

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): August 12, 2005

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))
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Section 8 – Other Events

Item 8.01 Other Events.

On August 12, 2005, Avista Corporation (Avista Corp.), the Washington Utilities and Transportation Commission (WUTC) staff, the Northwest Industrial Gas Users and the Energy Project entered into a settlement agreement that, if approved by the WUTC, would resolve all issues in Avista Corp.'s electric and natural gas general rate cases. The Public Counsel Section of the Washington Attorney General's Office and the Industrial Customers of Northwest Utilities did not join in the settlement agreement. The parties have proposed that settlement hearings be held by the WUTC on October 17-20, 2005, at which time evidence would be heard both in support of and in opposition to the settlement. A copy of Avista Corp.'s press release announcing the settlement agreement is filed as Exhibit 99.1 to this Current Report, which is incorporated herein by reference.

Neither the filing of any press release as an exhibit to this Current Report nor the inclusion in such press releases of a reference to the Internet address of Avista Corp. or its subsidiaries shall, under any circumstances, be deemed to incorporate the information available at such Internet addresses into this Current Report. The information available at the Internet address of Avista Corp. or its subsidiaries is not part of this Current Report or any other report furnished or filed by Avista Corp. with the Securities and Exchange Commission.

Section 9 – Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

99.1 Press release dated August 15, 2005.

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: August 17, 2005

/s/ Gary G. Ely

Gary G. Ely

Chairman of the Board, President and
Chief Executive Officer

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Avista Corp. and Three Parties Reach Settlement on Avista's Washington Rate Case***If approved, settlement would resolve all issues in Avista's electric and natural gas general rate cases***

SPOKANE, Wash. – August 15, 2005, 5:30 a.m. PDT: Avista Corp. (NYSE:AVA) and three other parties participating in Avista's Washington electric and natural gas general rate cases – pending before the Washington Utilities and Transportation Commission (WUTC) – have reached a settlement agreement that, if approved, would resolve all issues in these cases. Avista filed its electric and natural gas rate increase requests with the WUTC on March 30, 2005.

In the settlement agreement filed Aug. 12, 2005, the parties – including Avista, the WUTC staff, the Northwest Industrial Gas Users and the Energy Project – have requested that the WUTC approve the settlement to become effective by no later than Dec. 1, 2005. The parties have proposed that settlement hearings be held by the WUTC on Oct. 17-20, 2005, at which time evidence will be heard both in support of and in opposition to the settlement. The Public Counsel Section of the Washington Attorney General's Office and the Industrial Customers of Northwest Utilities did not join in the settlement agreement.

"We are pleased to reach this settlement agreement because, if approved, it would provide a measure of certainty around future cost recovery, which is important in our ongoing efforts to restore our financial health. The settlement also strikes a reasonable balance between the interests of our company and our customers, including our limited income customers," said Scott Morris, president of Avista Utilities.

Electric and Natural Gas Revenues

As part of the settlement agreement, Avista's annual electric revenues would increase by \$22.1 million, representing a \$13.7 million reduction from the company's original request. Avista has also agreed to an annual natural gas revenue increase of \$968,000, a \$1.9 million reduction from its original request. Avista also agreed to not raise natural gas base rates again prior to July 1, 2007, absent extraordinary circumstances related to the company's natural gas operations.

The overall increase in base electric rates would be 7.7 percent under the settlement proposal, down from Avista's original request to increase base electric rates by 12.5 percent. Natural gas rates would increase by 0.6 percent with the settlement, down from Avista's original request to increase base natural gas rates by 1.8 percent.

The settlement calls for an overall rate of return of 9.11 percent with a common equity ratio of 40 percent and a 10.4 percent return on equity. Under an equity building mechanism in the settlement, Avista agrees that it will increase the utility equity component to 35 percent by year-end 2007 and to 38 percent by year-end 2008. Failure by the company to meet those targets could result in a reduction in base rates.

Energy Recovery Mechanism Adjustment

The settlement proposal also calls for modifications to the existing Energy Recovery Mechanism. The \$9 million power cost “deadband,” which has been in place since 2002, will be reduced to \$3 million, effective Dec. 1, 2005. There would be no change in the 90 percent-10 percent power cost sharing mechanism between Avista customers and shareholders. In addition, the current electric surcharge of 9.8 percent would be increased to 10.8 percent, designed to provide an additional \$2.7 million annually to allow Avista to more rapidly recover the existing power cost deferral balance, which is currently \$101 million.

Customer Programs

Avista recognizes the impact of price increases on its customers, especially its limited income customers. As part of the settlement agreement, Avista would increase funding levels for two existing programs aimed at assisting limited income customers. Avista would increase limited income demand side management – or energy conservation – funding by \$200,000 to \$1.1 million annually. Avista would also provide an additional \$600,000 annually for two years to the Low Income Rate Assistance Program (LIRAP) in Washington, raising the company’s annual funding level to \$3.6 million. The increased LIRAP funding would be evaluated at the end of the two-year period. Changes would also be adopted to increase limited-income agencies’ administrative flexibility in operating LIRAP and demand side management programs.

Approximately 70 percent of the company’s annual retail electric and natural gas revenues are derived from Washington where the company serves approximately 220,000 electric customers and 134,000 natural gas customers.

Avista Corp. is an energy company involved in the production, transmission and distribution of energy as well as other energy-related businesses. Avista Utilities is a company operating division that provides service to 330,000 electric and 285,000 natural gas customers in three western states. Avista’s non-regulated subsidiaries include Avista Advantage and Avista Energy. Avista Corp.’s stock is traded under the ticker symbol “AVA.” For more information about Avista, please visit www.avistacorp.com.

Avista Corp. and the Avista Corp. logo are trademarks of Avista Corporation.

This news release contains forward-looking statements, including statements regarding expected annual electric and natural gas revenues, as well as the potential outcome of proceedings. Such statements are subject to a variety of risks, uncertainties and other factors, most of which are beyond the company’s control, and many of which could have a significant impact on the company’s operations, results of operations and financial condition, and could cause actual results to differ materially from those anticipated.

For a further discussion of these factors and other important factors, please refer to the company's Annual Report on Form 10-K for the year ended Dec. 31, 2004 and Quarterly Report on Form 10-Q for the quarter ended June 30, 2005. The forward-looking statements contained in this news release speak only as of the date hereof. The company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the company's business or the extent to which any such factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

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