executive officers would have been entitled to receive up to 150% of their target bonus percentage.

The Committee establishes performance measures annually. In 2001, the Committee approved a plan based on achieving a utility net income target and achieving a target of corporate net income available for Common Stock. Above a minimum threshold for either target, the Company would allocate amounts to an incentive pool. Awards would be paid if either threshold were achieved. If the minimum threshold targets were achieved, 50% of the bonus amounts would be allocated to the pool. Additional amounts would be allocated to the pool at incremental higher targets, up to 150% of the bonus amounts. Out of the incentive pool, actual awards to executives would be based on achievement of predetermined initiatives. No awards were made to executive officers under the 2001 Executive Incentive Compensation Plan as threshold targets were not met.

**Long-Term Incentive Compensation**

The primary objective of the Long-Term Incentive Plan is to link management compensation with the long-term interests of shareholders. The Committee establishes a target level of stock options for each executive officer position. The target level is based on competitive data reflecting the estimated median value of the annual long-term compensation opportunity for similar positions in the utility industry. In determining actual annual stock option grants, the Committee also considers individual performance and the potential contribution to the Company's success. Stock options granted under this plan in 2001 to the named executive officers are reflected in the Summary Compensation Table. Each option has an exercise price equal to the fair market value of the underlying share on the option grant date, which assures that executives receive a benefit only when the stock price increases.

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

John F. Kelly Chair

R. John Taylor

Daniel J. Zaloudek

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation(1)		Long-Term Compensation(1)			
		Salary(\$)	Bonus\$(5)	Awards		Payouts	
				Restricted Stock Awards(2)	Shares Underlying Options(4)	Long-Term Incentive Payouts(\$)	All Other Comp.(\$)
G. G. Ely	2001	\$ 472,558			195,000		\$ 31,415(3)
Chairman of the Board, President & Chief Executive Officer	2000	\$ 304,077	\$ 136,500		50,000		\$ 28,906
	1999	\$ 268,077			35,000		\$ 9,524
D. J. Meyer	2001	\$ 230,307			35,000		\$ 26,031(3)
Senior Vice President & General Counsel	2000	\$ 240,000	\$ 60,000		24,000		\$ 12,531
	1999	\$ 240,000			20,000		\$ 21,678
J. E. Eliassen	2001	\$ 231,330			35,000		\$ 19,748(3)
Senior Vice President & Chief Financial Officer	2000	\$ 237,600	\$ 59,400		24,000		\$ 26,093
	1999	\$ 234,215			20,000		\$ 22,652
S. L. Morris	2001	\$ 174,734			35,000		\$ 19,799(3)(6)
Senior Vice President	2000	\$ 136,729	\$ 35,000		26,000		\$ 12,340
	1999	\$ 103,083			3,800		\$ 13,578
D. A. Brukardt	2001	\$ 157,377			12,000		\$ 9,382(3)
Vice President	2000	\$ 153,469	\$ 36,900		28,500		\$ 5,692
	1999	\$ 51,308	\$ 45,000(7)		26,100		
R. D. Fukai	2001	\$ 164,556					\$ 347,856(3)(8)
Vice President (Resigned 10/19/01)	2000	\$ 192,820	\$ 33,744		11,000		\$ 32,709
	1999	\$ 192,820			15,000		\$ 37,459

## Notes to Summary Compensation Table:

- (1) Includes any amounts deferred pursuant to the Executive Deferral Plan. This plan allows executive officers the opportunity to defer until their retirement or until their earlier termination, disability or death, up to 75% of their base salary and/or up to 100% incentive/bonus cash payments. Accumulated deferred compensation is credited with earnings at a non-preferential rate.
- (2) As of December 31, 2001, D. J. Meyer held 2,730 shares of restricted stock valued at \$36,200. Dividends are paid on all restricted Common Stock at the same rate as paid on the Company's Common Stock.
- (3) Includes employer contributions under both the Executive Deferral Plan and the Investment and Employee Stock Ownership Plan (401(k) plan), pursuant to which the Company matches 75% of each executive officer's deferral up to 6% of salary. Also includes payments for unused, paid time-off accrued under the Company's One-Leave Program. Amounts for 2001 under the Deferral Plan were: Ely \$6,034; Meyer \$3,150; Eliassen \$3,042; Morris \$0; Brukardt \$1,214; Fukai \$1,027. Amounts for 2001 under the 401(k) plan were: Ely \$7,650; Meyer \$7,650; Eliassen \$7,650; Morris \$7,650; Brukardt \$6,972; Fukai \$7,650. Amounts for 2001 under the One-Leave Program were: Ely \$17,731 (80 hrs.); Meyer \$15,231 (155 hrs.); Eliassen \$9,056 (80 hrs.); Morris \$3,329 (40 hrs.); Brukardt \$1,196 (16 hrs.); Fukai \$44,881 (532 hrs.).
- (4) Avista Corp. Common Stock options granted under the Long-Term Incentive Plan.
- (5) Cash awards made to certain executive officers for 2000 performance.
- (6) Includes relocation expense of \$8,820 paid to S. L. Morris.
- (7) A signing bonus awarded to D. A. Brukardt upon his employment with the Company on July 29, 1999.
- (8)



## Edgar Filing: AVISTA CORP - Form DEF 14A

Includes amounts received in accordance with Mr. Fukai's severance agreement, including severance of \$195,000, payable in 12 monthly installments, \$8,034 representing the value of 12 months' continued participation in the medical plan at active employee rates, and \$91,264 representing the present value of the increase in Mr. Fukai's Supplemental Executive Retirement Plan (SERP) benefit resulting from crediting him with three additional years of age.

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**OPTION GRANTS IN 2001 OF AVISTA CORP.**
**Individual Grants**

<u>Name</u>	<u>Number of Shares Underlying Options Granted(#)(1)</u>	<u>% of Total Options Granted to Employees in Fiscal Year</u>	<u>Exercise or Base Price (Per Share)</u>	<u>Expiration Date</u>	<u>Grant Date Present Value(2)</u>
G. G. Ely	50,000	6.39%	\$ 16.48	02/09/11	\$ 423,656
G. G. Ely	145,000	18.54%	\$ 11.80	11/08/11	\$ 758,989
J. E. Eliassen	35,000	4.48%	\$ 11.80	11/08/11	\$ 183,204
D. J. Meyer	35,000	4.48%	\$ 11.80	11/08/11	\$ 183,204
S. L. Morris	35,000	4.48%	\$ 11.80	11/08/11	\$ 183,204
D. A. Brukart	12,000	1.53%	\$ 11.80	11/08/11	\$ 62,813
R. D. Fukai	0	0	0	0	0

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- (1) Options granted in 2001 are exercisable starting one year after the grant date, with 25 percent of the shares becoming exercisable at that time, and with an additional 25 percent of the options becoming exercisable on each of the three successive anniversary dates. Options will generally vest and become exercisable in full immediately prior to the effective date of a change of control. The options were granted for a term of ten years. No options granted under the Long-Term Incentive Plan may be assigned or transferred by the holder other than by will or by the applicable laws of descent and distribution.
- (2) The estimated grant date present value reflected in the above table is determined using the Black-Scholes model. The material assumptions incorporated in the Black-Scholes model in estimating the value of the options include the following: An exercise price on the option grants of \$16.48 and \$11.80, the exercise price being equal to the fair market value of the underlying stock on the grant dates. Volatility of 59.22 and 60.48 percent calculated using month-end stock prices for the 36-month period prior to the grant dates. An interest rate of 5.10 and of 4.32 percent representing the interest rate on a U.S. Treasury strip with a maturity date corresponding to that of the option term. Dividends at the rate of \$0.48 per share representing the annualized dividend paid with respect to a share of Common Stock at the date of grant. The options were granted for a term of ten years. The ultimate value of the options will depend on the future market price of the Company's Common Stock. The actual value an optionee will realize, if any, upon exercise of an option will depend on the excess of the market value of the Company's Common Stock over the exercise price on the date the option is exercised.

**AGGREGATED OPTION EXERCISES IN  
LAST FISCAL YEAR AND FY-END OPTION VALUES  
OF AVISTA CORP. AND AN INDIRECT SUBSIDIARY(1)**

<u>Name</u>	<u>Shares Acquired on Exercise(#)</u>	<u>Value Realized(\$)</u>	<u>Number of Shares Underlying Unexercised Options at FY-End (#)</u>		<u>Value of Unexercised In-the-Money Options at FY-End(\$)</u>	
			<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
G. G. Ely	0	0	39,375	253,125	0	\$ 211,700
J. E. Eliassen	0	0	25,375	66,125	0	\$ 51,100
J. E. Eliassen	0	0	730(2)	0	0	0
D. J. Meyer	0	0	40,375	71,125	0	\$ 51,100
S. L. Morris	0	0	11,175	57,325	0	\$ 51,100
D. A. Brukardt	0	0	20,175	46,425	0	\$ 17,520
R. D. Fukai	0	0	7,800(3)	0	0	0

- (1) No option grants of any of the Company's indirect subsidiaries were made to any executive officers of the Company in 2001.
- (2) Bay Area Manufacturing stock options valued at \$0 per share (\$36.55 exercise price).
- (3) Options expired January 20, 2002.

**PENSION PLAN TABLE**

Remuneration	Years of Credited Service			
	15	20	25	30
\$175,000	\$ 65,625	\$ 87,500	\$ 109,375	\$ 131,250
\$200,000	\$ 75,000	\$ 100,000	\$ 125,000	\$ 150,000
\$225,000	\$ 84,375	\$ 112,500	\$ 140,625	\$ 168,750
\$250,000	\$ 93,750	\$ 125,000	\$ 156,250	\$ 187,500
\$300,000	\$ 112,500	\$ 150,000	\$ 187,500	\$ 225,000
\$400,000	\$ 150,000	\$ 200,000	\$ 250,000	\$ 300,000
\$450,000	\$ 168,750	\$ 225,000	\$ 281,250	\$ 337,500
\$500,000	\$ 187,500	\$ 250,000	\$ 312,500	\$ 375,000
\$550,000	\$ 206,250	\$ 275,000	\$ 343,750	\$ 412,500
\$600,000	\$ 225,000	\$ 300,000	\$ 375,000	\$ 450,000
\$650,000	\$ 243,750	\$ 325,000	\$ 406,250	\$ 487,500
\$700,000	\$ 262,500	\$ 350,000	\$ 437,500	\$ 525,000
\$750,000	\$ 281,250	\$ 375,000	\$ 468,750	\$ 562,500

The table above reflects benefits pursuant to the Retirement Plan for Employees and the Supplemental Executive Retirement Plan. The Company's Retirement Plan for Employees provides a retirement benefit based upon employees' compensation and years of credited service. Earnings credited for retirement purposes represent the final average annual base salary earnings of the employee for the highest 36 consecutive months during the last 120 months of service with the Company. Base salary for the named executive officers is the amount under Total Salary in the Summary Compensation Table.

The Supplemental Executive Retirement Plan (SERP) provides additional pension benefits to executive officers of the Company, who have attained the age of 55 and a minimum of 15 years of credited service with the Company. The plan is intended to provide benefits to executive officers whose pension benefits under the Company's Retirement Plan are reduced due to the application of Section 415 of the Internal Revenue Code of 1986 and the deferral of salary pursuant to the Executive Deferral Plan. When combined with the Retirement Plan, the plan will provide benefits to executive officers, who retire at age 62 or older, of 2.5 percent of the final average annual base earnings during the highest 60 consecutive months during the last 120 months of service for each credited year of service up to 30 years. When combined with the Retirement Plan, the plan will provide benefits to the Chief Executive Officer, who retires at age 65, of 3 percent of final average base earnings during the highest 36 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.

Benefits for both plans are calculated based on a straight-life annuity, paid on a monthly basis, and are not subject to reduction for offset amounts. Years of Company service and credited service for listed executive officers are shown below. (SERP participants may only earn a maximum of 30 years of credited service.)

Name	Years of Company Service	Years of Credited Service (SERP)
G. G. Ely	35	30
D. J. Meyer(1)	3	23
J. E. Eliassen	31	30
S. L. Morris	20	20
D. A. Brukardt	2	2
R. D. Fukai	29	29

(1) In accordance with Mr. Meyer's employment agreement as described in this proxy statement, Mr. Meyer was granted 20 years of credited service upon his employment.

## CHANGE OF CONTROL AGREEMENTS AND OTHER COMPENSATORY PLANS

### Change of Control Agreements

The Company has Change of Control Agreements with all of the named executive officers, with the exception of Mr. Fukai whose agreement terminated with his resignation from the Company. The agreements will provide compensation and benefits to the named executive officers in the event of a change of control of the Company. Pursuant to the terms of the agreements, the named executive officers agree to remain in the employ of the Company for three years following a change of control of the Company, and will receive an annual base salary equal to at least 12 times the highest monthly base salary paid to such executive officer in the 12 months preceding the change of control. In addition to the annual base salary, each named executive officer will receive an annual bonus at least equal to such executive officer's highest bonus paid by the Company for the three fiscal years preceding the change of control (the "Recent Annual Bonus"). If employment is terminated by the Company for other than Cause or by such executive officer for Good Reason during the first three years after a change of control, the executive officer will receive the base salary due to such executive officer. In addition, the executive officer will receive a proportionate bonus based upon the higher of the Recent Annual Bonus and the executive officer's annual bonus for the last fiscal year (the "Highest Annual Bonus"), together with an amount equal to three times the sum of the base salary and the Highest Annual Bonus. The executive officer will also receive all unpaid deferred compensation and vacation pay, may continue to receive employee welfare benefits for three years from the date of termination, and may receive outplacement assistance. The executive officer will also be entitled to a lump sum payment equal to the actuarial present value of the benefit under the Company's retirement plans that the executive officer would have received if the executive officer had remained in the employ of the Company for three years after the date of termination. If any payments to the executive officer would be subject to the excise tax on excess parachute payments imposed by section 4999 of the Internal Revenue Code, the agreements also provide that the 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. If payments (other than the gross-up payment) to the executive officer do not exceed 110% of the maximum amount the executive officer could receive without triggering the excise tax, the payments to the executive officer will be reduced to that maximum amount and the executive officer will not receive a gross-up payment.

### Employment Agreement D. J. Meyer

The Company entered into an employment agreement with Mr. Meyer, effective September 16, 1998, pursuant to which the Company agreed to employ Mr. Meyer as Senior Vice President and General Counsel for a period of five years and continuing thereafter on a year-to-year basis, unless terminated by written notice delivered to Mr. Meyer not less than twelve months prior to any anniversary date following the initial five-year term. Alternatively, the Company may terminate the agreement without cause at any time upon 20 days' notice and payment of severance. The employment agreement entitles Mr. Meyer to receive an annual base salary of \$240,000 subject to increases, if any, as determined by the Board. The agreement also provides that Mr. Meyer shall be entitled to participate in the Company's employee benefit plans generally available to executive officers and is also entitled to not less than 30 days paid leave pursuant to the Company's One-Leave Program. In addition, Mr. Meyer was credited with 20 years of pension benefit service and will be entitled to a supplemental retirement pension benefit calculated at 2.5 percent of the final average annual base earnings during the highest 60 consecutive months during the last 120 months of service for each credited year of service. Under the agreement, Mr. Meyer was also afforded the following: (1) A signing bonus of \$200,000. In the event that Mr. Meyer terminates his employment with the Company, other than for good reason as defined in the employment agreement, Mr. Meyer would be required to repay that amount of the signing bonus proportionate to the period of time remaining prior to the expiration of the agreement. (2) An award of restricted shares of the Company's Common Stock having a fair market value on September 16, 1998, equal to \$200,000, which award vests at the rate of 25 percent on each of the first four anniversaries of the agreement. (3) An option to purchase 20,000 shares of Company Common Stock, with an exercise price equal to the fair market value on September 16, 1998.

#### **Severance Agreement R. D. Fukai**

In 2001, the Company implemented certain cost-reduction initiatives which, among other things, included salary reductions for executive officers and other senior management, as well as organizational changes to reduce management and staff positions. As a result, the Company reallocated certain executive officer responsibilities eliminating one executive officer position in 2001. To allow for an efficient and timely implementation of the organizational realignment, the Company and Mr. Fukai agreed that he would resign as an executive officer, effective October 19, 2001, and receive severance and an early retirement benefit. He will receive severance of one year's base salary totaling \$195,000, payable in twelve monthly installments, and medical coverage for twelve months on the same term as active employees. After receiving the severance payments, he will begin receiving a monthly Supplemental Executive Retirement Plan (SERP) benefit of \$2,093, calculated after giving him credit for additional years of age, so that he will be deemed age 55 for purposes of determining the amount and timing of SERP distributions. Beginning at the same time as his SERP payments, he will also participate in the retiree medical plan. Mr. Fukai, age 52, was an employee for 29 years and had served as a Vice President since 1985.

#### **Supplemental Executive Disability Plan**

The Supplemental Executive Disability Plan provides specified benefits to executive officers of the Company who become disabled so as to be unable to perform any and every duty of his or her occupation. The plan provides a benefit equal to 60 percent of the executive officer's base annual salary at the date of disability reduced by the aggregate amount, if any, of disability benefits provided for under the Company's Long-Term Disability Plan for employees, workers' compensation benefits, and any benefit payable under provisions of the Federal Social Security Act. Benefits will be payable until the earlier of the executive officer's date of retirement or age 65.

#### **Executive Income Continuation Plan**

In order to provide benefits to the beneficiaries of executive officers who die during their term of office or after retirement, the Company has adopted an Executive Income Continuation Plan. Under the plan, an executive officer's designated beneficiary will receive, as elected by the executive officer, either (a) a lump sum equal to twice the executive officer's annual base salary at the time of death (or if death occurs after retirement, a lump sum equal to twice the executive officer's annual pension benefit) or (b) one quarter of such sum paid in each year over a ten-year period commencing within thirty days of the executive's death.

**PERFORMANCE GRAPH**

**Comparison of Five Year Cumulative Total Returns Avista Corp. vs. Industry Indexes**

Assumes \$100 was invested in AVA and each index on December 31, 1996 and that all dividends were reinvested when paid.

	<u>12/31/97</u>	<u>12/31/98</u>	<u>12/31/99</u>	<u>12/31/00</u>	<u>12/31/01</u>
Avista Corp.	\$ 139.16	\$ 116.07	\$ 95.75	\$ 129.93	\$ 86.63
Standard & Poor's 500 Index	\$ 133.36	\$ 171.48	\$ 207.56	\$ 188.66	\$ 166.24
S & P Electric Co MidCap	\$ 127.16	\$ 146.82	\$ 124.38	\$ 168.89	\$ 151.04

- (1) The S & P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation.
- (2) The Standard & Poor's MidCap 400 Electric Companies Index. The Index currently includes 23 MidCap electric utility companies.

NOTE: The stock performance shown in the graph is not necessarily indicative of future price performance.

### APPOINTMENT OF INDEPENDENT AUDITORS

The Board of Directors appoints the independent auditors that audit the financial statements of the Company. It is anticipated that the Board of Directors will formally appoint the independent auditors for continuing audit work in 2002 at their next Board meeting. Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, Deloitte & Touche), currently serves as such independent auditors, has conducted consolidated annual audits of the Company for many years, and is one of the world's largest firms of independent certified public accountants. A representative of Deloitte & Touche is expected to attend the Annual Meeting with the opportunity to make a statement if he/she desires to do so, and is expected to be available to respond to appropriate questions.

### AUDITORS FEES

**Audit Fees:** The fees for professional services rendered by Deloitte & Touche in connection with their audit of the Company's consolidated financial statements and reviews of the consolidated financial statements included in the Company's Quarterly Reports on Form 10-Q for the 2001 fiscal year were approximately \$994,000.

**Financial Information Systems Design and Implementation Fees:** There were no professional services rendered by Deloitte & Touche in the 2001 fiscal year relating to financial information systems design and implementation.

All other fees: The fees for all other services rendered by Deloitte & Touche in the 2001 fiscal year were as follows:

**Attestation Fees:** The fees for attestation services rendered by Deloitte & Touche for matters such as comfort letters related to the Securities and Exchange Commission and other registration statements, agreed-upon procedures, and consultation on accounting standards were approximately \$304,000.

**Other Fees:** The fees for all other services, such as consultation related to tax planning and compliance, assistance with regulatory matters, and consultation regarding risk management activities rendered by Deloitte & Touche in the 2001 fiscal year were approximately \$173,000.

### AUDIT COMMITTEE REPORT

In accordance with its written charter adopted by the Board of Directors (the Board), the Audit Committee (the Committee) of the Board assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company. The charter is included in the back of this proxy statement.

The Committee is composed of independent directors as defined by the rules of the New York Stock Exchange. In 2001, the Committee met five times. In addition, the Committee discussed the quarterly Form 10-Q's filed with the Securities and Exchange Commission.

The Committee obtained from Deloitte & Touche LLP, the Company's independent auditors, the written disclosures and letter as required by the Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and has discussed with that firm any relationships that might impact their objectivity and independence. The Committee also discussed with management, the internal auditors and the independent auditors the quality and adequacy of the Company's internal controls and the internal audit function's organization, responsibilities, budget and staffing. The Committee reviewed with both the independent and the internal auditors their audit plans, audit scope and identification of audit risks.



The Committee discussed and reviewed with the independent auditors all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, Communication with Audit Committees and, with and without management present, discussed and reviewed the results of the independent auditors' examination of the financial statements. The Committee also discussed the results of the internal audit examinations.

The Committee reviewed the audited financial statements of the Company for the fiscal year ended December 31, 2001, with management and the independent auditors. Management has the responsibility for the preparation of the Company's financial statements and the independent auditors have the responsibility for the examination of those statements.

Based on the above-mentioned review and discussions, the Committee recommended to the Board that the Company's audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2001, for filing with the Securities and Exchange Commission. The Committee also recommended the reappointment in 2001 of Deloitte & Touche LLP and the Board concurred in such recommendation.

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

Kristianne Blake  
David A. Clack

Jessie J. Knight, Jr.  
Bobby Schmidt Chair

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

A copy of the Company's 2001 Annual Report to Shareholders and the 2001 Financial Report accompanies this Proxy Statement.

**OTHER BUSINESS**

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

**2003 ANNUAL MEETING OF SHAREHOLDERS**

The 2003 Annual Meeting of Shareholders is tentatively scheduled for Thursday, May 8, 2003, in Spokane. (This date and location are subject to change.) Matters to be brought before that meeting by shareholders are subject to the following rules of the Securities and Exchange Commission (SEC).

**Proposals to be Included in Management's Proxy Materials**

Shareholder proposals to be included in management's proxy soliciting materials must generally comply with SEC rules and must be received by the Company on or before November 30, 2002.

**Other Proposals**

Proxies solicited by the Board of Directors will confer discretionary authority to vote on any matter brought before the meeting by a shareholder (and not included in management's proxy materials) if the shareholder does not give the Company notice of the matter on or before February 13, 2003. In addition, even if the shareholder does give the Company notice on or before February 13, 2003, management's proxies generally will have discretionary authority to vote on the matter if its proxy materials include advice on the nature of the matter and how the proxies intend to exercise their discretion to vote on the matter.

Shareholders should direct any such proposals and notices to the Vice President and Corporate Secretary of the Company at 1411 East Mission Avenue, P.O. Box 3727, Spokane, Washington 99220.

**EXPENSE OF SOLICITATION**

The expense of soliciting proxies will be borne by the Company. Proxies will be solicited by the Company primarily by mail, but may also be solicited personally and by telephone at nominal expense to the Company by directors, officers, and regular employees of the Company. In addition, the Company has engaged Georgeson Shareholder at a cost of \$4,500, 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 2001 Annual Report to Shareholders and the Financial Report to the beneficial owners of such stock, and the Company will reimburse such record holders for their expenses in connection therewith.

By Order of the Board of Directors

Terry L. Syms  
Vice President & Corporate Secretary

Spokane, Washington  
March 29, 2002

**AVISTA CORP.  
AUDIT COMMITTEE CHARTER**

**Organization**

There shall be a committee of the Board of Directors (the Board) to be known as the Audit Committee (the Committee) that will meet at least quarterly or more frequently as circumstances require. The Committee shall consist of not less than three members and be composed of directors who are able to satisfy the independence requirements of the New York Stock Exchange. In addition, all Committee members must be financially literate and at least one member shall have accounting or related management experience both as may be determined, from time to time, by the Board in the exercise of its business judgment.

**Statement of Policy**

The Committee shall provide assistance to the Board in fulfilling its responsibility to the shareholders and investment community relating to corporate accounting, reporting practices of the Company, and the quality and integrity of the financial reports of the Company. In so doing, it is the responsibility of the Committee to maintain free and open communication among the directors, the independent auditors, the internal auditors, and the management of the Company.

It is recognized that: (i) the independent auditor for the Company is ultimately accountable to the Board and to the Committee; (ii) the Committee and Board have the ultimate authority and responsibility to select, evaluate and, where appropriate, replace the independent auditor; (iii) the Committee is responsible for ensuring that the independent auditor submits on a periodic basis to the Committee a formal written statement delineating all relationships between the auditor and the Company; and (iv) the Committee is responsible for actively engaging in a dialogue with the independent auditor with respect to any disclosed relationships or services that might impact the objectivity and independence of the independent auditor or for recommending that the Board take appropriate action in response to the independent auditors' report to satisfy itself of the independent auditors' independence.

The Committee shall have the authority to retain special legal, accounting or other consultants to advise the Committee. The Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

**Responsibilities**

The Committee's primary responsibilities include:

Review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

Review and recommend to the directors the independent auditors to be selected to audit the financial statements of the Company and its divisions and subsidiaries.

Approve material non-audit services to be provided by the independent auditors and determine such services are compatible with maintaining the auditors' independence.

Meet with the independent auditors before the audit to review the independent auditors' engagement letter and proposed audit fees.

Review periodically with management, independent auditors and internal auditors the Company's significant financial risk exposures, and the steps management has taken to monitor and control such exposures.

Review quarterly with the Company's General Counsel legal matters, material reports or inquiries received from regulators or governmental agencies that may, as determined by management and General Counsel, have a material impact on the Company's financial condition, results of operations or compliance policies.

Review quarterly with management and the independent auditors the Company's subsidiaries compliance with legal and accounting rules and regulations.

Discuss with the independent auditor the matters required to be communicated by Statement on Auditing Standards No. 61 relating to the conduct of the audit.

Review with management and the independent auditors the quarterly financial results, any significant changes in accounting principles and any items that could significantly affect the quarterly financial statements. After appropriate review and if determined appropriate, recommend the quarterly financial statements prepared by management be included in the Form 10Q filing with the SEC.

Review with the independent auditors any problems, difficulties or restrictions the auditors may have encountered in the course of the audit work and any management letter comments the auditors communicated to management.

Review the annual audited financial statements with management and the independent auditor, including major issues regarding accounting principles and practices and the adequacy of internal controls that could significantly affect the Company's financial statements. If so determined by the Committee, recommend that the annual financial statements prepared by management be included in the Company's Form 10-K filing with the SEC.

Receive periodic written reports from the independent auditors regarding the auditor's independence and if so determined by the Committee, recommend that the Board take appropriate action to satisfy itself of the independence of the auditors.

Review and approve the report and other disclosures required by the SEC to be included in the Company's annual proxy statement.

Review reports from internal audit summarizing plans, staffing, and results of audit activities.

The duties and responsibilities of a member of the Audit Committee are in addition to those duties set out for a member of the Board.

**AVISTA CORPORATION**

**PROXY/VOTING INSTRUCTION CARD**

**This proxy is solicited on behalf of the Board of Directors of Avista Corporation  
for the Annual Meeting of Shareholders on Thursday, May 9, 2002.**

The undersigned appoints G.G. Ely and T.L. Syms, and each of them, with full power of substitution, the Proxies of the undersigned, to represent the undersigned and vote all shares of Avista Corporation Common Stock which the undersigned may be entitled to vote at the Annual Meeting of Shareholders to be held on May 9, 2002, and at any adjournments thereof, as indicated on the reverse side.

This proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. **If no direction is given, this proxy will be voted FOR Item 1.**

**The Board of Directors recommends a vote FOR Item 1.**

(Continued, and to be dated and signed on the reverse side.)

AVISTA  
CORPORATION  
P.O. BOX  
11235  
NEW YORK,  
NY  
10203-0235

**YOUR PROXY CARD IS ATTACHED BELOW.**

PLEASE READ THE ENCLOSED PROXY STATEMENT,  
THEN MARK, DATE, SIGN AND RETURN YOUR PROXY PROMPTLY.

YOUR VOTE IS IMPORTANT.  
THANK YOU.

**Please Detach Here**

Ú You Must Detach This Portion of the Proxy Card Before Returning it in the Enclosed Envelope Ú

Please sign, date and return this proxy in the enclosed postage prepaid envelope.

x  
Votes MUST be indicated (x) in Black or Blue ink.

1. Election of Directors

**FOR all nominees listed below**    **WITHHOLD AUTHORITY to vote for all nominees listed below**    **\*EXCEPTIONS**

**Nominees:** Roy Lewis Elguren, Gary G. Ely, Jessie J. Knight, Jr.

(INSTRUCTIONS: To withhold authority to vote for any nominee, mark the Exceptions box and write that nominee's name in the space provided below.)

\*Exceptions

In their discretion, the Proxies are authorized to vote upon such other matters as may properly come before the meeting or any adjournments thereof.

To change your address, please mark this box.

[ADDRESS BLOCK AND SCAN LINE]

The signature on the Proxy should correspond exactly with the shareholder's name as printed to the left, in the case of joint tenants, co-trustees, both should sign. Persons signing as attorney, executor, administrator, trustee or guardian, should give their full title.

Date

Share Owner sign here

Co-Owner sign here