

**AVISTA CORP.  
CORPORATE GOVERNANCE GUIDELINES**

The Board of Directors (the “Board”) of Avista Corporation (the “Company”) has adopted these governance guidelines. The guidelines, in conjunction with the articles of incorporation, the bylaws and the charters of the committees of the Board, form the framework for governance of the Company.

**I. Responsibility of the Board of Directors**

The business and the affairs of the Company are managed under the direction of the Board. Shareholders elect the Board to oversee management and to ensure that shareholders’ long-term interests are served. Among other things, the Board, with the assistance of senior management, reviews and establishes the business objectives (financial and other) of the Company, as well as the strategies for the achievement thereof, and periodically assesses the Company’s performance in relation to these objectives.

The Board does not conduct the day-to-day operations of the Company, the authority for which is delegated to management. However, the Board does have the responsibility to ensure that the Company has established and maintains appropriate internal controls, compliance programs, and/or information and reporting systems with respect to accounting, financial reporting and disclosure matters, compliance with applicable laws and regulations and the efficiency of the Company’s operations, all to the extent required under federal and state law or otherwise deemed necessary or appropriate by the Board.

The Board has an active role in overseeing the risks affecting the Company including operational, financial, legal, regulatory, strategic and reputational risks. The Board’s oversight is conducted primarily through the committees of the Board as set out in their charters, but the full Board retains responsibility for general oversight of risks. Management is responsible for the day-to-day management of risks, and the appropriate officer within the Company reports on risk to the appropriate Board committee or to the full Board. When a committee receives a report from management, the chair of the committee advises the full Board at its next meeting.

Under Washington law, each member of the Board must discharge his or her duties as a director, including duties as a member of a committee:

- in good faith;
- with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and
- in a manner he/she reasonably believes to be in the best interest of the Company.

**II. Board Selection and Composition**

**Board Leadership**

The Board selects the Chairman of the Board (“Chairman”) in a manner that it determines to be in the best interests of the Company and its shareholders. The Board does not have a policy as to whether the role of Chief Executive Officer (“CEO”) should be separate from that of Chairman, nor, if the roles are separate, whether the Chairman should be selected from the independent

directors or should be an employee of the Company. This is a matter to be considered each time a new Chairman is selected, based upon the circumstances existing at that time. If the positions of Chairman and the CEO are held by the same person, there will be a Lead Director and the chair of the Governance/Nominating Committee will serve as the Lead Director.

### **Composition of the Board**

Under the Company's articles of incorporation, the Board will consist of no more than eleven directors, as determined by the Board from time-to-time, and generally only one employee—the CEO—will be a director. The majority of the Board will consist of directors who are independent. The Governance/Nominating Committee has established categorical standards (Attached hereto as Exhibit A) to assist it in determining the independence of directors, which meet the requirements of the New York Stock Exchange (“independent directors”) and applicable laws and regulations. The Board will affirmatively determine on an annual basis, and will disclose as required, whether each Board member is independent.

### **Nomination of Directors**

The Company's shareholders elect the directors annually. The Board nominates directors for election at the annual meeting of shareholders and selects directors to fill vacancies that occur between annual meetings.

A review of the Board membership will be made from time to time to reassess what expertise is represented on the Board and what additional expertise may be needed. Also, looking out one to three years, the Board will determine what additional expertise might be desirable should a Board vacancy occur.

The process of the Governance/Nominating Committee for identifying nominees shall be to:

- re-nominate incumbent directors who continue to satisfy the Board's criteria for membership on the Board, who continue to make important contributions to the Board, and who consent to continue their service on the Board.
- identify and evaluate new candidates for election to the Board including for the purpose of filling vacancies arising by reason of the resignation, retirement, removal, death or disability of an incumbent director, or due to a decision by the Board to expand the size of the Board.

The Board has established a Board Member Position Profile to be used in the recruitment and selection of directors (attached hereto as Exhibit B).

Candidates for nomination to the Board will be selected by the Governance/Nominating Committee taking into consideration the overall composition and the diversity of the Board and the skills, experience and expertise that Board members are able to offer. In evaluating director nominees, the Committee considers the following, among other criteria:

- the appropriate size of the Company's Board;
- the needs of the Company with respect to the particular talents and experience of its directors;

- the knowledge, skills, expertise and executive leadership experience of nominees, as well as working experience at the executive leadership level in his/her field of expertise;
- recognition by other leaders as a person of integrity and outstanding professional competence with a proven record of accomplishments and demonstrable sound business judgment;
- experience in a regulatory arena;
- knowledge of the business of, and/or facilities for, the generation, transmission, and/or distribution of electric energy and natural gas;
- likelihood of enhancement of the diversity and perspective of the Board; and
- knowledge of the customers, community and employee base.

It has been deemed appropriate for at least one, and preferably several, members of the Board to meet the criteria for an “Audit Committee Financial Expert” as defined by Securities and Exchange Commission rules.

The Committee’s goal is to assemble a Board that brings together a variety of perspectives and skills derived from high quality business and professional experience. When formulating its Board membership recommendations, the Governance/Nominating Committee may use a number of sources including recommendations offered by the Chairman, other directors, senior management, executive search firms or shareholders of the Company.

The Governance/Nominating Committee presents recommendations for director nominees to the full Board for action.

Shareholders also have the right to nominate directors by following the procedures set forth in the bylaws.

### **Board Membership Criteria**

The Governance/Nominating Committee annually reviews with the Board the appropriate skills and characteristics required of Board members in the context of the current composition of the Board. In conducting this assessment, the Governance/Nominating Committee considers diversity, retirement age, skills, expertise, experience and such other factors as it deems appropriate given the current needs of the Board and the Company.

### **Directors Who Change Responsibilities**

Independent directors shall notify the chair of the Governance/Nominating Committee and the Chairman if there is a material change in their principal employment or affiliation. The Board does not believe that directors who retire or change jobs should necessarily leave the Board. There should, however, be an opportunity for the Board, through the Governance/Nominating Committee, to review the continued appropriateness of such director’s Board membership under the circumstances. The Governance/Nominating Committee shall review such job change and, after consideration of the continued appropriateness of such director’s membership under the new circumstances, determine whether to request a letter of resignation from the director. The director shall submit his or her resignation to the Board if requested.

### **Director Retirement Age**

The Board believes that 72 is an appropriate retirement age for directors. Any director who attains such age while in office shall retire from the Board effective at the Annual Meeting of

Shareholders held in the year in which their then current term expires, and any such director shall not be nominated or re-elected as a director.

### **Term Limits**

The Board does not believe that it should limit the number of terms for which an individual may serve as a director. Directors who have served on the Board for an extended period of time are able to provide valuable insight into the business, operations and future of the Company based on their experience with and understanding of the Company's history, policies and objectives. The Board believes that, as an alternative to term limits, it can ensure that the Board continues to evolve and adopt new viewpoints through the evaluation and nomination process described in these guidelines.

### **Director Orientation and Continuing Education**

The Company provides an orientation program for new directors. This program includes background material, meetings with senior management, and visits to Company facilities. For continuing education, directors receive periodic reports with respect to development in the Company's business, related industry information, applicable Federal and State regulations, accounting, financial reporting and disclosure requirements, corporate governance, and other emerging items of significant interest. The Company will encourage directors to engage in periodic seminars, conferences or workshops. The director will inform the Chairman about their plans to attend these educational programs.

### **Other Board Service**

The Board does not believe that its members should be prohibited from serving on the boards of other companies so long as those commitments do not create material conflicts and do not interfere with the directors' ability to fulfill his/her duties as a member of the Board. The Governance/Nominating Committee will take into account the nature and time involved in the director's service on other boards in assessing director nominees. Directors will advise the Chairman and the chair of the Governance/Nominating Committee in advance of accepting an invitation to serve on another company board. Directors will advise the Chairman if they own 5% or more of the stock of another utility.

## **III. Board Compensation**

### **Compensation of Directors**

Directors' compensation will be determined by the Board, based on recommendations of the Governance/Nominating Committee. Members of management who are also directors will not receive additional compensation for their service as Directors.

### **Director Stock Ownership**

The Board believes that it is important to align the interests of the Board with the Company's shareholders and, accordingly, a portion of directors' compensation will be provided and held in Company stock. The Board will periodically review the stock ownership guidelines for directors.

## **IV. Board Operation**

### **Meetings of the Board**

Regular meetings of the Board will be held at least quarterly. Each year, directors are provided with a schedule of the next year's regular Board meeting dates. Special and telephonic meetings

shall be held as needed. Board members are expected to prepare for, attend, and participate in all Board and applicable committee meetings. Each Board member is expected to ensure that other existing and planned future commitments do not materially interfere with the member's service as a director. The Board recognizes that occasional meetings may need to be scheduled on short notice when the participation of a director is not possible. A significant conflict may also arise from time to time that might prevent a director from attending a quarterly meeting. However, it is expected that each director will make every effort to keep such absences to a minimum.

### **Board Agenda Items**

The Chairman of the Board and, if the Chairman is also the CEO, the Lead Director are actively engaged in setting meeting agendas, and board members are given an opportunity to provide input on the agenda. In addition, a preliminary agenda is provided to directors in advance of Board and committee meetings for their review and input. Directors are also provided with pertinent background material for their review in advance of meetings.

### **Board Materials and Presentations**

Senior management provides presentations at each Board meeting for the purpose of allowing directors the opportunity to gain additional understanding and insight into the Company's operations and related issues.

### **Meetings of Independent Directors**

The independent directors meet at each regularly scheduled Board meeting in executive session without management present. The Lead Director chairs the executive sessions. The Lead Director establishes the agenda for each executive session, and also determines which, if any, other individuals, including members of management and independent advisors, should attend each such meeting.

### **Board Contact with Senior Management**

Directors have full and free access to senior management and employees of the Company. Directors and executives strive to ensure that there is a sharing of information among themselves that builds an effective partnership. Any such contact should be done in a way that is not disruptive to the business operations of the Company. The Chairman should be advised of any significant contacts between directors and management.

### **Access to Independent Advisors**

The Board of Directors and its Committees may retain independent outside financial, legal, or other advisors, as they deem necessary and appropriate to exercise and discharge their duties as directors.

## **V. Communication with Shareholders**

### **Board Interaction with Shareholders, Media, and Customers**

The Board believes that management should generally handle all communications with the media, the financial community, shareholders and other external sources pertaining to the affairs of the Company. Directors should refer any inquiries from external sources to senior management.

Shareholders and other interested parties may send correspondence to the Board or to any individual director to the Corporate Secretary's office at 1411 East Mission Avenue, P.O. Box 3727 (MSC-10), Spokane, Washington 99220. Concerns about accounting, internal accounting controls or auditing matters should be directed to the chair of the Audit Committee at the same address. The Company will initially receive and process communications before forwarding them to the addressee.

The director or directors who receive any such communication have discretion to determine whether the subject matter of the communication should be brought to the attention of the full Board or one or more of its Committees and whether any response to the person sending the communication is appropriate. Any such response will be made through the Company's Corporate Secretary or General Counsel and only in accordance with the Company's policies and procedures and applicable laws and regulations relating to the disclosure of information.

### **Attendance at Annual Shareholder Meeting**

Directors are encouraged to attend the Company's annual meeting of shareholders.

## **VI. Board Committees**

### **Number, Structure, and Charters**

Committees have been established to assist the Board in overseeing the affairs of the Corporation. Currently, there are six Committees – Audit; Corporate Governance/Nominating; Finance; Compensation & Organization; Energy, Environmental, & Operations; and Executive. With the exception of the Executive Committee, the members of each Committee will be independent directors. The Board has adopted charters for each of its committees which set forth among other things, the purpose, specific duties, responsibilities, and reporting obligations of each committee in compliance with applicable requirements. Other committees may be established from time to time by resolution of the Board.

### **Appointment of Committee Members**

The Board of Directors determines the composition of each committee. The Governance/Nominating Committee, after consultation with the Chairman and with consideration of the wishes of the individual directors, as well as in compliance with applicable laws, rules, and regulations, recommends to the full Board the membership and chair of each committee.

### **Committee Meetings**

Committee members are expected to prepare for, attend, and participate in all committee meetings. In general, committee members also meet in executive session without management present at each regularly scheduled committee meeting.

### **Committee Agenda Items**

The chair of each committee, in consultation with the appropriate members of management, establishes the agenda for each meeting. Each committee has established a calendar for regular action items to be discussed during the year, to the extent such subjects can be foreseen. A copy of the annual calendar is provided to all committee members.

## **VII. Performance Evaluation; Development and Succession Planning**

### **Board and Committee Assessment**

The Governance/Nominating Committee has the responsibility to ensure that an assessment of the performance of the full Board is conducted annually. The Governance/Nominating Committee provides the results to the full Board for discussion, further examination and final assessment. The assessment includes evaluation of the Board's performance of its responsibilities as a whole and specific areas in which the Board and/or management believes improvements could be made. The purpose of the review is to increase the effectiveness of the Board as a whole, not to discuss the performance of individual directors. The Chairman shall also conduct an annual one-on-one meeting with each director.

Each committee will conduct an annual assessment of its performance and provide the results to the full Board for discussion. The assessment includes evaluation of the committee's contribution as a whole and those specific areas in which the committee believes a better contribution could be made. The purpose of the review is to increase the overall effectiveness of the committee.

### **Formal Evaluation of the Chief Executive Officer**

The Compensation & Organization Committee is charged with overseeing an annual evaluation of the CEO. The Compensation & Organization Committee facilitates the evaluation discussion with the full Board, and provides feedback to the CEO with respect to said evaluation. The CEO is charged with overseeing annual evaluations of senior management and apprising the Board of senior management performance.

### **Management Development and Succession Planning**

The Board has charged the Compensation & Organization Committee with establishing succession plans for the CEO and other senior management. The CEO is expected to update the Board at least annually with respect to leadership development and succession plans for executives and other key positions.

### **Review of Governance Guidelines**

The Board will review these guidelines annually.

**AVISTA CORPORATION**  
**CATEGORICAL STANDARDS FOR INDEPENDENCE OF DIRECTORS**  
**REVISED FEBRUARY 2006**

It is the policy of the Board that a majority of the directors will be independent from management and that the Board of Directors will not engage in transactions that would conflict with Avista Corp.'s business. The Board will affirmatively determine whether the directors have no material relationship with Avista Corp. or its subsidiaries either directly or as a shareholder, director, officer, or employee of an organization that has a relationship with Avista Corp. or its subsidiaries.

Independence determinations will be made on an annual basis at the time the Board of Directors approves director nominees for inclusion in the annual proxy statement and, if a director joins the Board between annual meetings, at such time. The Board's determination of each director's independence will be disclosed annually in the Avista Corp. proxy statement.

Pursuant to the New York Stock Exchange ("NYSE") Listing Standards, a director is not deemed to be "independent" if he or she:

- is, or within the past three years has been, employed by Avista Corp. or has an immediate family member who is, or within the past three years has been, an executive officer of Avista Corp.
- received, or has an immediate family member who received, during any 12-month period within the last three years, more than \$100,000 in direct compensation from Avista Corp., other than director or committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).
- (i) is a partner or employee of Avista Corp.'s independent auditor, (ii) has an immediate family member who is a partner of Avista Corp.'s independent auditor or an employee that participates in such firm's audit, assurance or tax compliance practice or (iii) was, or has an immediate family member that was, within the past three years, a partner or employee of Avista Corp.'s independent auditor and personally worked on Avista Corp.'s audit.
- is, or has an immediate family member who is, or in the past three years has been, employed as an executive officer of another company in which an executive officer of Avista Corp. at the same time serves or served on that company's compensation committee.
- is an employee, or has an immediate family member who is an executive officer, of a company (excluding charitable organizations) that has made payments to, or received

payments from, Avista Corp. for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues.

Material relationships can include, but are not limited to commercial, industrial, banking, consulting, legal, accounting, charitable, and family relationships. To assist in the determination of whether a director's relationship with Avista or any of its subsidiaries, or the relationship of the company employing the director has with Avista or any of its subsidiaries is "material," the Board of Directors has adopted the following categorical standards for relationships which are deemed not to impair a director's independence:

a. *Personal Relationships.* The following relationships are not considered material relationships that would impair a director's independence:

i. The director or immediate family member resides within a service area of, and is provided with utility service by Avista Corp., and utility service is provided in the ordinary course of Avista Corp.'s business at rates or charges fixed in conformity with law or governmental authority.

ii. The director or immediate family member holds (including holdings by an entity with which the director or an immediate family member is affiliated as a director, officer, employee, or otherwise) securities issued publicly by Avista Corp. or its subsidiaries, provided the director or immediate family member receives no extra benefit not shared on a pro rata basis.

b. *Business Relationships.* All payments between Avista Corp. and an entity that is affiliated with a director or an immediate family member for goods or services, or other contractual arrangements, must be made in the ordinary course of business and on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated persons. The following relationships will not be considered to be material relationships that would impair a director's independence:

i. The entity affiliated with the director or immediate family member resides within a service area of, and is provided with utility service by Avista Corp., and utility service is provided in the ordinary course of Avista Corp.'s business at rates or charges fixed in conformity with law or governmental authority.

ii. Payments made by Avista Corp. to an entity with which the director or an immediate family member of the director is (or was within the preceding three years) affiliated as a director, employee or otherwise of such company or payments received by Avista Corp. from such entity, for property or services, if the total amount of the payments made or received in each of the entity's preceding three fiscal years does not exceed the greater of \$1 million or two percent (2%) of the total gross revenues of such company in the applicable fiscal year, and the director and any immediate family members do not (and did not in the preceding three fiscal years) directly or indirectly own, in the aggregate, more than 10% of the entity.

iii. If a director is a partner in or of counsel to a law firm, the director (or an immediate family member) does not personally perform any legal services for Avista Corp., and the

fees paid to the firm by Avista Corp. during each of the current fiscal year and each of such firm's three preceding fiscal years do not exceed the greater of \$200,000 or two percent (2%) of either such firm's gross annual revenues or the Company's gross annual revenues.

c. *Banking Relationships.* A director will not fail to be independent from management solely as a result of lending relationships, deposit relationships or other banking relationships (including, without limitation, trust department, investment and insurance relationships) between Avista Corp., on the one hand, and the director (or an immediate family member) or an entity with which the director (or an immediate family member) is affiliated, on the other hand, provided that:

i. such relationships are in the ordinary course of business of Avista Corp. and are on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated parties,

ii. the amount of indebtedness does not exceed three percent (3%) of the affiliated company's assets in any of the last three fiscal years, and

iii. such banking relationship does not involve the payment of interest and other fees that exceed any of the threshold amounts specified in Section b. iii. above.

d. *Relationships with Not-for-Profit Entities.* A director's independence will not be considered impaired solely for the reason that the director or an immediate family member is an officer, director or trustee of a foundation, university or other not-for-profit organization that receives from Avista Corp. during the current fiscal year or any of the prior three fiscal years, contributions in an amount not exceeding the greater of \$200,000 or two percent (2%) of the not-for-profit organization's aggregate annual charitable receipts during the entity's fiscal year.

e. *Other Relationships.* For relationships not covered above, the determination of whether the relationship is material or not, and therefore whether a director would be independent or not, shall be made in good faith by the directors the Board has determined are independent.

In addition to the requirement that the Board satisfy the independence standards discussed above, members of the Audit Committee must also satisfy additional independence requirements. Specifically, Audit Committee members may not directly or indirectly receive any consulting, advisory or other compensatory fee from Avista Corp. other than their director's compensation.

For purposes of these standards, Avista Corp. shall include its direct and indirect consolidated subsidiaries, and "immediate family member" of a director shall include (1) the director's spouse, parents, children and siblings, whether by blood, marriage or adoption (including the director's mothers and fathers-in-law, sons and daughters-in-law and brothers and sisters-in-law) and anyone who shares or resides in the director's home and (2) anyone else included in the definitions of "immediate family member" (as defined in the NYSE's independence rules), as may be amended from time to time. A person will be considered to be "affiliated" with an entity if the person, directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such entity.



**Avista Board Member Position Profile  
(Job Description)  
Updated May 2013**

**Summary:**

The Board of Directors is responsible for overseeing the administration of the assets and business affairs of the Company. A Director has a duty to make and enact informed decisions and policies in the best interests of the Company and all of its shareholders.

**Minimum Board Member Requirements**

- Have attained executive leadership position in utility industry, business, finance, information technology, public service, regulatory, education, law, etc. Has in-depth working experience at executive leadership level in his/her field of expertise.
- Is able to apply experience(s) to the business of the Company and its affiliates.
- Recognized by other leaders as a person of integrity and outstanding professional competence; has a proven record of accomplishments and demonstrable sound business judgment.
- Decisive, incisive, has strategic vision and organizational awareness, is open to change.
- Builds strong working relationships with individuals and in a team setting. Exhibits constructive approach in reviewing strategies, objectives, opportunities, policies, programs, etc.
- Listens effectively and transmits information accurately and understandably and actively seeks constructive feedback.
- Negotiates effectively to gain a mutually acceptable agreement towards issues of conflict or opposing objectives.
- Anticipates external changes, trends, and influences that have potential to impact business, draws logical conclusions and makes recommendations for action/changes. Takes well-ordered approach to solving problems and making decisions despite obstacles or resistance.

## Other Criteria

The Board of Directors has set a stock ownership expectation for all Board members. Directors are expected to achieve a minimum investment of \$236,000 or 11,000 shares (including shares that have been deferred under the Non-Employee Director Stock Plan), whichever is less, in Company Common Stock within four years of their becoming Board members and retain at least that level of investment during their tenure as Board members. This expectation illustrates the Board's philosophy of the importance of stock ownership for directors in order to further strengthen the commonality of interest between the Board of Directors and shareholders.

- Must be able to attend all board and board committee meetings.
- Must be able to commit time outside of board meetings to understand the business and related issues, to stay updated, and to prepare for board and committee meetings.
- Must be able to make him/herself reasonably available to executive management to provide advice and counsel on corporate issues as need arises.
- Must be absent of conflict – freedom from any direct or indirect potential benefit (other than as a shareholder) from the board's decisions. Screen for affiliations with companies/firms that may be:
  - a significant advisor or consultant to the Company or its affiliates,
  - a significant customer or supplier of the Company or its affiliates,
  - a significant personal services contractor/consultant to the Company or its affiliates, or
  - a significant competitor to the Company or its affiliates.
- It should be noted that falling into one of the above categories might not exclude a candidate from board membership other than being a significant competitor. But, due consideration should be given as to how the above might impact the candidate's ability to fully participate as a board member without significant/ongoing conflict and in order to meet director independence requirements.
- Must satisfy any Federal Energy Regulatory Commission (FERC) interlocking directorate requirements.