



## **All-Party Settlement Agreement Reached Providing for the Continuation of Energy Recovery Mechanism**

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If approved, the settlement provides for the continuation of the company's energy recovery mechanism and reduces the company's "deadband" along with other modifications.

SPOKANE, Wash., June 8 /PRNewswire-FirstCall/ -- Avista Corp. (NYSE: AVA) and other parties have reached an agreement that, if approved, would provide for the continuation of Avista's energy recovery mechanism (ERM) with certain agreed-upon modifications and would become effective as of Jan. 1, 2006. The settlement states the ERM would be reviewed after five years.

(Logo: <http://www.newscom.com/cgi-bin/prnh/20040128/SFW031LOGO>)

The agreement is subject to approval by the Washington Utilities and Transportation Commission (WUTC). The parties' recommendation to approve the settlement is not binding on the WUTC.

In Washington, the ERM is an accounting method to track certain differences between actual power supply costs and the amount included in base rates. This difference primarily results from changes in purchased power and fuel costs, as well as variations in the level of hydroelectric generation and retail loads. An initial amount of power supply costs in excess or below the level in retail rates is either absorbed or retained by the company, which is referred to as the "deadband." Under the ERM, costs or benefits in excess of the "deadband" are shared with customers.

Under the settlement, Avista's annual "deadband" would be reduced from \$9 million to \$4 million, and a 50/50 sharing of annual power supply costs between the company and its customers would apply to amounts between \$4 million and \$10 million. Once annual power supply costs exceed \$10 million, 90 percent of those costs would be deferred for future surcharge or rebate. The remaining power supply costs are an expense of, or benefit to, the company without affecting current or future customer rates. Other agreed upon modifications address issues such as long-term power contracts, power generating plant outages and transmission.

During the first quarter of 2006 actual ERM-related power supply costs were \$5.2 million less than that included in base retail rates, and Avista retained a \$5.2 million benefit under the \$9.0 million "deadband." A revision of the ERM "deadband" and sharing components, per the settlement, would result in a reversal of \$0.6 million of the \$5.2 million benefit.

If approved, the settlement seeks to balance the interests of the company and its customers, while further reducing the volatility in the company's earnings that has been caused by variations in hydroelectric generation, as well as prices for fuel and purchased power.

Under the ERM, Avista will continue to make an annual filing to provide the opportunity for the WUTC and other interested parties to review the prudence of and audit the ERM deferred power cost transactions for the prior calendar year. Avista made its annual filing with WUTC in March 2006.

Besides Avista, the parties to the agreement are the Industrial Customers of Northwest Utilities, the Public Counsel Section of the Washington Attorney General, and the staff of the WUTC. The WUTC staff's independent recommendation to approve the settlement is not binding on the WUTC.

Avista Corp. is an energy company involved in the production, transmission and distribution of energy as well as other energy-related businesses. Avista Utilities is a company operating division that provides service to 338,000 electric and 297,000 natural gas customers in three western states. Avista's non-regulated subsidiaries include Avista Advantage and Avista Energy. Avista Corp.'s stock is traded under the ticker symbol "AVA." For more information about Avista, please visit [www.avistacorp.com](http://www.avistacorp.com).

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Section of the Washington Attorney General; Washington Utilities and  
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ST: Washington

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