

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

**FORM 8-K**

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): February 9, 2006

**AVISTA CORPORATION**

(Exact name of registrant as specified in its charter)

**Washington**  
(State or other jurisdiction of  
incorporation)

**1-3701**  
(Commission  
File Number)

**91-0462470**  
(I.R.S. Employer  
Identification No.)

**1411 East Mission Avenue, Spokane, Washington**  
(Address of principal executive offices)

**99202-2600**  
(Zip Code)

Registrant's telephone number, including area code: 509-489-0500

Web site: <http://www.avistacorp.com>

---

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

## Section 1 – Registrant’s Business and Operations

### **Item 1.01** Entry into a Material Definitive Agreement.

#### ***Executive Compensation Matters***

The Compensation & Organization Committee (the “Committee”) of the Board of Directors of Avista Corporation (“Avista Corp.” or the “Company”) is responsible for all aspects of executive officers’ compensation arrangements, including approval of all employment, retention, severance, and change of control agreements. The primary objective in establishing compensation opportunities for executive officers is to support the Company’s goal of maximizing the value of shareholders’ interests and to encourage a meaningful stake in the Company to serve the long-term best interests of the Company and its customers.

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

The Committee considers, but does not target, executive officer compensation at the median of similarly situated executives at the Company’s competitors. Rather, the Committee believes that its total compensation opportunities for executive officers can be a powerful and effective tool to advance the business interests of the Company, as well as provide a basis for attracting and retaining executive officers that possess the necessary talent and skill to further the Company’s success.

The percentage of executive compensation that is included in retail rates can vary significantly from year-to-year primarily as a result of changes in long-term incentive compensation based on the performance of the Company over multiple year periods. Specific details of executive compensation are provided below and in the exhibits to this Form 8-K. For 2005, approximately 26 percent of the total compensation (which includes base compensation, annual incentives and long-term incentives) of the Company’s five named executive officers was included in retail rates. Approximately 68 percent of base compensation and 7 percent (representing a portion of annual incentives and none of the long-term performance share payouts) of incentive compensation is currently included in retail rates. The incentive compensation, which will be paid in early 2006, include annual incentives paid based on 2005 performance as well as performance share payouts based on the performance of the Company over the three-year period ending in 2005 as described below. These percentages are for the base compensation and incentives of the five executive officers that are expected to be a named executive officer (“NEO”) in Avista Corp.’s Proxy Statement for the annual meeting of shareholders to be held on May 11, 2006 (the “2006 Proxy Statement”).

#### ***Executive Officer Base Compensation***

The Committee reviews each executive officer’s base salary at least annually. The factors that influence the Committee’s decisions regarding base salary include: levels of pay among executives in the utility and diversified energy industry, level of responsibilities and job complexity, prior experience, breadth of knowledge, and job performance, including the Committee’s subjective judgment as to individual contribution. The Committee considers some or all of these factors as appropriate; there are no formal weightings given to any factor.

On February 9, 2006, the Committee approved new base compensation, effective March 1, 2006, for executive officers of Avista Corp. Base compensation for each executive officer who is expected to be a NEO in the 2006 Proxy Statement is included in the Avista Corporation 2006 NEO Base Compensation Table, which is filed as exhibit 10.1.

#### ***Executive Incentive Compensation Plan***

The 2005 Executive Incentive Compensation Plan provided the opportunity for executive officers to earn annual cash awards based on meeting certain corporate and utility performance measures. The Committee established the target amount as a specified percentage of each executive officer’s base compensation. The target bonus percentages were set from 40 percent to 90 percent of base compensation depending on position, but the amount paid could be more or less than the target amounts depending on the Company’s performance. In the event that certain corporate and utility performance goals were achieved, executive officers would have been entitled to receive the full cash award. In the event that those performance goals were exceeded, executive officers would have been entitled to

receive up to 150 percent of their target bonus percentage. In the event that performance goals were not achieved, there would be no payouts.

The 2005 Executive Incentive Compensation Plan was designed to focus each executive officer on the Company's strategic goals. For 2005, the Committee approved a plan with targets based on utility operations and maintenance cost per customer, as well as corporate and utility earnings per share. The plan had three independent funding triggers: (1) customer satisfaction, (2) electric reliability, and (3) capital expenditures. The funding triggers, if met, would create the incentive pool from which cash awards would be paid. The plan also had three financial performance targets: (1) corporate earnings per share, (2) utility earnings per share, and (3) operations and maintenance cost per customer. For cash awards to be paid, the Company had to meet at least one of the funding triggers and at least one financial performance target. However, the Committee retained the discretion to fund more or less than the amount calculated based on the funding triggers and levels of financial performance.

On February 9, 2006, the Committee approved the payment of annual cash awards to the executive officers of Avista Corp. for 2005 performance in accordance with the Executive Incentive Compensation Plan based on various triggers and targets being met as established in the 2005 plan. Cash awards for each executive officer who is expected to be a NEO in the 2006 Proxy Statement are included in the Avista Corporation 2005 NEO Incentive Compensation Table, which is filed as exhibit 10.2. Cash awards were granted based on the Company meeting funding triggers for customer satisfaction, electric reliability, and capital expenditures, as well as the Committee's overall assessment of management's progress towards strategic objectives. The Company also met projected levels for the financial performance targets for operations and maintenance cost per customer and utility earnings per share. The Company did not meet the financial performance target of corporate earnings per share.

On February 9, 2006, the Committee established the criteria for cash award opportunities for the 2006 Executive Incentive Compensation Plan. The target bonus percentages, funding triggers and financial performance measures remain the same as the 2005 Executive Incentive Compensation Plan, but the targets have been updated to reflect the 2006 corporate goals. A summary of the 2006 Executive Incentive Compensation Plan is filed as exhibit 10.3.

#### ***Long-Term Incentive Plan***

The primary objective of the Long-Term Incentive Plan is to link management compensation with the long-term interests of shareholders. Beginning in 2003, the Committee replaced stock options for officers and other key employees with performance shares grants to align more closely to the new strategic direction of being a value growth company. The Long-Term Incentive Plan for 2006 and beyond will have a combination of performance shares and restricted shares. Of the total award, 75 percent will be delivered through performance shares and 25 percent through restricted shares.

With respect to performance shares, each executive officer is entitled to receive a certain level of performance shares in three-year cycles, if specified performance goals are attained at the end of each three-year cycle. The performance share awards are designed to provide a clear link to the long-term interests of shareholders by providing that performance shares will be issued only if the Company achieves certain relative shareholder return targets when measured against the S&P 400 MidCap Utilities Index over a three-year period. For purposes of calculating the return on Company Common Stock, the stock price for the beginning of the cycle is calculated as the average month-end closing price for the two months prior to the beginning of the performance cycle, and the stock price for the end of the cycle is calculated as the average month-end closing price for the last two months of the three-year performance cycle.

The amount of the payment with respect to any award is determined at the end of the three-year performance cycle based on the Company's final average percentile ranking relative to the S&P 400 MidCap Utilities Index and is payable at the Company's option in either cash or Company Common Stock, or both.

The number of performance shares paid to executive officers at the end of the three-year cycle will range from 0 to 150 percent of the grant. No performance shares will be paid unless the Company achieves at least the 45<sup>th</sup> percentile ranking in relative shareholder return when measured against the S&P 400 MidCap Utilities Index over the performance period. To receive 100 percent of the award, the Company must rank at the 55th percentile among the S&P 400 MidCap Utilities Index.

On February 9, 2006, the Committee confirmed the issuance of 183,497 shares of Company Common Stock plus dividend equivalent rights in accordance with the performance shares granted in 2003. Based on the price of the Company's Common Stock as of January 3, 2006, the total value distributed was \$3.6 million (including dividend equivalent rights paid in cash of \$0.3 million). The payout equaled 120 percent of the performance shares granted

because the Company performed at the 67th percentile among the S&P 400 MidCap Utilities Index. During the performance cycle from January 1, 2003, to December 31, 2005, the Company's total market capitalization increased from \$560 million to \$860 million. Performance share award payouts for each executive officer who is expected to be a NEO in the 2006 Proxy Statement are included in the Avista Corporation 2006 NEO Performance Share Awards Table, which is filed as Exhibit 10.4.

On February 9, 2006, the Committee approved grants of performance shares and restricted shares to executive officers under the Company's Long-Term Incentive Plan. The performance shares will be payable at the Company's option in either cash or Company Common Stock at the end of the three-year performance cycle on December 31, 2008, and will range from 0 to 150 percent of the grant. Restricted shares vest in equal thirds each year over a three-year period and are payable in Avista Corp. Common Stock at the end of each year in the three-year period if the service condition is met, with the exception of restricted shares for Gary G. Ely. In addition to the service condition, the Company must meet a return on equity target for Mr. Ely's restricted shares to vest. Performance share and restricted share grants for each executive officer who is expected to be a NEO in the 2006 Proxy Statement are included in the Avista Corporation 2006 NEO Performance Share Grants Table, which is filed as exhibit 10.5.

### **Section 3 – Securities and Trading Markets**

#### **Item 3.01 Notice of Delisting or Failure to Satisfy a Continued Listing Rule or Standard; Transfer of Listing.**

Avista Corp.'s Common Stock is currently listed on the New York Stock Exchange ("NYSE") and the Pacific Stock Exchange ("PSE") with the NYSE maintaining the principal listing. During the fourth quarter of 2005, the average volume of transactions executed on the PSE represented less than 2.5 percent of the total average volume of Avista Corp. Common Stock transactions.

On February 10, 2006, the Board of Directors of Avista Corp. decided to delist the Company's common stock from the Pacific Stock Exchange. The Board of Directors made this decision primarily due to the limited volume of Avista Corp. Common Stock transactions on the PSE and the costs of listing on the PSE.

### **Section 5 – Corporate Governance and Management**

#### **Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.**

David A. Clack will not be standing for re-election and will be retiring at the annual meeting of shareholders on May 11, 2006. Mr. Clack has served on the Company's Board of Directors for 18 years and is retiring because he has reached the mandatory retirement age for directors as provided for in the Company's bylaws. Mr. Clack currently serves on the Audit, Environment Safety & Security and Executive Committees of the Company's Board of Directors.

Upon recommendation from the Corporate Governance/Nominating Committee, on February 10, 2006 the Board of Directors nominated Heidi B. Stanley to be elected as a director at the annual meeting of shareholders on May 11, 2006 for a three-year term to expire at the annual meeting of shareholders in 2009. Ms. Stanley, age 49, has served as Director, Vice Chair and Chief Operating Officer of Sterling Savings Bank (Sterling) since October 2003. In her 20-year career in banking, she has held progressively responsible positions of leadership.

### **Section 9 – Financial Statements and Exhibits**

#### **Item 9.01 Financial Statements and Exhibits.**

##### **(c) Exhibits**

- 10.1 Avista Corporation 2006 NEO Base Compensation Table
- 10.2 Avista Corporation 2005 NEO Incentive Compensation Table
- 10.3 Avista Corporation 2006 Executive Incentive Plan
- 10.4 Avista Corporation 2006 NEO Performance Share Awards Table
- 10.5 Avista Corporation 2006 NEO Performance Share Grants Table

**SIGNATURES**

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: February 14, 2006

/s/ Malyn K. Malquist

Malyn K. Malquist  
Senior Vice President and  
Chief Financial Officer

**Avista Corporation**  
**2006 NEO Base Compensation Table**

<u>Name and Principal Position</u>	<u>Current Base Compensation</u>	<u>New Base Compensation</u>
Gary G. Ely Chairman of the Board, President and Chief Executive Officer	\$ 687,500	\$ 715,000
Malyn K. Malquist Senior Vice President and Chief Financial Officer	\$ 314,010	\$ 325,000
Scott L. Morris Senior Vice President	\$ 302,500	\$ 325,000
David J. Meyer Vice President and Chief Counsel for Regulatory and Governmental Affairs	\$ 240,000	\$ 240,000
Karen S. Feltes Senior Vice President of Human Resources and Corporate Secretary	\$ 219,090	\$ 230,000

**Avista Corporation**  
**2005 NEO Incentive Compensation Table**

Name and Principal Position	2005 Bonus
Gary G. Ely Chairman of the Board, President and Chief Executive Officer	\$ 510,159
Malyn K. Malquist Senior Vice President and Chief Financial Officer	\$ 155,340
Scott L. Morris Senior Vice President	\$ 149,646
David J. Meyer Vice President and Chief Counsel for Regulatory and Governmental Affairs	\$ 98,940
Karen S. Feltes Senior Vice President of Human Resources and Corporate Secretary	\$ 108,384

**AVISTA CORPORATION & AVISTA UTILITIES  
EXECUTIVE OFFICER INCENTIVE PLAN  
FOR 2006**

**PLAN PROVISIONS**

**Purpose:** The 2006 Incentive Plan is designed to focus each executive on the company's strategic goals. Clearly, stabilizing the financial health of the company continues to be a key goal linked directly to maintaining reliable cost-effective service levels to run our business efficiently.

**Plan Year:** January 1, 2006 – December 31, 2006

**Eligibility:** All executive officers of Avista Corporation are eligible to participate in the Plan. The officer must be employed by the company as of December 31 to be eligible for payout. Avista has the right to prorate any incentive payout if the officer is hired during the plan year. Subsidiary officers are not eligible for this plan. See special circumstances for details.

**Incentive Award Target:** Each officer will have an incentive award target expressed as a percentage of their 2006 base salary and will be notified of the actual incentive award target applicable to them for the plan year, as approved by the Compensation and Organization Committee of the Board.

**Measurements & Targets:** The Executive Officer Incentive Plan focuses on the customer and the financial health of the company.

The plan starts out with four Standard Performance Triggers that must be achieved for the plan to pay out. These performance levels are critical to the success of the business. Each measure triggers a portion of the incentive award pool and is weighted as shown in Exhibit A.

Once the Standard Performance Triggers are achieved, awards are earned based on Earnings Per Share and Utility O&M Cost Per Customer measures as provided for in Exhibit B.

**Payment Opportunity:** Each measure is independent of the other. Therefore, awards may be paid for achieving only one target. Seventy percent (70%) of the target award is based on Corp. and Utility Basic Earnings per Share (EPS) targets. The other thirty percent (30%) is based on Utility O&M Cost Per Customer targets.

For all measurements, the payout calculations between threshold, target and exceeds levels are on a sliding scale.



Incentive amounts in excess of 100% (up to 150%) of an individual's target may be paid in the form of non-cash equivalents, at the discretion and approval of the CEO and the Board Compensation and Organization Committee.

**Determining Targets:** To determine the Corp and Utility EPS targets for the Plan, Avista considers and incorporates the EPS target spread communicated to the investment community and the budgeted EPS numbers. The Utility O&M Cost per Customer target is based on the projected number of customers and O&M expense for the Plan year. These components are combined to create the O&M Cost Per Customer measure. To determine the target, O&M expense (less estimated incentive payout) is divided by the projected customer count (customer growth increment based on 12 months of actual growth from the prior year added to the actual year-end December customer count).

**Example Award Calculation:** See Exhibit C

**Payment of Awards:** To receive an award, individuals must be employed by Avista Corp or Avista Utilities on December 31. However, officers are eligible for a partial award if they have at least 6 months of service during the Plan year and their employment ends because of retirement, permanent disability or death.

Officers must "meet" or "exceed" performance expectations for the Plan year to be eligible for payout. Partial performance ratings may reduce payout.

Award payments, if earned, will be paid after January of the next plan year. Award amounts, if paid, will be figured on a percentage of the participant's December 31 base salary and employment status.

**Administration of Plan:** The plan is approved by the Board Compensation and Organization Committee and administered by Avista. The committee will have sole discretion to make plan interpretations including but not limited to:

- Discretion to add, modify or delete the plan at any time
- Adjustments to corporate funding levels to reflect significant reorganization or transfers within the Company
- Adjustments to Company financial results needed to better reflect the actual performance of the Company
- Discretionary funding in the event threshold performance is not achieved
- Normalizing financial results based upon extremely unusual events

***Special Circumstances***

**Death:** A pro-rated award, considering Company and individual performance, may be approved for payment within three months of payout after year-end to the estate of any participant who dies after serving at least six months during the plan year.

**Disability and Retirement:** A pro-rated award, considering Company and individual performance, may be approved for payment at payout after year-end to any participant

---

who becomes permanently disabled or retires after serving at least six months during the plan year.

**Leave of Absence:** Participants are not eligible for payment for periods while on an approved leave of absence during the plan year. Payments are pro-rated. Short-term disability leave is not included.

**Resignation/Termination:** No award will be payable under this plan to any employee who resigns from or is terminated by Avista Corp or Avista Utilities before receiving the award payment.

**Discipline:** No incentive will be payable under this plan to any employee who is on a Written Reminder or Last Chance Agreement step of formal discipline as of December 31.

**Transfers between Avista Corp and Avista Utilities:** Both are under the same plan so no pro-rating is necessary.

**Transfers between Corp/Utilities and Subsidiaries:** To be paid a pro-rated award under this Plan, an officer must have at least 6 months of service with Avista Corp or Avista Utilities. Award amounts will be figured on the December 31 base pay or the base pay before transfer to Subsidiary. Subsidiaries will determine their own guidelines around payout.

**Avista Corporation**  
**2006 NEO Performance Share Awards Table**

Name and Principal Position	Total Number of Performance Shares Paid	Total Value of Performance Shares Paid	Cash Dividend Equivalent Rights
Gary G. Ely Chairman of the Board, President and Chief Executive Officer	77,280	\$ 1,375,584	\$ 119,784
Malyn K. Malquist Senior Vice President and Chief Financial Officer	18,600	\$ 331,080	\$ 28,830
Scott L. Morris Senior Vice President	18,600	\$ 331,080	\$ 28,830
David J. Meyer Vice President and Chief Counsel for Regulatory and Governmental Affairs	18,600	\$ 331,080	\$ 28,830
Karen S. Feltes Senior Vice President of Human Resources and Corporate Secretary	6,360	\$ 113,208	\$ 9,858

The table above shows information regarding performance shares paid out under the Company's Long-Term Incentive Compensation Plan as confirmed by the Compensation & Organization Committee of the Board of Directors on February 9, 2006 to each executive officer who is expected to be a NEO in the 2006 Proxy Statement. The payout was based on the Company's three-year total shareholder return compared to the returns reported in the S&P 400 MidCap Utilities Index. To receive 100 percent of the award, the Company had to perform at the 55<sup>th</sup> percentile among the S&P 400 MidCap Utilities Index. To receive 150 percent of the award, the Company had to perform at or above the 85<sup>th</sup> percentile ranking. Awards were pro-rated for performance between the 55<sup>th</sup> and 85<sup>th</sup> percentile rankings.

The payout equaled 120 percent of the performance shares granted because the Company performed at the 67<sup>th</sup> percentile among the S&P 400 MidCap Utilities Index during the three-year period ended December 31, 2005. Dividend Equivalent Rights were calculated and paid out in cash to the extent the performance shares were paid.

The total value of performance shares paid is based on the average of the low and high price of the Company's Common Stock on January 3, 2006 of \$17.80 per share.

**Avista Corporation**  
**2006 NEO Performance Shares Grant Table**

Name and Principal Position	Performance Shares	Restricted Shares
Gary G. Ely Chairman of the Board, President and Chief Executive Officer	47,600	12,600
Malyn K. Malquist Senior Vice President and Chief Financial Officer	11,500	3,000
Scott L. Morris Senior Vice President	11,500	3,000
David J. Meyer Vice President and Chief Counsel for Regulatory and Governmental Affairs	3,900	1,000
Karen S. Feltes Senior Vice President of Human Resources and Corporate Secretary	11,500	3,000

The table above shows information regarding performance shares and restricted shares granted under the Company's Long-Term Incentive Compensation Plan as approved by the Compensation & Organization Committee of the Board of Directors on February 9, 2006 to each executive officer who is expected to be a NEO in the 2006 Proxy Statement.

The performance share awards will be issued only if the Company achieves certain relative shareholder return targets when measured against the S&P 400 MidCap Utilities Index over a three-year period ending December 31, 2008. The amount of the payment with respect to any award is determined at the end of the three-year performance cycle based on the Company's final average percentile ranking relative to the S&P 400 MidCap Utilities Index and is payable at the Company's option in either cash or Company Common Stock, or both. The number of performance shares paid to executive officers at the end of the three-year cycle will range from 0 to 150 percent of the grant. No performance shares will be paid unless the Company achieves at least the 45th percentile ranking in relative shareholder return when measured against the S&P 400 MidCap Utilities Index over the performance period. To receive 100 percent of the award, the Company must rank at the 55th percentile among the S&P 400 MidCap Utilities Index. To receive the maximum of 150 percent of the award, the Company must perform at or above the 85th percentile ranking. The Company uses a sliding-scale approach to indicate the percentage of potential award for varying levels of performance above and below the targeted level. Individual awards are based on actual results using a sliding scale between threshold (45th percentile), target (55th percentile), and exceeds (85th percentile) levels. Dividend Equivalent Rights are calculated and paid out in cash when and to the extent the performance shares are paid.

The Long-Term Incentive Plan for 2006 and beyond will have a combination of performance shares and restricted shares. Of the total award, 75 percent will be delivered through performance shares and 25 percent through restricted shares. Restricted shares vest in equal thirds each year over a three-year period and are payable in Avista Corp. Common Stock at the end of each year in the three-year period if the service condition is met with the exception of restricted shares for Gary G. Ely. In addition to the service condition, the Company must meet a return on equity target for Mr. Ely's restricted shares to vest.