UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission file number 1-3701

AVISTA CORPORATION

(Exact name of registrant as specified in its charter)

Washington	91-0462470
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1411 East Mission Avenue, Spokane, Washington	99202-2600
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 509-489-0500
Web site: http://www.avistacorp.com

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

At July 31, 1999, 37,029,129 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

AVISTA CORPORATION

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Avista Corporation

For the Three Months Ended June 30
Thousands of Dollars

	1999	1998
OPERATING REVENUES	$ 1,411,736	$ 632,995
OPERATING EXPENSES:		
Resource costs	1,297,210	472,254
Operations and maintenance	37,053	54,401
Administrative and general	28,936	35,795
Depreciation and amortization	19,223	17,452
Taxes other than income taxes	11,934	11,151
Total operating expenses	1,394,356	591,053
INCOME FROM OPERATIONS	17,380	41,942
OTHER INCOME (EXPENSE):		
Interest expense	(15,006)	(16,855)
Net gain (loss) on subsidiary transactions	(884)	--
Other income (deductions)-net	7,504	(89)
Total other income (expense)-net	(8,386)	(16,944)
INCOME BEFORE INCOME TAXES	8,994	24,998
INCOME TAXES	485	9,355
NET INCOME	8,509	15,643
DEDUCT-Preferred stock dividend requirements (Note 5)	5,384	788
INCOME AVAILABLE FOR COMMON STOCK	$ 3,125	$ 14,855
Average common shares outstanding (thousands), Basic (Note 5)	40,185	55,960
Average common shares outstanding (thousands), Diluted (Note 5)	40,300	55,960
EARNINGS PER SHARE OF COMMON STOCK, BASIC (Note 5)	$ 0.08	$ 0.27
EARNINGS PER SHARE OF COMMON STOCK, DILUTED (Note 5)	$ 0.08	$ 0.27
Dividends paid per common share	$ 0.12	$ 0.31
NET INCOME	$ 8,509	$ 15,643
OTHER COMPREHENSIVE INCOME:		
Foreign currency translation adjustment	138	(134)
Unrealized investment gains/(losses)-net of tax	(154)	(1,269)
OTHER COMPREHENSIVE INCOME	(16)	(1,403)
COMPREHENSIVE INCOME	$ 8,493	$ 14,240

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Avista Corporation

For the Six Months Ended June 30
Thousands of Dollars

	1999	1998
OPERATING REVENUES	$ 2,647,931	$ 1,204,664
OPERATING EXPENSES:		
Resource costs	2,385,263	879,494
Operations and maintenance	90,006	103,626
Administrative and general	59,448	62,418
Depreciation and amortization	38,297	34,602
Taxes other than income taxes	27,030	25,882
Total operating expenses	2,600,044	1,106,022
INCOME FROM OPERATIONS	47,887	98,642
OTHER INCOME (EXPENSE):		
Interest expense	(31,758)	(34,060)
Net gain on subsidiary transactions	15,594	7,611
Other income (deductions)-net	8,960	4,947
Total other income (expense)-net	(7,204)	(21,502)
INCOME BEFORE INCOME TAXES	40,683	77,140
INCOME TAXES	12,786	29,265
NET INCOME	27,897	47,875
DEDUCT-Preferred stock dividend requirements (Note 5)	10,767	1,612
INCOME AVAILABLE FOR COMMON STOCK	$ 17,130	$ 46,263
Average common shares outstanding (thousands), Basic (Note 5)	40,319	55,960
Average common shares outstanding (thousands), Diluted (Note 5)	40,427	55,960
EARNINGS PER SHARE OF COMMON STOCK, BASIC (Note 5)	$ 0.42	$ 0.83
EARNINGS PER SHARE OF COMMON STOCK, DILUTED (Note 5)	$ 0.42	$ 0.83
Dividends paid per common share	$ 0.24	$ 0.62
NET INCOME	$ 27,897	$ 47,875
OTHER COMPREHENSIVE INCOME:		
Foreign currency translation adjustment	358	(134)
Unrealized investment gains/(losses)-net of tax	261	(997)
OTHER COMPREHENSIVE INCOME	619	(1,131)
COMPREHENSIVE INCOME	$ 28,516	$ 46,744

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED BALANCE SHEETS
Avista Corporation

Thousands of Dollars

	June 30, 1999	December 31, 1998
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 47,420	$ 72,836
Temporary cash investments	6,490	5,786
Accounts and notes receivable-net	594,162	456,857
Energy commodity assets	530,388	357,581
Materials and supplies, fuel stock and natural gas stored	44,708	42,140
Prepayments and other	28,288	33,396
Total current assets	1,251,456	968,596
UTILITY PROPERTY:		
Utility plant in service-net	2,129,411	2,095,301
Construction work in progress	46,542	45,391
Total	2,175,953	2,140,692
Less: Accumulated depreciation and amortization	693,851	669,750
Net utility plant	1,482,102	1,470,942
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power-net	59,264	62,577
Non-utility properties and investments-net	202,808	206,773
Energy commodity assets	442,001	236,644
Other-net	27,681	26,016
Total other property and investments	731,754	532,010
DEFERRED CHARGES:		
Regulatory assets for deferred income tax	168,585	171,037
Conservation programs	46,484	49,114
Unamortized debt expense	28,382	28,414
Other-net	33,464	33,523
Total deferred charges	276,915	282,088
TOTAL	$3,742,227	$3,253,636
LIABILITIES AND CAPITALIZATION:		
CURRENT LIABILITIES:		
Accounts payable	$ 610,969	$ 406,457
Energy commodity liabilities	526,989	348,387
Taxes and interest accrued	17,095	38,628
Other	61,883	70,721
Total current liabilities	1,216,936	864,193
NON-CURRENT LIABILITIES AND DEFERRED CREDITS:		
Non-current liabilities	39,002	34,815
Deferred revenue	137,407	145,124
Energy commodity liabilities	404,124	207,948
Deferred income taxes	369,573	357,702
Other deferred credits	10,897	11,571
Total non-current liabilities and deferred credits	961,003	757,160
CAPITALIZATION (See Consolidated Statements of Capitalization)	1,564,288	1,632,283
COMMITMENTS AND CONTINGENCIES (Note 6)		
TOTAL	$3,742,227	$3,253,636

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF CAPITALIZATION
Avista Corporation

Thousands of Dollars

	June 30, 1999	December 31, 1998
LONG-TERM DEBT:		
First Mortgage Bonds:		
7 1/8% due December 1, 2013	$ 66,700	$ 66,700
7 2/5% due December 1, 2016	17,000	17,000
Secured Medium-Term Notes:		
Series A - 6.13% to 7.90% due 2000 through 2023	139,400	211,500
Series B - 6.20% to 8.25% due 1999 through 2010	145,000	150,000
Total first mortgage bonds	368,100	445,200
Pollution Control Bonds:		
6% Series due 2023	4,100	4,100
Unsecured Medium-Term Notes:		
Series A - 7.94% to 9.57% due 1999 through 2007	38,500	38,500
Series B - 6.75% to 8.23% due 2001 through 2023	96,000	115,000
Series C - 5.99% to 6.88% due 2007 through 2028	84,000	84,000
Total unsecured medium-term notes	218,500	237,500
Notes payable (due within one year) to be refinanced	58,400	--
Other	31,804	43,222
Total long-term debt	680,904	730,022
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES:		
7 7/8%, Series A, due 2037	60,000	60,000
Floating Rate, Series B, due 2037	50,000	50,000
Total company-obligated mandatorily redeemable preferred trust securities	110,000	110,000
PREFERRED STOCK-CUMULATIVE:		
10,000,000 shares authorized:		
Subject to mandatory redemption:		
$6.95 Series K; 350,000 shares outstanding ($100 stated value)	35,000	35,000
Total subject to mandatory redemption	35,000	35,000
CONVERTIBLE PREFERRED STOCK:		
Not subject to mandatory redemption:		
$12.40 Convertible Series L; 1,540,460 shares outstanding ($182.80 stated value)	268,855	269,227
Total convertible preferred stock	268,855	269,227
COMMON EQUITY:		
Common stock, no par value; 200,000,000 shares authorized; 38,880,529 and 40,453,729 shares outstanding	360,635	381,401
Note receivable from employee stock ownership plan	(8,785)	(9,295)
Capital stock expense and other paid in capital	(4,248)	(4,176)
Other comprehensive income	278	(341)
Retained earnings	121,649	120,445
Total common equity	469,529	488,034
TOTAL CAPITALIZATION	$ 1,564,288	$ 1,632,283

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS
Increase (Decrease) in Cash and Cash Equivalents
Avista Corporation

For the Six Months Ended June 30
Thousands of Dollars

	1999	1998
OPERATING ACTIVITIES:		
Net income	$ 27,897	$ 47,875
NON-CASH ITEMS INCLUDED IN NET INCOME:		
Depreciation and amortization	38,297	34,602
Provision for deferred income taxes	14,928	9,923
Allowance for equity funds used during construction	(496)	(692)
Power and natural gas cost deferrals and amortizations	(3,340)	71
Gain on sale of subsidiary investments and other-net	(28,112)	(17,194)
(Increase) decrease in working capital components:		
Sale of customer accounts receivables-net	35,000	--
Receivables and prepaid expense	(230,496)	(63,139)
Materials & supplies, fuel stock and natural gas stored	(2,568)	(6,425)
Payables and other accrued liabilities	218,528	60,802
Other	7,436	3,892
NET CASH PROVIDED BY OPERATING ACTIVITIES	77,074	69,715
INVESTING ACTIVITIES:		
Construction expenditures (excluding AFUDC-equity funds)	(39,716)	(39,933)
Other capital requirements	(12,964)	(5,760)
(Increase) decrease in other noncurrent balance sheet items-net	9,801	14,398
Proceeds from sale of subsidiary investments	62,014	16,385
Assets acquired and investments in subsidiaries	(21,718)	(33,517)
NET CASH USED IN INVESTING ACTIVITIES	(2,583)	(48,427)
FINANCING ACTIVITIES:		
Increase (decrease) in short-term borrowings	51,088	(41,759)
Proceeds from issuance of long-term debt	809	74,170
Redemption and maturity of long-term debt	(101,324)	(6,000)
Redemption of preferred stock	(372)	(10,000)
Sale (repurchase) of common stock	(26,489)	--
Cash dividends paid	(20,475)	(36,343)
Other-net	(3,144)	(1,563)
NET CASH USED IN FINANCING ACTIVITIES	(99,907)	(21,495)
NET DECREASE IN CASH & CASH EQUIVALENTS	(25,416)	(207)
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	72,836	30,593
CASH & CASH EQUIVALENTS AT END OF PERIOD	$ 47,420	$ 30,386
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period:		
Interest	$ 31,976	$ 31,764
Income taxes	10,329	29,296
Noncash financing and investing activities:		
Property purchased under capitalized leases	919	396

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
Avista Corporation

For the Three Months Ended June 30
Thousands of Dollars

	1999	1998
OPERATING REVENUES:		
Energy Delivery	$ 80,404	$ 81,883
Generation and Resources	140,687	120,127
National Energy Trading and Marketing	1,160,621	380,864
Non-energy	30,379	53,429
Intersegment eliminations	(355)	(3,308)
Total operating revenues	$ 1,411,736	$ 632,995
RESOURCE COSTS:		
Energy Delivery:		
Natural gas purchased for resale	$ 20,916	$ 18,570
PCA and other	(821)	(734)
Generation and Resources:		
Power purchased	86,333	73,613
Fuel for generation	9,770	7,819
Other	11,560	10,188
National Energy Trading and Marketing:		
Cost of sales	1,169,807	366,106
Intersegment eliminations	(355)	(3,308)
Total resource costs (excluding Non-energy)	$ 1,297,210	$ 472,254
GROSS MARGINS:		
Energy Delivery	$ 60,309	$ 64,047
Generation and Resources	33,024	28,507
National Energy Trading and Marketing	(9,186)	14,758
Total gross margins (excluding Non-energy)	$ 84,147	$ 107,312
OPERATIONS AND MAINTENANCE EXPENSES:		
Energy Delivery	$ 13,049	$ 14,682
National Energy Trading and Marketing	742	410
Non-energy	23,262	39,309
Total operations and maintenance expenses	$ 37,053	$ 54,401
ADMINISTRATIVE AND GENERAL EXPENSES:		
Energy Delivery	$ 12,522	$ 14,618
Generation and Resources	3,429	4,855
National Energy Trading and Marketing	7,443	7,717
Non-energy	5,542	8,605
Total administrative and general expenses	$ 28,936	$ 35,795
DEPRECIATION AND AMORTIZATION EXPENSES:		
Energy Delivery	$ 9,104	$ 8,639
Generation and Resources	6,632	6,260
National Energy Trading and Marketing	1,088	180
Non-energy	2,399	2,373
Total depreciation and amortization expenses	$ 19,223	$ 17,452
INCOME/(LOSS) FROM OPERATIONS (PRE-TAX):		
Energy Delivery	$ 16,545	$ 17,972
Generation and Resources	20,473	14,950
National Energy Trading and Marketing	(18,470)	6,449
Non-energy	(1,168)	2,571
Total income from operations	$ 17,380	$ 41,942

INCOME AVAILABLE FOR COMMON STOCK:		
Energy Delivery and Generation and Resources	$ 15,900	$ 9,491
National Energy Trading and Marketing	(11,546)	4,017
Non-energy	(1,229)	1,347
Total income available for common stock (Note 5)	$ 3,125	$ 14,855
ASSETS: (1998 amounts at December 31)		
Energy Delivery	$ 1,078,060	$ 1,120,323
Generation and Resources	587,620	619,086
Other utility	248,338	265,526
National Energy Trading and Marketing	1,613,111	957,421
Non-energy	215,098	291,280
Total assets	$ 3,742,227	$ 3,253,636
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):		
Energy Delivery	$ 20,670	$ 16,268
Generation and Resources	2,529	3,990
National Energy Trading and Marketing	2,234	742
Non-energy	3,786	2,733
Total capital expenditures	$ 29,219	$ 23,733

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
Avista Corporation

For the Six Months Ended June 30
Thousands of Dollars

	1999	1998
OPERATING REVENUES:		
Energy Delivery	$ 197,820	$ 209,176
Generation and Resources	290,057	247,038
National Energy Trading and Marketing	2,080,021	651,921
Non-energy	81,016	101,113
Intersegment eliminations	(983)	(4,584)
Total operating revenues	$ 2,647,931	$ 1,204,664
RESOURCE COSTS:		
Energy Delivery:		
Natural gas purchased for resale	$ 56,107	$ 56,489
PCA and other	(1,315)	(1,960)
Generation and Resources:		
Power purchased	196,098	159,508
Fuel for generation	17,771	17,289
Other	22,848	22,503
National Energy Trading and Marketing:		
Cost of sales	2,094,737	630,249
Intersegment eliminations	(983)	(4,584)
Total resource costs (excluding Non-energy)	$ 2,385,263	$ 879,494
GROSS MARGINS:		
Energy Delivery	$ 143,028	$ 154,647
Generation and Resources	53,340	47,738
National Energy Trading and Marketing	(14,716)	21,672
Total gross margins (excluding Non-energy)	$ 181,652	$ 224,057
OPERATIONS AND MAINTENANCE EXPENSES:		
Energy Delivery	$ 26,085	$ 28,812
National Energy Trading and Marketing	1,507	1,176
Non-energy	62,414	73,638
Total operations and maintenance expenses	$ 90,006	$ 103,626
ADMINISTRATIVE AND GENERAL EXPENSES:		
Energy Delivery	$ 24,036	$ 25,790
Generation and Resources	6,405	8,379
National Energy Trading and Marketing	13,903	11,720
Non-energy	15,104	16,529
Total administrative and general expenses	$ 59,448	$ 62,418
DEPRECIATION AND AMORTIZATION EXPENSES:		
Energy Delivery	$ 18,345	$ 17,315
Generation and Resources	12,844	12,442
National Energy Trading and Marketing	1,740	346
Non-energy	5,368	4,499
Total depreciation and amortization expenses	$ 38,297	$ 34,602
INCOME/(LOSS) FROM OPERATIONS (PRE-TAX):		
Energy Delivery	$ 53,971	$ 63,370
Generation and Resources	28,947	21,713
National Energy Trading and Marketing	(31,888)	8,418
Non-energy	(3,143)	5,141
Total income from operations	$ 47,887	$ 98,642

INCOME AVAILABLE FOR COMMON STOCK:		
Energy Delivery and Generation and Resources	$ 29,966	$ 31,759
National Energy Trading and Marketing	(19,217)	6,080
Non-energy	6,381	8,424
Total income available for common stock (Note 5)	$ 17,130	$ 46,263
ASSETS: (1998 amounts at December 31)		
Energy Delivery	$ 1,078,060	$ 1,120,323
Generation and Resources	587,620	619,086
Other utility	248,338	265,526
National Energy Trading and Marketing	1,613,111	957,421
Non-energy	215,098	291,280
Total assets	$ 3,742,227	$ 3,253,636
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):		
Energy Delivery	$ 33,285	$ 32,300
Generation and Resources	5,832	6,663
National Energy Trading and Marketing	6,152	902
Non-energy	6,776	5,208
Total capital expenditures	$ 52,045	$ 45,073

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying financial statements of Avista Corporation (Avista Corp. or the Company) for the interim periods ended June 30, 1999 and 1998 are unaudited but, in the opinion of management, reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results of operations for those interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements do not contain the detail or footnote disclosure concerning accounting policies and other matters which would be included in full fiscal year financial statements; therefore, they should be read in conjunction with the Company's audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (1998 Form 10-K).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NEW ACCOUNTING STANDARDS

The FASB issued FAS No. 133, entitled "Accounting for Derivative Instruments and Hedging Activities" which was originally to be effective for fiscal years beginning after June 15, 1999. In May 1999, implementation was delayed for one year, so it is now effective for fiscal years beginning after June 15, 2000. The statement requires that all derivative financial instruments be recognized as either assets or liabilities on a company's balance sheets at fair value. The accounting for changes in the fair value of a derivative will depend on the intended use of the derivative and the resulting designation. Avista Energy currently accounts for derivative commodity instruments entered into for trading purposes using the mark-to-market method of accounting, in compliance with EITF 98-10, "Accounting for Energy Trading and Risk Management Activities." The Company is in the process of researching the statement and determining its impact on the Company's financial position and results of operations.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to current statement format. These reclassifications were made for comparative purposes and have not affected previously reported total net income or common shareholders' equity.

NOTE 2. ENERGY COMMODITY TRADING

Contract Amounts and Terms Under Avista Energy's derivative instruments, Avista Energy either (i) as "fixed price payor," is obligated to pay a fixed price or amount and is entitled to receive the commodity (or currency) or a fixed amount or (ii) as "fixed price receiver," is entitled to receive a fixed price or amount and is obligated to deliver the commodity (or currency) or pay a fixed amount or (iii) as "index price payor," is obligated to pay an indexed price or amount and is entitled to receive the commodity or a variable amount or (iv) as "index price receiver," is entitled to receive an indexed price or amount and is obligated to deliver the commodity or pay a variable amount. The contract or notional amounts and terms of Avista Energy's derivative commodity investments outstanding at June 30, 1999 are set forth below (volumes in thousands of mmBTUs and MWhs, dollars in thousands):

	Fixed Price Payor	Fixed Price Receiver	Maximum Terms in Years
Energy commodities (volumes)			
Natural gas	626,745	614,204	4
Electric	134,095	117,204	11
Coal (tons)	2,793	2,188	1
Financial products			
Foreign currency	$ 1,300	$ --	4

	Index Price Payor	Index Price Receiver	Maximum Terms in Years
Energy commodities (volumes)			
Natural gas	1,363,481	1,140,244	5
Electric	4,042	924	1
Coal (tons)	60	246	1

Contract or notional amounts reflect the volume of transactions, but do not necessarily represent the amounts exchanged by the parties to the derivative commodity instruments. Accordingly, contract or notional amounts do not accurately measure Avista Energy's exposure to market or credit risks. The maximum terms in years detailed above are not indicative of likely future cash flows as these positions may be offset in the markets at any time.

Fair Value The fair value of Avista Energy's derivative commodity instruments outstanding at June 30, 1999, and the average fair value of those instruments held during the six months ended June 30, 1999 are set forth below (dollars in thousands):

	Fair Value as of June 30, 1999				Average Fair Value for the six months ended June 30, 1999			
	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities
Natural gas	$186,392	$ 31,810	$204,362	$ 21,740	$149,676	$ 58,983	$161,000	$ 49,155
Electric	341,229	409,732	319,637	381,924	298,344	235,609	288,267	211,053
Coal	2,767	459	2,990	460	3,841	390	4,054	375
Total	$530,388	$442,001	$526,989	$404,124	$451,861	$294,982	$453,321	$260,583

The weighted average term of Avista Energy's natural gas and related derivative commodity instruments as of June 30, 1999 was approximately three months. The weighted average term of Avista Energy's electric derivative commodity instruments at June 30, 1999 was approximately four months. The weighted average term of Avista Energy's coal commodity instruments at June 30, 1999 was approximately four months. The change in the fair value position of Avista Energy's energy commodity portfolio, net of the reserves for credit and market risk from December 31, 1998 to June 30, 1999 was $3.1 million and is included on the Consolidated Statements of Income in operating revenues.

NOTE 3. FINANCINGS

Reference is made to the information relating to financings and borrowings as discussed under the caption "Liquidity and Capital Resources" in Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations".

NOTE 4. COMMON STOCK REPURCHASE PLAN

On May 12, 1999, the Company's Board of Directors authorized a common stock repurchase program in which the Company may repurchase in the open market or through privately negotiated transactions up to an aggregate of 10 percent of its common stock and common stock equivalents over the next two years. The repurchased shares will be retired as authorized but unissued shares. As of June 30, 1999, the Company had repurchased approximately 1.6 million shares.

NOTE 5. EARNINGS PER SHARE

Average shares outstanding for basic earnings per share (EPS) were 40,185,205 and 40,318,725 for the quarter and six months ended June 30, 1999, respectively. At June 30, 1999, 1,540,460 shares of $12.40 Convertible Preferred Stock, Series L, which were convertible into 15,404,595 million shares of common stock, were outstanding. All of these potential common shares were excluded from the computation of diluted EPS for the quarter and six months ended June 30, 1999 because their inclusion, including the related increased preferred stock dividend requirements, had an antidilutive effect on EPS. Options to purchase 603,800 shares of common stock were outstanding during the quarter and six months ended June 30, 1999, but 588,800 shares were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares for the periods and, therefore, the effect was antidilutive. The average number of common shares outstanding for both basic and diluted EPS was 55,960,360 for both periods in 1998 as the Company did not have any common stock equivalents outstanding in either of those periods.

The computation of basic and diluted earnings per common share is as follows (in thousands, except per share amounts):

	2nd Quarter		Six Months Ended June 30	
	1999	1998	1999	1998
Net income	$ 8,509	$15,643	$27,897	$47,875
Less: Preferred stock dividends	5,384	788	10,767	1,612
Income available for common stock-basic	3,125	14,855	17,130	46,263
Convertible Preferred Stock, Series L, dividend requirements	--	--	--	--
Income available for common stock-diluted	$ 3,125	$14,855	$17,130	$46,263
Weighted-average number of common shares outstanding-basic	40,185	55,960	40,319	55,960
Conversion of Convertible Preferred Stock, Series L	--	--	--	--
Restricted stock	115	--	108	--
Exercise of stock options	--	--	--	--
Weighted-average number of common shares outstanding-diluted	40,300	55,960	40,427	55,960
Earnings per common share				
Basic	$ 0.08	$ 0.27	$ 0.42	$ 0.83
Diluted	$ 0.08	$ 0.27	$ 0.42	$ 0.83

NOTE 6. COMMITMENTS AND CONTINGENCIES

The Company believes, based on the information presently known, the ultimate liability for the matters discussed in this note, individually or in the aggregate, taking into account established accruals for estimated liabilities, will not be material to the consolidated financial position of the Company, but could be material to results of operations or cash flows for a particular quarter or annual period. No assurance can be given, however, as to the ultimate outcome with respect to any particular lawsuit.

SPOKANE GAS PLANT

The Spokane Natural Gas Plant site (which was operated as a coal gasification plant for approximately 60 years until 1948) was acquired by the Company through a merger in 1958. The Company no longer owns the property. Initial core samples taken from the site indicate environmental contamination at the site. On January 15, 1999, the Company received notice from the State of Washington's Department of Ecology (DOE) that it had been designated as a potentially liable person (PLP) with respect to any hazardous substances located on this site, stemming from the Company's past ownership of the former Gas Plant. In its notice, the DOE stated that it intended to complete an on-going remedial investigation of this site, complete a feasibility study to determine the most effective means of halting or controlling future releases of substances from the site, and implement appropriate remedial measures.

The Company responded to the DOE acknowledging its listing as a PLP, but requested that additional parties also be listed as PLPs. In the spring of 1999, the DOE named two other parties as additional PLPs. The Company is continuing additional characterization of the site for the remedial investigation (RI). The PLPs will be negotiating with the DOE on an Agreement Order. The Agreement Order will specify the scope of work for the RI and the feasibility study (FS). The Order is expected to be in place by November 1.

EASTERN PACIFIC ENERGY

On October 9, 1998, Eastern Pacific Energy (Eastern Pacific), an energy aggregator participating in the restructured retail energy market in California, filed suit against the Company and its affiliates, Avista Advantage and Avista Energy in the United States District Court for the Central District of California. Eastern Pacific alleges, among other things, a breach of an oral or implied joint venture agreement whereby the Company agreed to supply not less than

300 megawatts of power to Eastern Pacific's California customers and that Avista Advantage agreed to provide energy-related products and services. The complaint seeks an unspecified amount of damages and also seeks to recover any future profits earned from sales of the aforementioned amount of power to California consumers. The Company and its affiliates intend to vigorously defend against all of the claims.

On December 4, 1998, Avista Advantage, Avista Energy and the Company jointly filed a motion to dismiss the complaint for failure to state a claim upon which relief can be granted. On May 4, 1999, the Court granted the Company's and its affiliates' motion to dismiss the case and granted the plaintiff the opportunity to file and serve an Amended Complaint, which it did. The Company and its affiliates renewed their motion to dismiss and the matter awaits decision by the Court.

THE POWER COMPANY OF AMERICA

On June 25, 1999, the trustee ("Trustee") of the PCA Liquidating Trust ("Trust"), the successor of The Power Company of America, L.P. ("PCA"), demanded that Avista Energy pay the Trust approximately $22,400,000. Until June 1998, Avista Energy and PCA had entered into forward contracts for the purchase/sale of electric power. In early July 1998, PCA defaulted on its contract obligations with Avista Energy and numerous other counterparties. Accordingly, on July 6, 1998, Avista Energy suspended all business dealings with PCA. On August 17, 1998, an involuntary petition was filed against PCA in the U.S. Bankruptcy Court for the District of Connecticut, and on January 5, 1999, the Court approved a plan of reorganization and established the Trust. Avista Energy has filed a Proof of Claim for approximately $2.6 million, representing the net amount owing by PCA to Avista Energy for power delivered to or received from PCA prior to July 6, 1998.

The Trustee's primary claim is based on the allegation that Avista Energy wrongfully terminated the forward contracts on July 6, 1998, resulting in alleged damages to PCA of about $18.5 million, recoverable under contract and/or bankruptcy law, in connection with those contracts in which Avista Energy was the seller and PCA was the buyer. The Trustee's demand threatens to commence a lawsuit against Avista Energy in the Bankruptcy Court if its claims cannot be settled.

Based on an evaluation of the Trustee's demand, the Company and Avista Energy believe that the Trustee's claims (including the referenced $18.5 million claim) lack substantial merit and they intend to contest them vigorously. Furthermore, the Company and Avista Energy believe that the Trustee's claim under the forward sell contracts, to the extent found to be valid, is subject to significantly offsetting claims from Avista Energy against PCA. Accordingly, while the Company cannot predict the ultimate outcome of this matter, the Company does not believe that the Trustee's claims will be material to the Company's consolidated financial position.

NOTE 7. ACQUISITIONS AND DISPOSITIONS

Effective February 1, 1999, Avista Energy completed and closed the purchase of Vitol Gas & Electric, LLC (Vitol), based in Boston, Massachusetts. Vitol was one of the top 20 energy marketing companies in the United States. Vitol trades gas, electricity, coal and SO2 allowances in markets in the eastern half of the United States.

During the first quarter of 1999, Pentzer Corporation (Pentzer) sold its Creative Solutions Group, a group of five portfolio companies that provide point-of-purchase displays and other merchandising and packaging services to retailers and consumer product companies. The sale resulted in a gain of $10.1 million, net of taxes.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Avista Corporation (Avista Corp. or the Company) operates as a regional utility providing electric and natural gas sales and services and as a national entity providing both energy and non-energy products and services. The utility portion of the Company, doing business as Avista Utilities, consists of two lines of business which are subject to state and federal price regulation -- (1) Energy Delivery and (2) Generation and Resources. The national businesses are conducted under Avista Capital, which is the parent company to the Company's subsidiaries.

The Energy Delivery line of business includes transmission and distribution services for retail electric operations, all natural gas operations, and other energy products and services. The Generation and Resources line of business includes the generation and production of electric energy, and short- and long-term electric and natural gas sales, trading and wholesale marketing primarily to other utilities and power brokers in the Western Systems Coordinating Council.

Avista Capital is the parent company to the National Energy Trading and Marketing and Non-energy businesses. The National Energy Trading and Marketing business is comprised of Avista Energy, Avista Advantage and Avista Power. Avista Energy focuses on commodity trading, energy marketing and other related businesses on a national basis. Avista Energy's primary trading offices are located in Boston, MA, Houston, TX and Spokane, WA, and its principal administrative office is in Boston, MA. Avista Advantage, which is based in Spokane, WA, provides a variety of energy-related products and services, such as consolidated billing and resource accounting, to commercial and industrial customers on a national basis. Avista Power was formed in December 1998 to develop and own generation assets primarily in support of Avista Energy.

The Non-energy business is conducted primarily by Pentzer Corporation (Pentzer), which is the parent company to the majority of the Company's Non-energy businesses. Other non-energy subsidiaries under Avista Capital include Avista Development, Avista Labs, Avista Communications and Avista Fiber. Avista Development manages and markets the corporation's community investments, including real estate and other assets. Avista Labs develops fuel cells and multiple fuel processing approaches using propane, methane and methanol as base fuels to integrate into its fuel cell subsystem. Avista Communications, formed in January 1999, is the newest of the non-energy subsidiaries. It will provide local high-speed telecommunications services to under-served Northwest communities. Avista Communications is a sister company to Avista Fiber, which focuses on building high-speed local dark fiber networks in Northwest communities.

Changes underway in the utility and energy industries are creating new opportunities to expand the Company's businesses and serve new markets. In pursuing such opportunities, the Company is shifting its strategic direction to growth, which could subject the Company to a higher degree of risk than that of a traditional regulated public utility company.

RESULTS OF OPERATIONS

OVERALL OPERATIONS

THREE MONTHS ENDED JUNE 30, 1999 COMPARED TO THREE MONTHS ENDED JUNE 30, 1998

Basic and diluted earnings per share for the second quarter of 1999 were $0.08 as compared to $0.27 in the second quarter of 1998. In December 1998, the Company exchanged 15,404,595 shares of its common stock for shares of Convertible Preferred Stock, Series L, which resulted in an increase of $4.6 million in preferred stock dividend requirements in the second quarter of 1999 over 1998. Excluding the effects of this transaction, earnings per share would have been $0.14 for the second quarter of 1999.

Second quarter 1999 net income available for common stock was $3.1 million, an $11.7 million decrease from second quarter 1998. The decrease in earnings was primarily the result of an $11.5 million loss from the National Energy Trading and Marketing line of business due to warmer than normal weather, soft national energy markets and a lack of volatility within those markets, as compared to net income of that line of business of $4.0 million in the second quarter of 1998. In addition, earnings from non-energy operations declined $2.6 million from second quarter 1998 primarily from the loss of income due to the first quarter 1999 sale of a group of Pentzer's portfolio companies. The decreased earnings were partially offset by a $6.4 million increase in earnings from the utility operations due to improved operating results, primarily from the Generation and Resources line of business, and the resolution of a number of environmental issues during the quarter.

Energy Delivery and Generation and Resources contributed $0.40 to earnings per share for the second quarter of 1999 compared to $0.17 in the second quarter of 1998. National Energy Trading and Marketing operations had a loss of $0.29 per share in the second quarter of 1999 compared to a contribution of $0.07 in the same period in 1998. Non-energy operations had a loss of $0.03 per share for the second quarter of 1999 compared to a contribution of $0.03 in the same period in 1998.

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998

Earnings per share for the first half of 1999 were $0.42 as compared to $0.83 in the first six months of 1998. As a result of the exchange of shares of common stock for shares of the Convertible Preferred Stock mentioned above, preferred stock dividend requirements increased $9.2 million in the first half of 1999 over 1998. Excluding the effects of this transaction, earnings per share would have been $0.48 for the first six months of 1999.

Net income available for common stock for the first half of 1999 was $17.1 million compared to $46.3 million for the first six months of 1998. The decrease in earnings was primarily the result of a $19.2 million loss from the National Energy Trading and Marketing line of business due to warmer than normal weather, soft national energy markets and a lack of volatility within those markets, as compared to net income of that line of business of $6.1 million in the first six months of 1998. In addition, earnings from non-energy operations declined $2.0 million, while earnings from utility operations decreased $1.8 million from the first six months of 1998. Non-energy income for 1999 included a transactional gain totaling $10.1 million, net of taxes, recorded by Pentzer as a result of the sale of a group of portfolio companies. However, this gain was partially offset by the loss of income from these same companies. Non-energy income for 1998 included a $5.5 million transactional gain, net of taxes, from the sale of a portfolio company by Pentzer which occurred in the first quarter of 1998. Utility income decreased from 1998 primarily due to higher purchased power costs and lower wholesale sales prices experienced by the Generation and Resources line of business in the first quarter of 1999.

Energy Delivery and Generation and Resources contributed $0.74 to earnings per share for the first half of 1999 compared to $0.57 in the first six months of 1998. This increase in utility earnings per share despite the decrease in operating income occurred as a result of a decrease in the number of shares of common stock outstanding due primarily to the exchange of shares of common stock for Preferred Stock Series L. National Energy Trading and Marketing operations had a loss of $0.48 per share in the first six months of 1999 compared to a contribution of $0.11 in the same period in 1998. Non-energy operations contributed $0.16 to earnings per share for the first half of 1999 compared to $0.15 in the same period in 1998.

ENERGY DELIVERY

THREE MONTHS ENDED JUNE 30, 1999 COMPARED TO THREE MONTHS ENDED JUNE 30, 1998

Energy Delivery's pre-tax income from operations decreased $1.4 million, or 8%, in the second quarter of 1999 from the same period in 1998. The decrease was primarily the result of an increase in the transfer price between the two utility lines of business representing the revenue from the sale of the electric energy commodity used to serve Energy Delivery's customers. This transfer of revenues between the two utility lines of business occurs through the use of a transfer price, primarily based on cost of production studies, that is associated with the sale of a kilowatthour of electricity. The electric energy commodity revenues are collected by Energy Delivery and transferred to Generation and Resources. The increase in the transfer price represents the increased cost of purchased power. This amounted to an additional $5.7 million that was transferred from Energy Delivery to Generation and Resources, but this additional amount was not collected from the customers. Energy Delivery's operating revenues decreased $1.5 million during the second quarter of 1999 as compared to 1998.

Retail electric revenues, excluding the effect of the revenues transferred to Generation and Resources, increased $4.2 million and natural gas revenues increased $3.8 million in the second quarter of 1999 over 1998 due to customer growth and slightly cooler weather in the second quarter of 1999.

Total operating expenses were unchanged in the second quarter of 1999 from 1998. Purchased natural gas costs increased $2.3 million in the second quarter of 1999, primarily from increased therm sales due to customer growth and cooler weather in 1999. Other operating and maintenance expenses decreased $1.6 million as a result of fewer storms, resulting in less storm damage, and realizing the benefit of preventive maintenance programs such as cable replacement, pole test and treat, and tree trimming. Administrative and general expenses decreased $2.1 million in the second quarter of 1999 primarily due to increased expenses during 1998 associated with the change in executive officers.

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998

Energy Delivery's pre-tax income from operations decreased $9.4 million, or 15%, in the first six months of 1999 from the same period in 1998. The decrease was primarily the result of the increase in the transfer price between the two utility lines of business that is discussed above. The increase in the transfer price amounted to an additional $12.4 million that was transferred from Energy Delivery to Generation and Resources, but this additional amount was not collected from the customers. Energy Delivery's operating revenues and expenses decreased $11.4 million and $2.0 million, respectively, during the first half of 1999 as compared to 1998.

Retail electric revenues, excluding the effect of the revenues transferred to Generation and Resources, increased $6.0 million and natural gas revenues increased $1.9 million in the first half of 1999 over 1998 due to customer growth and slightly cooler weather in the first six months of 1999 as compared to 1998.

Total operating expenses decreased $2.0 million in the first six months of 1999 from 1998. Other operations and maintenance expenses decreased $2.7 million primarily due to fewer storms, resulting in less storm damage, and realizing the benefit of preventive maintenance programs such as cable replacement, pole test and treat, and tree trimming. Administrative and general expenses decreased $1.8 million from the first half of 1998 as a result of increased expenses during 1998 associated with the change in executive officers.

GENERATION AND RESOURCES

THREE MONTHS ENDED JUNE 30, 1999 COMPARED TO THREE MONTHS ENDED JUNE 30, 1998

Generation and Resources' pre-tax income from operations increased $5.5 million, or 37%, in the second quarter of 1999 over the same period in 1998. The increase was primarily due to the increase in the transfer price between the two utility lines of business, which resulted in a $5.7 million increase in the electric energy commodity revenues transferred to Generation and Resources by Energy Delivery.

Generation and Resources' revenues for the second quarter of 1999 increased $20.6 million over the same period in 1998. Wholesale revenues increased $12.5 million, or 16%, while sales volumes decreased 2% during the second quarter of 1999 from 1998, reflecting higher prices for purchased power in the region. The majority of the remainder of the increased revenues resulted from the higher electric commodity revenues transferred from Energy Delivery.

Streamflows in the second quarter of 1999 were 106% of normal, compared to 86% in the second quarter of 1998, which resulted in hydroelectric generation 9% higher in the second quarter of 1999 compared to 1998. This led to a 5% decrease in the volume of purchased power. However, purchased power prices were 24% higher than last year, which resulted in a $12.7 million, or 17%, increase in purchased power expenses in the second quarter of 1999 over 1998. This increase accounts for the majority of the increase in Generation and Resources' operating expenses.

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998

Generation and Resources' pre-tax income from operations increased $7.2 million, or 33%, in the first six months of 1999 over the same period in 1998. The increase was primarily due to the increase in the transfer price between the two utility lines of business, which resulted in a $12.4 million increase in the electric energy commodity revenues transferred to Generation and Resources by Energy Delivery. This increase was partially offset by purchased power costs that increased more than the associated wholesale revenues during the first quarter of 1999. The Company committed to electric energy purchases in 1998 based on region-wide forecasts for colder temperatures and the expected higher demand for energy from both retail and wholesale customers during the first quarter. When those forecasted colder temperatures did not materialize as anticipated in the first quarter, the Company sold that energy into wholesale markets at lower prices.

Generation and Resources' revenues for the first half of 1999 increased $43.0 million over the same period in 1998. Streamflows in the first six months of 1999 were 107% of normal, compared to 91% in the first half of 1998, which resulted in hydroelectric generation 10% higher in the first half of 1999 compared to 1998. This led to higher volumes of wholesale sales. Wholesale revenues increased $26.1 million, or 17%, while sales volumes increased only 2% during the first half of 1999 over 1998, reflecting higher prices for purchased power in the region. The majority of the remainder of the increased revenues resulted from the higher electric commodity revenues transferred from Energy Delivery.

Increased wholesale sales caused purchased power volumes to increase 2%, which, combined with purchased power prices 21% higher than last year, resulted in a $37.0 million, or 23%, increase in purchased power costs in the first half of 1999 over 1998. This increase accounts for the majority of the increase in Generation and Resources' operating expenses.

NATIONAL ENERGY TRADING AND MARKETING

National Energy Trading and Marketing includes the results of Avista Energy, the national energy marketing subsidiary; Avista Advantage, the energy services subsidiary; and Avista Power, formed in December 1998 to develop and own generation assets primarily in support of Avista Energy. Avista Power operations have had minimal impact on earnings to date. Avista Energy maintains a trading portfolio that it marks to fair market value on a daily basis (mark-to-market accounting), which causes earnings variability.

THREE MONTHS ENDED JUNE 30, 1999 COMPARED TO THREE MONTHS ENDED JUNE 30, 1998

National Energy Trading and Marketing income available for common stock for the second quarter of 1999 was a loss of $11.5 million, compared to second quarter 1998 earnings of $4.0 million. Avista Energy's operations were primarily affected by warmer than normal weather, soft national energy markets and a lack of volatility within those markets. Avista Energy lost income (1) on positions taken in anticipation of certain weather patterns in particular areas of the country, which lost value when the expected patterns did not occur, and (2) on options, also taken in anticipation of certain weather patterns in particular areas of the country, which expired unexercised when the expected patterns did not occur.

National Energy Trading and Marketing's revenues and operating expenses increased $779.8 million and $804.7 million, respectively, in the second quarter of 1999 over 1998. The increase in revenues and expenses is primarily the result of Avista Energy continuing to grow its business. Since its inception in 1997, Avista Energy has been developing and expanding its business and adding experienced traders and staff. This growth has continued into 1999 with Avista Energy's purchase of Vitol Gas & Electric, LLC (Vitol) in the first quarter. Vitol, located in Boston, Massachusetts, was one of the top 20 energy marketing companies in the United States.

The decreased earnings were primarily the result of declines in market values resulting from mild weather conditions and a general lack of volatility in the electric and natural gas commodity markets. Changing market conditions and the addition of new systems, new leadership, and new financial and trading personnel caused results to turn around before the end of the second quarter, but were not large enough to overcome earlier losses.

Late in the second quarter of 1999, Avista Energy added a significant number of energy professionals in its Spokane, Houston and Boston offices. The integration of Vitol operations into Avista Energy began during the second quarter and is continuing, with the consolidation of back-office support, improvements in accounting and trading processes and personnel, and continued enhancements in risk management systems across Avista Energy.

Avista Energy marks its trading portfolio to fair market value on a daily basis, which can cause earnings variability. For additional information about market risk and credit risk, see Energy Trading Business on page 24.

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998

National Energy Trading and Marketing income available for common stock for the first six months of 1999 was a loss of $19.2 million, compared to earnings of $6.1 million in the first half of 1998. Avista Energy's operations were primarily affected by warmer than normal weather, soft national energy markets and a lack of volatility within those markets. Avista Energy lost income when positions lost value and options expired unexercised when the anticipated weather patterns in particular areas of the country on which certain trades were based did not occur as expected.

National Energy Trading and Marketing's revenues and operating expenses increased $1.428 billion and $1.468 billion, respectively, in the first half of 1999 over 1998. The increase in revenues and expenses is primarily the result of Avista Energy continuing to grow its business.

National Energy Trading and Marketing's total assets and liabilities increased $655.7 million from December 1998 to June 1999. Avista Energy's energy commodity assets and liabilities increased as a result of additional trading volumes, which were partially offset by market price declines. Trade receivables and payables increased due to additional volumes of sales and purchases.

NON-ENERGY

THREE MONTHS ENDED JUNE 30, 1999 COMPARED TO THREE MONTHS ENDED JUNE 30, 1998

Non-energy operations primarily reflect the results from Pentzer. Non-energy income available for common stock for the second quarter of 1999 was a loss of $1.2 million, compared to second quarter 1998 earnings of $1.3 million. The 1999 loss primarily resulted from the loss of income due to the sale of a group of Pentzer's portfolio companies during the first quarter of 1999 and a loss on the sale of equipment as a portfolio company consolidates its locations.

Non-energy operating revenues and expenses decreased $23.1 million and $19.3 million, respectively, during the second quarter of 1999, as compared to 1998, primarily as a result of the sale of a group of Pentzer's portfolio companies during the first quarter of 1999.

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998

Non-energy income available for common stock for the first six months of 1999 was $6.4 million, compared to 1998 earnings of $8.4 million. The 1999 earnings include a transactional gain totaling $10.1 million, net of taxes, recorded by Pentzer as a result of the sale of a group of portfolio companies. The 1998 earnings included a transactional gain totaling $5.5 million, net of taxes, recorded by Pentzer as a result of the sale of one of its portfolio companies, Systran Financial Services. Non-transactional income from portfolio companies decreased $5.7 million in the first six months of 1999 from 1998 primarily due to the loss of income from the sale of a group of Pentzer's portfolio companies in the first quarter of 1999, a loss on the sale of equipment and decreased business activities.

Non-energy operating revenues and expenses decreased $20.1 million and $11.8 million, respectively, during the first six months of 1999, as compared to 1998, primarily as a result of the sale of a group of Pentzer's portfolio companies during the first quarter of 1999.

LIQUIDITY AND CAPITAL RESOURCES

OVERALL OPERATIONS

Operating Activities Cash provided by operating activities in the first six months of 1998 totaled $77.1 million, an increase of $7.4 million from the same period in 1998. Net income for the first half of 1999 was $20.0 million below that of 1998. The primary reason for increased cashflows was the sale of an additional $35.0 million of customer accounts receivables during 1999. Various working capital components, such as receivable and payables, increased substantially in the 1999 period primarily due to Avista Energy's operations.

Investing Activities Cash used in investing activities totaled $2.6 million in the first six months of 1999 compared to $48.4 million in the same period in 1998. Net cash used in investing activities during 1999 was primarily due to the purchase of Vitol and capital expenditures, nearly offset by proceeds from the sale of subsidiary investments by Pentzer.

Financing Activities Cash used in financing activities totaled $99.9 million in the first half of 1999 compared to $21.5 million in 1998. Short-term borrowings increased $51.1 million, while $101.3 million of long-term debt matured or was redeemed in the first six months of 1999. In the first half of 1998, short-term borrowings decreased $41.8 million, $74.2 million of long-term debt was issued and $16.0 million of preferred stock and debt was redeemed or matured. The repurchase of company stock (see paragraph below) used $26.5 million in 1999. Dividends paid decreased $15.9 million in the first half of 1999 compared to 1998 as a result of the Company's dividend restructuring that occurred in December 1998.

On May 12, 1999, the Company's Board of Directors authorized a common stock repurchase program in which the Company may repurchase in the open market or through privately negotiated transactions up to an aggregate of 10 percent of its common stock and common stock equivalents over the next two years. The repurchased shares will be retired as authorized but unissued shares. As of June 30, 1999, the Company had repurchased approximately 1.6 million shares.

In July 1999, the Company filed a Registration Statement with the Securities and Exchange Commission for authorization to issue up to and including $400 million of debt securities.

The Company's total common equity decreased $18.5 million during the first six months of 1999 to $469.5 million, primarily due to losses experienced by the National Energy Trading and Marketing business and the repurchase and retirement of shares of the Company's common stock. The Company's consolidated capital structure at June 30, 1999, was 44% debt, 26% preferred securities and 30% common equity, compared to 45% debt, 25% preferred securities and 30% common equity at year-end 1998. Had the convertible preferred stock been converted back to common stock, the Company's consolidated capital structure at June 30, 1999, would have been 44% debt, 9% preferred securities and 47% common equity.

ENERGY DELIVERY AND GENERATION AND RESOURCES OPERATIONS

The Company funds capital expenditures with a combination of internally-generated cash and external financing. The level of cash generated internally and the amount that is available for capital expenditures fluctuates annually. Cash provided by operating activities remains the Company's primary source of funds for operating needs, dividends and capital expenditures.

Capital expenditures are financed on an interim basis with notes payable (due within one year). The Company has $260 million in committed lines of credit. In addition, the Company may currently borrow up to $100 million through other borrowing arrangements with banks. As of June 30, 1999, $58.4 million was outstanding under other short-term borrowing arrangements and there were no outstanding borrowings under the committed line of credit.

NATIONAL ENERGY TRADING AND MARKETING OPERATIONS

Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, have a credit agreement with two commercial banks in the aggregate amount of $110 million, expiring May 31, 2000. The credit agreement may be terminated by the banks at any time and all extensions of credit under the agreement are payable upon demand, in either case at the banks' sole discretion. The agreement also provides, on an uncommitted basis, for the issuance of letters of credit to secure contractual obligations to counterparts. The facility is guaranteed by Avista Capital and is secured by substantially all of Avista Energy's assets. The maximum amount of credit extended by the banks for cash advances is $30 million, with availability of up to $110 million (less the amount of outstanding cash advances, if any) for the issuance of letters of credit. At June 30, 1999, there were no cash advances (demand notes payable) outstanding, and letters of credit outstanding under the facility totaled $69.3 million.

At June 30, 1999, National Energy Trading and Marketing operations had $36.3 million in cash and marketable securities with $3.1 million in long-term debt outstanding.

Avista Power earlier announced the purchase of a site in New Mexico on which it planned to construct a 120 megawatt combined cycle natural gas-fired electrical generating plant estimated to cost approximately $70 million. After completing due diligence on the site, it was determined that the project was not economically beneficial, so Avista Power decided not to proceed with the project.

NON-ENERGY OPERATIONS

The non-energy operations have $44.7 million in short-term borrowing arrangements available ($9.5 million outstanding as of June 30, 1999) to fund Pentzer's portfolio companies' requirements on an interim basis. At June 30, 1999, the non-energy operations had $9.9 million in cash and marketable securities with $38.9 million in long-term debt outstanding (the current portions of which are included on the Consolidated Balance Sheets as other current liabilities).

YEAR 2000

State of Readiness

As of the end of June 1999, the Company believes all of its internal business critical systems that could affect the Company's ability to deliver electric and natural gas are Year 2000 ready. During the remainder of 1999, the Company will complete the remaining non-mission critical tasks, continue to work with key suppliers, and refine and test contingency plans. Key activities include the assignment of resources to key locations for the evening of December 31, 1999 and the morning of January 1, 2000, training of personnel, testing of contingency procedures and completion of other tasks that support the Company's contingency plans. The Company participated in a region-wide contingency planning drill coordinated by the Western Systems Coordinating Council (WSCC) on April 9, 1999 and is making plans to participate in a second region-wide contingency planning drill on September 8-9, 1999.

Desktop Computer Systems The Company performed Year 2000 testing on all desktop computer hardware and inventoried and assessed desktop resident third-party software. All non-compliant third-party software programs and critical business desktop applications have been made Year 2000 ready while 99% of the desktop hardware requiring remediation has either been fixed or replaced.

Business Systems Several of the Company's business systems would not have operated correctly in the year 2000 and beyond. The Company has completed Year 2000 remediation and testing of mainframe computer code. A failure of these systems would not jeopardize the Company's ability to deliver energy services to customers, but might affect its ability to perform selected accounting and business-related functions.

Supply Chain The Company recognizes its dependence on outside suppliers of goods and services and is working to assure that the necessary products and services are available. The Company identified and communicated with critical suppliers in order to investigate their efforts to become Year 2000 ready. In addition, the Company has made site visits to selected key suppliers and is reviewing their contingency plans.

Embedded Systems Inventory, assessment, testing and remediation of microprocessor-controlled devices is complete. Very few embedded systems required remediation, and none requiring remediation would have caused a disruption in service to customers.

Contingency Planning The Company has developed contingency plans for the Company's electric and natural gas services and continues to participate in the development of region-wide contingency plans for electric service through the WSCC, the Company's electric reliability region.

Costs

The Company estimates that the cost of its Year 2000 project will be approximately $6-7 million in incremental costs during the 1997-1999 time period. Through June 30, 1999, the Company has spent $5.6 million in incremental costs. These costs are being funded through operating cashflows. The Company does not expect costs associated with the Year 2000 project to materially affect the Company's earnings in any one year.

Risks

Based upon information to date, the Company believes that, in the most reasonably likely worst-case scenario, Year 2000 issues could result in abnormal operating conditions, such as short-term interruption of generation, transmission and distribution functions, as well as Company-wide loss of system monitoring and control functions and loss of voice communications. These conditions, along with disruptions in natural gas service caused by failures of gas suppliers or interstate gas pipelines coupled with power outages due to the possible instability of the regional electric transmission grid, could result in the possible temporary interruption of service to customers. The Company does not believe the overall impact of this scenario will have a material impact on its financial condition or operations due to the anticipated short-term nature of interruptions.

The Company believes the primary areas of Year 2000 risk to be internal business systems, which are discussed above, and external factors, which include the regional electric transmission grid and natural gas pipelines. There can be no guarantee that systems of other companies on which the Company's systems rely will be timely converted. A failure to convert by another company or a conversion that is incompatible with the Company's systems could have an effect on the Company's ability to provide energy services.

Electric The Company is working with the other energy suppliers in the area to address risks related to the regional electric transmission grid, which consists of the interconnected transmission systems of each utility within the WSCC. Such interconnected systems are critical to the reliability of each interconnected electric service provider, as the failure of one such interconnected provider to achieve Year 2000 compliance could disrupt the others from providing electric services. Should the regional electric transmission grid become unstable, power outages may occur. The Company cannot assure Year 2000 compliance or assess the effect of non-compliance by systems or parties that the Company does not control.

In addition to the traditional electric utility operations of the Company, the energy trading business conducted by Avista Energy is subject to Year 2000 risk. Most of Avista Energy's internal business systems do not require any significant upgrading and those that do have been addressed. With the integration of Avista Energy's and Vitol's systems, an entire new infrastructure is being implemented, scheduled to be complete by the end of September, which will be Year 2000 compliant. However, if any of Avista Energy's counterparties experience Year 2000 problems (including, but not limited to, problems arising out of failures in the generation or transmission systems of utilities or other energy suppliers), such problems could impair the ability of Avista Energy or any of its counterparties to fulfill their contractual obligations. Avista Energy has contacted its counterparties and various power pools to assess their Year 2000 readiness and is developing contingency plans. See "Energy Trading Business".

Natural Gas The Company has performed an inventory and assessment of the equipment in its natural gas distribution systems and believes that there are no devices in the systems that will cause a disruption in the delivery of natural gas to customers due to a Year 2000 problem. However, the Company depends on natural gas pipelines which it does not own or control, and if one or more of the pipelines is unable to deliver natural gas, the Company in turn will be unable to deliver natural gas to customers. In order to address this issue, the Company has contacted each of the natural gas pipeline companies with which it has contracts to assess their Year 2000 readiness efforts and will continue to take reasonable steps to ensure that these suppliers are addressing any Year 2000 related problems that would result in a disruption in natural gas services to customers.

ENERGY TRADING BUSINESS

The participants in the emerging wholesale energy market are public utility companies and, increasingly, power marketers which may or may not be affiliated with public utility companies or other entities. The participants in this market trade not only electricity and natural gas as commodities but also derivative commodity instruments such as futures, forwards, swaps, options and other instruments. This market is largely unregulated and most transactions are conducted on an "over-the-counter" basis, there being no central clearing mechanism (except in the case of specific instruments traded on the commodity exchanges). Power marketers, whether or not affiliated with other entities, generally do not own production facilities and are not subject to net capital or other requirements of any regulatory agency.

The Company (to the extent that the Generation and Resources segment conducts energy trading) and Avista Energy are subject to the various risks inherent in commodity trading including, particularly, market risk and credit risk.

Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply (in the case of electricity, adequacy of generating reserve margins as well as scheduled and unscheduled outages of generating facilities) and demand (extreme variations in the weather, whether or not predicted). Market risk includes the risk of fluctuation in the market price of associated derivative commodity instruments. All market risk is influenced to the extent that the performance or non-performance by market participants of their contractual obligations and commitments affect the supply of the commodity.

Credit risk relates to the risk of loss that the Company (to the extent of Generation and Resources' trading activities) and/or Avista Energy would incur as a result of non-performance by counterparties of their contractual obligations under the various instruments with the Company or Avista Energy, as the case may be. Credit risk may be concentrated to the extent that one or more groups of counterparties have similar economic, industry or other characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market or other conditions. In addition, credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances which relate to other market participants which have a direct or indirect relationship with such counterparty. The Company and Avista Energy seek to mitigate credit risk (and concentrations thereof) by applying specific eligibility criteria to prospective counterparties. However, despite mitigation efforts, defaults by counterparties may occur from time to time. To date, no such default has had a material adverse effect on the Company or Avista Energy.

Avista Capital provides guarantees for Avista Energy's line of credit agreement, and in the course of business may provide guarantees to other parties with whom Avista Energy may be doing business. The Company's investment in Avista Capital totaled $300.4 million at June 30, 1999.

RISK MANAGEMENT

The risk management process established by the Company is designed to measure both quantitative and qualitative risk in the business. The Company and Avista Energy have adopted policies and procedures to manage the risks inherent in their businesses and have established a comprehensive Risk Management Committee, separate from the units that create the risk exposure and overseen by the Audit and Finance Committee of the Company's Board of Directors, to monitor compliance with the Company's risk management policies and procedures on a regular basis. Nonetheless, adverse changes in interest rates, commodity prices and foreign currency exchange rates may result in losses in earnings, cash flow and/or fair values.

Interest Rate Risk The Company's market risks related to interest rates have not changed materially from those reported in the 1998 Form 10-K.

Commodity Price Risk The Company's market risks related to commodity prices have not changed materially from those reported in the 1998 Form 10-K. The following Value-at-Risk (VAR) information has been updated for the current period. At June 30, 1999, Avista Energy's estimated potential one-day unfavorable impact on gross margin was $4.2 million, as measured by VAR, related to its commodity trading and marketing business. The average daily VAR for the first six months of 1999 was $3.6 million.

Foreign Currency Risk The Company's market risks related to foreign currency have not changed materially from those reported in the 1998 Form 10-K.

SAFE HARBOR FOR FORWARD LOOKING STATEMENTS.

The Company is including the following cautionary statement in this Form 10-Q to make applicable and to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements are all statements other than statements of historical fact, including without limitation those that are identified by the use of the words "anticipates," "estimates," "expects," "intends," "plans," "predicts," and similar expressions. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those expressed. Such risks and uncertainties include, among others, changes in the utility regulatory environment, wholesale and retail competition, weather conditions and various other matters, many of which are beyond the Company's control. These forward-looking statements speak only as of the date of the report. The Company expressly undertakes no obligation to update or revise any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based. See "Safe Harbor for Forward Looking Statements" in the Company's 1998 Form 10-K under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Future Outlook.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Management's Discussion and Analysis of Financial Condition and Results of Operations: Liquidity and Capital Resources: Risk Management."

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The 1999 Annual Meeting of Shareholders of the Company was held on May 13, 1999. The re-election of three directors with expiring terms and election of a new director were the only matters voted upon at the meeting. There were 40,555,765 shares of Common Stock issued and outstanding as of March 18, 1999, the proxy record date, with 33,331,558 shares represented at said meeting. The details of the voting are shown below:

	For	Against or Withheld
Re-election of Directors		
Thomas M. Matthews	31,664,990	1,666,568
Eugene W. Meyer	31,816,630	1,514,928
Daniel J. Zaloudek	31,767,953	1,563,605
Election of New Director		
Jessie J. Knight, Jr.	31,784,340	1,547,218

ITEM 5. OTHER INFORMATION

Idaho Electric Rate Increase On December 18, 1998, the Company filed for a general electric rate increase of $14.2 million or 11.56% with the Idaho Public Utilities Commission (IPUC), which was later reduced to approximately $13.5 million or 10.9%. In July 1999, the IPUC approved a rate increase of $9.3 million or 7.58%, effective August 1, 1999. The Company is implementing a 2.5% power cost adjustment (PCA) rebate, also effective August 1, 1999.

Avista Communications In May 1999, Avista Communications finalized an acquisition agreement with Western Technology Partners, a Billings, Montana internet service provider, to form Avista Communications of Montana. The merger added more than 6,000 customers. The new company will provide local dial tone, data and internet services.

Centralia Power Plant On May 10, 1999, the owners of the Centralia Power Plant announced an agreement to sell the plant to TransAlta, a Canadian company. Avista Corp. has a 15% interest in the generating plant. The Company expects to receive gross proceeds of approximately $60 million for its share of the plant. Final accounting for the sale of the plant is still being determined. The sale must be approved by federal and state regulators, as well as the city councils or directors who control the municipal utilities and public utility districts that also have ownership interests in the Centralia plant. It is expected that all approvals will be completed by the end of the year.

Avista Labs Avista Labs selected a Spokane company, Logan Industries, Inc., to manufacture its introductory proton exchange membrane (PEM) fuel cell generators. A minimum of 200 PEM fuel cell power units will be manufactured, assembled and tested. Manufacturing began in June. In September and October of this year, Avista Labs will begin installing demonstration sites throughout the United States to prove the reliability and ease of operation.

Avista Power On May 6, 1999, Avista Power and STEAG AG, Germany's largest independent power producer announced that the two companies will form a joint venture to develop, build and/or buy electric generation assets in strategic locations throughout North America. STEAG will purchase a 50 percent interest in Avista Power and invest jointly with Avista Power in future projects. STEAG also secured an option to purchase a minority interest in Avista Energy.

Coeur d' Alene Lake Court Decision On July 28, 1998, the United States District Court for the District of Idaho issued its finding that the Coeur d' Alene Tribe of Idaho owns the bed and banks of the Coeur d' Alene Lake and the St. Joe River lying within the current boundaries of the Coeur d' Alene Reservation. The disputed bed and banks comprise approximately the southern one-third of Lake Coeur d' Alene. This action had been brought by the United States on behalf of the Tribe against the State of Idaho. While the Company is not a party to this action, which has been appealed by the State of Idaho to the Ninth Circuit, the Company is continuing to evaluate the impact of this decision on the operation of its hydroelectric facilities on the Spokane River, downstream of the Coeur d' Alene Lake, which is the reservoir for these plants.

ADDITIONAL FINANCIAL DATA

At June 30, 1999, the total long-term debt of the Company and its consolidated subsidiaries, as shown in the Company's consolidated financial statements, was approximately $680.9 million. Of such amount, $218.5 million represents long-term unsecured and unsubordinated indebtedness of the Company, and $372.2 million represents secured indebtedness of the Company. The balance of $90.2 million includes short-term notes to be refinanced as well as indebtedness of subsidiaries. Consolidated long-term debt does not include the Company's subordinated indebtedness held by the issuers of Company-obligated preferred trust securities.

The following table reflects the ratio of earnings to fixed charges and the ratio of earnings to fixed charges and preferred dividend requirements:

	12 Months Ended	
	June 30, 1999	December 31, 1998
Ratio of Earnings to Fixed Charges	2.17(x)	2.66(x)
Ratio of Earnings to Fixed Charges and Preferred Dividend Requirements	1.60(x)	2.25(x)

The Company has long-term purchased power arrangements with various Public Utility Districts and the interest expense components of these contracts are included in purchased power expenses. These interest amounts are not included in the fixed charges and would not have a material impact on fixed charges ratios.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

4(a) Bylaws of Avista Corporation, as amended May 13, 1999.

12 Computation of ratio of earnings to fixed charges and preferred dividend requirements.

27 Financial Data Schedule.

(b) Reports on Form 8-K.

Dated January 6, 1999, regarding the Company's name change to Avista Corporation. Dated June 15, 1999, regarding anticipated lower second quarter earnings.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVISTA CORPORATION
(Registrant)

Date: August 12, 1999

/s/ J. E. Eliassen

J. E. Eliassen
Senior Vice President and
Chief Financial Officer
(Principal Accounting and
Financial Officer)

Exhibit 4(a)

BYLAWS
OF
AVISTA CORPORATION

* * * * *

ARTICLE I.
OFFICES

The principal office of the Corporation shall be in the City of Spokane, Washington. The Corporation may have such other offices, either within or without the State of Washington, as the Board of Directors may designate from time to time.

ARTICLE II.
SHAREHOLDERS

SECTION 1. ANNUAL MEETING. The Annual Meeting of Shareholders shall be held on such date in the month of May in each year as determined by the Board of Directors for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the day fixed for the Annual Meeting shall be a legal holiday, such meeting shall be held on the next succeeding business day.

SECTION 2. SPECIAL MEETINGS. Special meetings of the shareholders may be called by the President, the Chairman of the Board, the majority of the Board of Directors, the Executive Committee of the Board, and shall be called by the President at the request of the holders of not less than two-thirds (2/3) of the voting power of all shares of the voting stock voting together as a single class. Only those matters that are specified in the call of or request for a special meeting may be considered or voted at such meeting.

SECTION 3. PLACE OF MEETING. Meetings of the shareholders, whether they be annual or special, shall be held at the principal office of the Corporation, unless a place, either within or without the state, is otherwise designated by the Board of Directors in the notice provided to shareholders of such meetings.

SECTION 4. NOTICE OF MEETING. Written or printed notice of every meeting of shareholders shall be mailed by the Corporate Secretary or any Assistant Corporate Secretary, not less than ten (10) nor more than fifty (50) days before the date of the meeting, to each holder of record of stock entitled to vote at the meeting. The notice shall be mailed to each shareholder at his last known post office address, provided, however, that if a shareholder is present at a meeting, or waives notice thereof in writing before or after the meeting, the notice of the meeting to such shareholders shall be unnecessary.

SECTION 5. VOTING OF SHARES. At every meeting of shareholders each holder of stock entitled to vote thereat shall be entitled to one vote for each share of such stock held in his name on the books of the Corporation, subject to the provisions of applicable law and the Articles of Incorporation, and may vote and otherwise act in person or by proxy; provided, however, that in elections of directors there shall be cumulative voting as provided by law and by the Articles of Incorporation.

SECTION 6. QUORUM. The holders of a majority of the number of outstanding shares of stock of the Corporation entitled to vote thereat, present in person or by proxy at any meeting, shall constitute a quorum, but less than a quorum shall have power to adjourn any meeting from time to time without notice. No change shall be made in this Section 6 without the affirmative vote of the holders of at least a majority of the outstanding shares of stock entitled to vote.

SECTION 7. CLOSING OF TRANSFER BOOKS OR FIXING OF RECORD DATE. For the purposes of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors of the Corporation may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, fifty (50) days. If the stock transfer books shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least ten (10) days immediately preceding such meeting. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than seventy (70) days and, in case of a meeting of shareholders, not less than ten (10) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof.

SECTION 8. VOTING RECORD. The officer or agent having charge of the stock transfer books for shares of the Corporation shall make, at least ten (10) days before each meeting of shareholders, a complete record of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each, which record, for a period of ten (10) days prior to such meeting, shall be kept on file at the registered office of the Corporation. Such record shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting for the purposes thereof.

SECTION 9. CONDUCT OF PROCEEDINGS. The Chairman of the Board shall preside at all meetings of the shareholders. In the absence of the Chairman, the President shall preside and in the absence of both, the Executive Vice President shall preside. The members of the Board of Directors present at the meeting may appoint any officer of the Corporation or member of the Board to act as Chairman of any meeting in the absence of the Chairman, the President, or Executive Vice President. The Corporate Secretary of the Corporation, or in his absence, an Assistant Corporate Secretary, shall act as Secretary at all meetings of the shareholders. In the absence of the Corporate Secretary or Assistant Corporate Secretary at any meeting of the shareholders, the presiding officer may appoint any person to act as Secretary of the meeting.

SECTION 10. PROXIES. At all meetings of shareholders, a shareholder may vote in person or by proxy executed in writing by the shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the Corporate Secretary of the Corporation before or at the time of the meeting.

ARTICLE III.
BOARD OF DIRECTORS

SECTION 1. GENERAL POWERS. The powers of the Corporation shall be exercised by or under the authority of the Board of Directors, except as otherwise provided by the laws of the State of Washington and the Articles of Incorporation.

SECTION 2. NUMBER AND TENURE. The number of Directors of the Corporation shall be ten (10); provided, however, that if the right to elect a majority of the Board of Directors shall have accrued to the holders of the Preferred Stock as provided in paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, then, during such period as such holders shall have such right, the number of directors may exceed ten (10). Directors shall be divided into three classes, as nearly equal in number as possible. At each Annual Meeting of Shareholders, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding Annual Meeting of Shareholders after their election. Notwithstanding the foregoing, directors elected by the holders of the Preferred Stock in accordance with paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation shall be elected for a term which shall expire not later than the next Annual Meeting of Shareholders. All directors shall hold office until the expiration of their respective terms of office and until their successors shall have been elected and qualified.

SECTION 3. REGULAR MEETINGS. The regular annual meeting of the Board of Directors shall be held immediately following the adjournment of the annual meeting of the shareholders or as soon as practicable after said annual meeting of shareholders. But, in any event, said regular annual meeting of the Board of Directors must be held on either the same day as the annual meeting of shareholders or the next business day following said annual meeting of shareholders. At such meeting the Board of Directors, including directors newly elected, shall organize itself for the coming year, shall elect officers of the Corporation for the ensuing year, and shall transact all such further business as may be necessary or appropriate. The Board shall hold regular quarterly meetings, without call or notice, on such dates as determined by the Board of Directors. At such quarterly meetings the Board of Directors shall transact all business properly brought before the Board.

SECTION 4. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board, the President, the Executive Vice President or any three (3) directors. Notice of any special meeting shall be given to each director at least two (2) days in advance of the meeting.

SECTION 5. EMERGENCY MEETINGS. In the event of a catastrophe or a disaster causing the injury or death to members of the Board of Directors and the principal officers of the Corporation, any director or officer may call an emergency meeting of the Board of Directors. Notice of the time and place of the emergency meeting shall be given not less than two (2) days prior to the meeting and may be given by any available means of communication. The director or directors present at the meeting shall constitute a quorum for the purpose of filling vacancies determined to exist. The directors present at the emergency meeting may appoint such officers as necessary to fill any vacancies determined to exist. All appointments under this section shall be temporary until a special meeting of the shareholders and directors is held as provided in these Bylaws.

SECTION 6. CONFERENCE BY TELEPHONE. The members of the Board of Directors, or of any committee created by the Board, may participate in a meeting of the Board or of the committee by means of a conference telephone or similar communication equipment by means of which all persons participating in the meeting can hear each other at the same time. Participation in a meeting by such means shall constitute presence in person at a meeting.

SECTION 7. QUORUM. A majority of the number of directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. The action of a majority of the directors present at a meeting at which a quorum is present shall be the action of the Board.

SECTION 8. ACTION WITHOUT A MEETING. Any action required by law to be taken at a meeting of the directors of the Corporation, or any action which may be taken at a meeting of the directors or of a committee, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors, or all of the members of the committee, as the case may be. Such consent shall have the same effect as a unanimous vote.

SECTION 9. VACANCIES. Subject to the provisions of paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, (a) any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors and any director so elected to fill a vacancy shall be elected for the unexpired term of his or her predecessor in office and (b) any directorship to be filled by reason of an increase in the number of directors may be filled by the Board of Directors for a term of office continuing only until the next election of directors by the shareholders.

SECTION 10. RESIGNATION OF DIRECTOR. Any director or member of any committee may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein. If no time is specified, it shall take effect from the time of its receipt by the Corporate Secretary, who shall record such resignation, noting the day, hour and minute of its reception. The acceptance of a resignation shall not be necessary to make it effective.

SECTION 11. REMOVAL. Subject to the provisions of paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, any director may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least a majority of the voting power of all of the shares of capital stock of the Corporation entitled generally to vote in the election of directors voting together as a single class, at a meeting of shareholders called expressly for that purpose; provided, however, that if less than the entire Board of Directors is to be removed, no one of the directors may be removed if the votes cast against the removal of such director would be sufficient to elect such director if then cumulatively voted at an election of the class of directors of which such director is a part. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

SECTION 12. ORDER OF BUSINESS. The Chairman of the Board shall preside at all meetings of the directors. In the absence of the Chairman, the officer or member of the Board designated by the Board of Directors shall preside. At meetings of the Board of Directors, business shall be transacted in such order as the Board may determine. Minutes of all proceedings of the Board of Directors, or committees appointed by it, shall be prepared and maintained by the Corporate Secretary or an Assistant Corporate Secretary and the original shall be maintained in the principal office of the Corporation.

SECTION 13. NOMINATION OF DIRECTORS. Subject to the provisions of paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, nominations for the election of directors may be made by the Board of Directors, or a nominating committee appointed by the Board of Directors, or by any holder of shares of the capital stock of the Corporation entitled generally to vote in the election of directors (such stock being hereinafter in this Section called "Voting Stock"). However, any holder of shares of the Voting Stock may nominate one or more persons for election as directors at a meeting only if written notice of such shareholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Corporate Secretary not later than (i) with respect to an election to be held at an annual meeting of shareholders, ninety (90) days in advance of such meeting and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the seventh day following the date on which notice of such meeting is first given to shareholders. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that such shareholder is a holder of record of shares of the Voting Stock of the Corporation and intends to appear in person or by proxy at the meeting to nominate the person or persons identified in the notice; (c) a description of all arrangements or understandings between such shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such shareholder; (d) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (or any subsequent revisions replacing such Act, rules or regulations) if the nominee(s) had been nominated, or were intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a Director of the Corporation if so elected. The Chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

SECTION 14. PRESUMPTION OF ASSENT. A director of the Corporation who is present at a meeting of the Board of Directors, or of a committee thereof, at which action on any corporate matter is taken, shall be presumed to have assented to the action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Corporate Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 15. RETIREMENT OF DIRECTORS. Directors who are seventy (70) years of age or more shall retire from the Board effective at the conclusion of the Annual Meeting of Shareholders held in the year in which their term expires, and any such Director shall not be nominated for election at such Annual Meeting. The foregoing shall be effective in 1988 and thereafter as to any Director who is seventy (70) years of age or more during the year in which his or her term expires.

ARTICLE IV.
EXECUTIVE COMMITTEE
AND
ADDITIONAL COMMITTEES

SECTION 1. APPOINTMENT. The Board of Directors, by resolution adopted by a majority of the Board, may designate three or more of its members to constitute an Executive Committee. The designation of such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed by law.

SECTION 2. AUTHORITY. The Executive Committee, when the Board of Directors is not in session, shall have and may exercise all of the authority of the Board of Directors including authority to authorize distributions or the issuance of shares of stock, except to the extent, if any, that such authority shall be limited by the resolution appointing the Executive Committee or by law.

SECTION 3. TENURE. Each member of the Executive Committee shall hold office until the next regular annual meeting of the Board of Directors following his designation and until his successor is designated as a member of the Executive Committee.

SECTION 4. MEETINGS. Regular meetings of the Executive Committee may be held without notice at such times and places as the Executive Committee may fix from time to time by resolution. Special meetings of the Executive Committee may be called by any member thereof upon not less than two (2) days notice stating the place, date and hour of the meeting, which notice may be written or oral. Any member of the Executive Committee may waive notice of any meeting and no notice of any meeting need be given to any member thereof who attends in person.

SECTION 5. QUORUM. A majority of the members of the Executive Committee shall constitute a quorum for the transaction of business at any meeting thereof. Actions by the Executive Committee must be authorized by the affirmative vote of a majority of the appointed members of the Executive Committee.

SECTION 6. ACTION WITHOUT A MEETING. Any action required or permitted to be taken by the Executive Committee at a meeting may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the members of the Executive Committee.

SECTION 7. PROCEDURE. The Executive Committee shall select a presiding officer from its members and may fix its own rules of procedure which shall not be inconsistent with these Bylaws. It shall keep regular minutes of its proceedings and report the same to the Board of Directors for its information at a meeting thereof held next after the proceedings shall have been taken.

SECTION 8. COMMITTEES ADDITIONAL TO EXECUTIVE COMMITTEE. The Board of Directors may, by resolution, designate one or more other committees, each such committee to consist of two (2) or more of the directors of the Corporation. A majority of the members of any such committee may determine its action and fix the time and place of its meetings unless the Board of Directors shall otherwise provide.

ARTICLE V.
OFFICERS

SECTION 1. NUMBER. The Board of Directors shall elect one of its members Chairman of the Board. The Board of Directors shall elect a President, who may also serve as Chairman, one or more Vice Presidents, a Corporate Secretary, a Treasurer, and may from time to time elect such other officers as the Board deems appropriate. The same person may be appointed to more than one office except that the offices of President and Corporate Secretary may not be held by the same person.

SECTION 2. ELECTION AND TERM OF OFFICE. The officers of the Corporation shall be elected by the Board of Directors at the annual meeting of the Board. Each officer shall hold office until his successor shall have been duly elected and qualified.

SECTION 3. REMOVAL. Any officer or agent may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

SECTION 4. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification or otherwise may be filled by the Board of Directors for the unexpired portion of the term.

SECTION 5. POWERS AND DUTIES. The officers shall have such powers and duties as usually pertain to their offices, except as modified by the Board of Directors, and shall have such other powers and duties as may from time to time be conferred upon them by the Board of Directors.

ARTICLE VI.
CONTRACTS, CHECKS AND DEPOSITS

SECTION 1. CONTRACTS. The Board of Directors may authorize any officer or officers or agents, to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

SECTION 2. CHECKS/DRAFTS/NOTES. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 3. DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors by resolution may select.

ARTICLE VII.
CERTIFICATES FOR SHARES AND THEIR TRANSFER

SECTION 1. CERTIFICATES FOR SHARES. Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors and shall contain such information as prescribed by law. Such certificates shall be signed by the President or a Vice President and by either the Corporate Secretary or an Assistant Corporate Secretary, and sealed with the corporate seal or a facsimile thereof. The signatures of such officers upon a certificate may be facsimiles. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

SECTION 2. TRANSFER OF SHARES. Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of authority to transfer, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Corporate Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes. The Board of Directors shall have power to appoint one or more transfer agents and registrars for transfer and registration of certificates of stock.

ARTICLE VIII.
CORPORATE SEAL

The seal of the Corporation shall be in such form as the Board of Directors shall prescribe.

ARTICLE IX.
INDEMNIFICATION

SECTION 1. INDEMNIFICATION OF DIRECTORS AND OFFICERS. The Corporation shall indemnify and reimburse the expenses of any person who is or was a director, officer, agent or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee, or agent of another enterprise or employee benefit plan to the extent permitted by and in accordance with Article SEVENTH of the Company's Articles of Incorporation and as permitted by law.

SECTION 2. LIABILITY INSURANCE. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, other enterprise, or employee benefit plan against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the laws of the State of Washington.

SECTION 3. RATIFICATION OF ACTS OF DIRECTOR, OFFICER OR SHAREHOLDER. Any transaction questioned in any shareholders' derivative suit on the ground of lack of authority, defective or irregular execution, adverse interest of director, officer or shareholder, nondisclosure, miscomputation, or the application of improper principles or practices of accounting may be ratified before or after judgment, by the Board of Directors or by the shareholders in case less than a quorum of directors are qualified; and, if so ratified, shall have the same force and effect as if the questioned transaction had been originally duly authorized, and said ratification shall be binding upon the Corporation and its shareholders and shall constitute a bar to any claim or execution of any judgment in respect of such questioned transaction.

ARTICLE X.
AMENDMENTS

Except as to Section 6 of Article II of these Bylaws, the Board of Directors may alter or amend these Bylaws at any meeting duly held, the notice of which includes notice of the proposed amendment. Bylaws adopted by the Board of Directors shall be subject to change or repeal by the shareholders; provided, however, that Section 2 of the Article II, Section 2 (other than the provision thereof specifying the number of Directors of the Corporation), and Sections 9, 11 and 13 of Article III and this proviso shall not be altered, amended or repealed, and no provision inconsistent therewith or herewith shall be included in these Bylaws, without the affirmative votes of the holders of at least eighty percent (80%) of the voting power of all the shares of the Voting Stock voting together as a single class.

EXHIBIT 12

AVISTA CORPORATION

Computation of Ratio of Earnings to Fixed Charges and
Preferred Dividend Requirements
Consolidated
(Thousands of Dollars)

	12 Mos. Ended June 30, 1999	Years Ended December 31 1998	1997	1996	1995
Fixed charges, as defined:					
Interest on long-term debt	$ 66,760	$ 66,218	$ 63,413	$ 60,256	$ 55,580
Amortization of debt expense and premium - net	1,605	2,859	2,862	2,998	3,441
Interest portion of rentals	4,348	4,301	4,354	4,311	3,962
Total fixed charges	$ 72,714	$ 73,378	$ 70,629	$ 67,565	$ 62,983
Earnings, as defined:					
Net income from continuing ops	$ 58,162	$ 78,139	$114,797	$ 83,453	$ 87,121
Add (deduct):					
Income tax expense	26,569	43,335	61,075	49,509	52,416
Total fixed charges above	72,714	73,378	70,629	67,565	62,983
Total earnings	$157,445	$194,852	$246,501	$200,527	$202,520
Ratio of earnings to fixed charges	2.17	2.66	3.49	2.97	3.22
Fixed charges and preferred dividend requirements:					
Fixed charges above	$ 72,714	$ 73,378	$ 70,629	$ 67,565	$ 62,983
Preferred dividend requirements(2)	25,574	13,057	8,261	12,711	14,612
Total	$ 98,288	$ 86,435	$ 78,890	$ 80,276	$ 77,595
Ratio of earnings to fixed charges and preferred dividend requirements	1.60	2.25	3.12	2.50	2.61

(1) Preferred dividend requirements have been grossed up to their pre-tax level.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF AVISTA CORPORATION, INCLUDED IN THE QUARTERLY REPORT ON FORM 10-Q FOR THE SIX MONTHS ENDED JUNE 30, 1999, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

6-MOS
DEC-31-1999
JUN-30-1999
PER-BOOK
1,482,102
731,754
1,251,456
276,915
0
3,742,227
351,850
(3,970)
121,649
469,529
145,000
268,855
538,348
67,896
26,127
0
64,231
0
4,627
1,715
2,155,899
3,742,227
2,647,931
12,786
2,600,044
2,600,044
47,887
24,554
72,441
31,758
27,897
10,767
17,130
9,684
0
77,074
0.42
0.42

LONG-TERM DEBT-NET DOES NOT MATCH THE AMOUNT REPORTED ON THE COMPANY'S CONSOLIDATED STATEMENT OF CAPITALIZATION AS LONG-TERM DEBT DUE TO THE OTHER CATEGORIES REQUIRED BY THIS SCHEDULE.
OTHER ITEMS CAPITAL AND LIABILITIES INCLUDES THE CURRENT LIABILITIES, DEFERRED CREDITS AND MINORITY INTEREST, LESS CERTAIN AMOUNTS INCLUDED UNDER LONG-TERM DEBT-CURRENT PORTION AND LEASES-CURRENT, FROM THE COMPANY'S CONSOLIDATED BALANCE SHEET.
THE COMPANY DOES NOT INCLUDE INCOME TAX EXPENSE AS AN OPERATING EXPENSE ITEM. IT IS INCLUDED ON THE COMPANY'S STATEMENTS AS A BELOW-THE-LINE ITEM.
INCOME BEFORE INTEREST EXPENSE IS NOT A SPECIFIC LINE ITEM ON THE COMPANY'S INCOME STATEMENTS. THE COMPANY COMBINES TOTAL INTEREST EXPENSE AND OTHER INCOME TO CALCULATE INCOME BEFORE INCOME TAXES.