AVISTA Corp.

As a shareholder, you expect a fair return. Community members count on responsible stewardship. If you're a customer, you want the porch light to come on and the furnace to fire. Others – regulators, partners, employees – have concerns of their own. And Avista stands accountable.

2005 Summary Annual Report

We answer to you.

What we do affects people’s lives.
That knowledge moves us to follow
a course respectful of all involved,
one that encourages conversation
and leads to greater understanding.
Can you think of a better way
to do business?

Table of Contents

For well over a century, Avista has delivered reliable performance, value and service. Our core utility business operates in four states, while our subsidiaries extend Avista's utility-industry expertise into additional markets.

Avista Utilities provides energy to more than 338,000 electric and 297,000 natural gas customers in the Pacific Northwest.

Avista Energy applies our energy marketing knowledge and experience to physical assets in the Western region.

Avista Advantage analyzes utility usage and provides cost management services for national, multi-site companies.

Financial and Operating Highlights

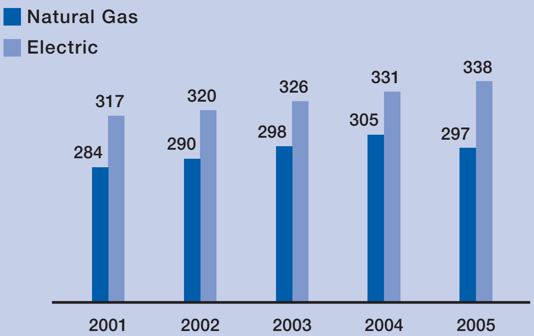
(Dollars in Thousands Except Statistics and Per Share Amounts or as Otherwise Indicated)	2005	2004	2003
Financial Results			
Operating revenues	$ 1,359,607	$ 1,151,580	$ 1,123,385
Operating expenses	1,211,676	1,011,110	951,682
Gain on sale of utility properties	4,093	–	–
Income from operations	152,024	140,470	171,703
Income from continuing operations	45,168	35,614	50,643
Loss from discontinued operations	–	–	(4,949)
Net income before cumulative effect of accounting change	45,168	35,614	45,694
Cumulative effect of accounting change	–	(460)	(1,190)
Net income	45,168	35,154	44,504
Preferred stock dividend requirements [1]	–	–	(1,125)
Income available for common stock	$ 45,168	$ 35,154	$ 43,379
Earnings per common share from continuing operations, diluted	$ 0.92	$ 0.73	$ 1.02
Loss per common share from discontinued operations, diluted	–	–	(0.10)
Earnings per common share before cumulative effect of accounting change, diluted	0.92	0.73	0.92
Loss per common share from cumulative effect of accounting change, diluted	–	(0.01)	(0.03)
Earnings per common share, diluted	$ 0.92	$ 0.72	$ 0.89
Earnings per common share, basic	$ 0.93	$ 0.73	$ 0.90
Dividends paid per common share	0.545	0.515	0.490
Book value per common share	$ 15.87	$ 15.54	$ 15.54
Average common shares outstanding	48,523	48,400	48,232
Actual common shares outstanding	48,593	48,472	48,344
Return on average common equity	5.9%	4.7%	5.9%
Common stock closing price	$ 17.71	$ 17.67	$ 18.12
Operating Results			
Avista Utilities			
Retail electric revenues	$ 511,864	$ 506,428	$ 489,168
Retail kWh sales (in millions)	8,530	8,363	8,027
Retail electric customers at year-end	338,369	331,014	325,554
Wholesale electric revenues	$ 151,429	$ 62,399	$ 73,463
Wholesale kWh sales (in millions)	2,508	1,472	2,075
Total natural gas revenues	$ 438,205	$ 320,493	$ 277,289
Total therms delivered (in thousands)	562,307	495,584	490,474
Retail natural gas customers at year-end	297,277	304,850	298,296
Income from continuing operations	$ 52,479	$ 32,467	$ 36,241
Energy Marketing and Resource Management			
Gross margin (operating revenues less resource costs)	$ 2,016	$ 38,842	$ 60,189
Income (loss) from continuing operations	$ (8,621)	$ 9,733	$ 20,672
kWh sales (in millions)	28,377	32,629	41,579
Natural gas sales (thousands of dekatherms)	182,874	219,719	228,397
Avista Advantage			
Revenues	$ 31,748	$ 23,444	$ 19,839
Income (loss) from continuing operations	3,922	577	(1,334)
Other			
Revenues	$ 18,532	$ 17,127	$ 13,581
Loss from continuing operations	(2,612)	(7,163)	(4,936)
Financial Condition			
Total assets	$ 4,948,494	$ 3,711,621	$ 3,640,075
Long-term debt	989,990	901,556	925,012
Long-term debt to affiliated trusts	113,403	113,403	113,403
Preferred stock (subject to mandatory redemption) [1]	26,250	28,000	29,750
Common equity	771,128	753,205	751,252

(1) Pursuant to changes in accounting principles, preferred stock was reclassified to liabilities and preferred stock dividend requirements were reclassified to interest expense effective July 1, 2003.

Key Performance Indicators

Total Customers

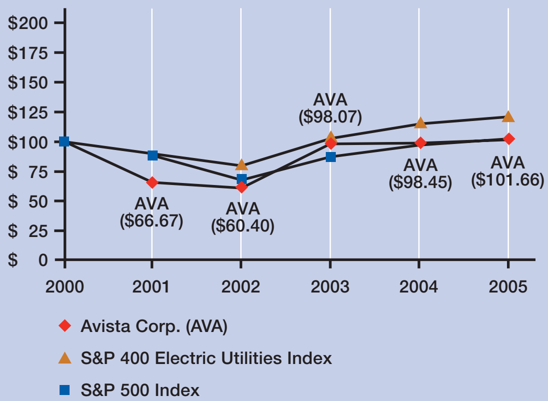
(In thousands of customers, as of December 31)



Earnings Per Common Share, Diluted

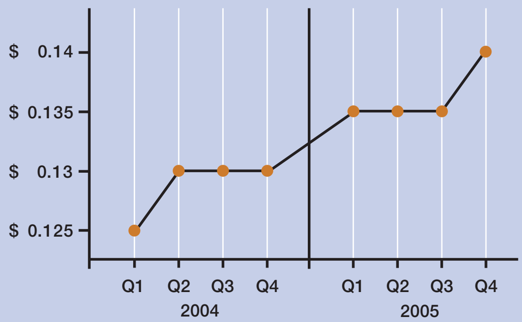
Total Return to Shareholders

(Includes reinvestment of dividends)



A $100 investment in Avista on Dec. 31, 2000, compared to Standard & Poor indices.

Common Stock Dividends



Our unending quest for intelligent solutions to intricate issues – solutions that take into account the interests of all involved – provides value for shareholders and serves our customers well.

Fellow Shareholders

What happens next?

I've talked to you in this letter before about my dad and about how he believed the only thing of real value is your word.

That's not a new idea, of course, but he really lived it. He taught me to live it, too.

So in this year's annual report, we're giving you our word. We've opened up the pages to a wide range of our constituents – a customer, an elected official, an investor, an industry analyst, a tribal leader and an employee – and encouraged them to ask us anything.

And we answer their questions – honestly and candidly.

At Avista, we wrestle with many complicated issues, but we always do so mindful of the principles that guide us: trust, integrity, innovation, relationships and collaboration. By holding to those convictions, we're confident that mutually beneficial outcomes result.

As you read on, you might find questions you've thought of yourself. You'll also see more questions on our Web site at www.avistacorp.com.

I hope the Q&A format gives you some sense of the number and diversity of our stakeholders and the considerable challenge we undertake in striving to balance all their interests.

Oftentimes we do that well. Avista Utilities, for instance, had a very good 2005. Customers and shareholders alike benefited from the increased efficiency we achieved by automating meter reading in Oregon and half of our Idaho territory. We helped employees whose positions were eliminated find other ways to apply their skills, and we retained everyone who chose to stay at Avista.

Centralizing our distribution dispatch functions and holding the line on costs throughout our operation bore similarly positive results, furthering Avista Utilities' $1.07 per diluted share contribution to earnings.

Avista Advantage came through, as well, turning in $0.08 per diluted share and registering its second year of profitability. This decade-old subsidiary, which handles utility billing and usage analysis for multi-site companies across the nation, grew from $23.4 million to $31.7 million in revenues this year, an increase of 35 percent.

On the other hand, Avista Energy struggled in 2005. While this energy marketing and resource management subsidiary has sent dividends of $175 million to the corporation over the course of its history – and produced an overall 15 percent return on investment – the markets in which Avista Energy operates have changed. With that in mind, we have to realistically consider the business's long-term prospects.

A company like Avista Energy can't correctly predict market activity every time, and periods of loss are inevitable. And while we believe Avista Energy will provide value in 2006, we must measure our tolerance for less-than-consistent returns.

The Energy Marketing and Resource Management segment – primarily comprising Avista Energy – had a disappointing loss of $0.18 per diluted share. That obviously affected our cumulative results, and the corporation finished the year with net income available for common stock of $45.2 million and earnings per diluted share of $0.92.

On a more positive note, two significant events marked 2005, as well. Marian Durkin joined us as senior vice president, chief legal officer and chief compliance officer, immediately fitting right in with our leadership team. Her insight has proven particularly valuable in addressing the second significant event, the federal repeal of the Public Utility Holding Company Act of 1935 (PUHCA).

The repeal clears the way for Avista to form a holding company, further separating our utility operations from our non-regulated operations. Under the current structure, Avista Utilities isn't a wholly owned subsidiary equivalent to others like Avista Energy and Avista Advantage. Instead, it is legally the parent entity.

By forming a holding company, we position Avista to better respond to the opportunities and risks arising

Gary G. Ely
Chairman, President and Chief Executive Officer, Avista Corp.

from the utility industry's changing business and regulatory environment, in a manner that best serves the interests of our shareholders and customers. The new structure would permit investors, analysts and rating agencies to more easily analyze and value Avista's individual lines of business.

Based on these advantages, the board of directors proposes the formation of a holding company. We don't anticipate any substantial cost associated with the change, which must be approved by federal and state regulators and by you, our shareholders. You'll find additional information on this proposal in the proxy statement for this year's annual meeting.

There's more ahead for Avista in 2006, to be sure. Avista Advantage has extended our utility expertise into the telecommunications industry, securing 61 clients already and opening a whole new market for our services. We're also exploring customer requests for international service and evaluating Avista Advantage's potential for growth.

In tackling our challenges at Avista Energy, we're seeking to stabilize returns by expanding our capacity for asset management, capitalizing on our aptitude for running generation facilities, and marketing surplus output for large commercial and industrial customers. And our recent move into the natural gas retail marketing business in Montana should open new markets and steady natural gas revenues, as similar measures did for our Canadian operations.

We'll keep on installing advanced meter reading equipment in Avista Utilities' territory, reduce other operating costs – with still more technology picking up the slack – and move forward with infrastructure improvements now in progress.

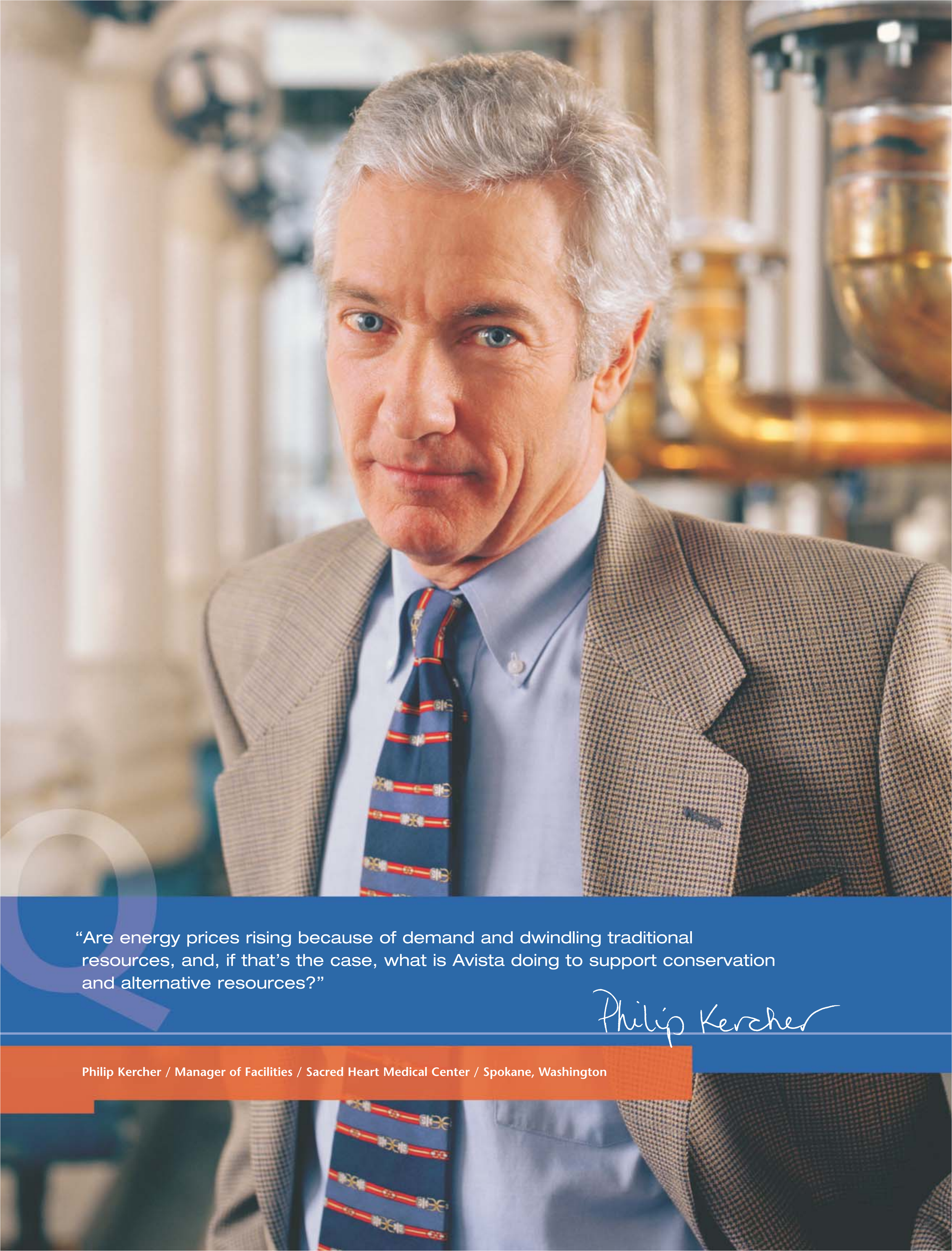
The ongoing, five-year, $115 million-plus upgrade of our transmission system continues to increase east-west transmission capacity and improve our north-south transfer capability, reinforcing our solid record of electric service reliability.

We're also upgrading our turbine runners to generate an additional 38 megawatts with our existing hydro assets, rebuilding one unit each year for the next six years. The Noxon Rapids Dam on the Clark Fork River in Montana houses five units slated for more than $31 million in efficiency enhancements over the next seven years.

Finally, we'll continue to work collaboratively with area leaders in community development efforts, and meet the energy needs of our growing customer base which increased an average of 4 percent for natural gas and 3 percent for electricity in 2005. Those figures are almost twice what we experienced just two years ago.

As we implement our strategies to meet growing demand for our services, we will succeed only through the support and intelligence of our employees. They have proven themselves up to the task, and I appreciate their contribution more each year. I thank them – and you – for making Avista the principled and progressive company it is.

Gary G. Ely
Chairman, President and Chief Executive Officer
March 10, 2006



"Are energy prices rising because of demand and dwindling traditional resources, and, if that's the case, what is Avista doing to support conservation and alternative resources?"

Philip Kercher

Philip Kercher / Manager of Facilities / Sacred Heart Medical Center / Spokane, Washington

With customer needs for energy increasing and prices up nationwide, we have to be smarter and more astute than ever. Conservation and alternative resources are good places to start.

Jason Thackston (left)
Director, Gas Supply, Avista Corp.
Dick Storro
Director, Power Supply, Avista Corp.

Clearly, in 2005 Avista saw increases in electric power and natural gas wholesale prices in the market. Increases in worldwide oil prices influenced the wholesale markets for many types of energy. The entire industry had to step up to maintain natural gas supply after the year's hurricanes disrupted production. New pipelines facilitated transportation of natural gas to more profitable Eastern markets, driving prices higher in our region as we competed for limited resources. While Avista doesn't own natural gas production fields, we do operate storage facilities and have a strategic purchasing program to mitigate volatile natural gas prices for the benefit of our customers.

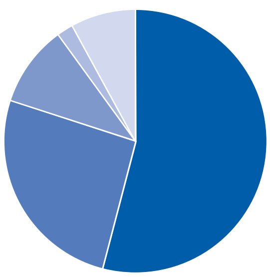
In 2005, generation assets owned by Avista supplied 85 percent of our customers' average energy requirements, which contributes to our relatively low retail electric power rates. Going forward, Avista strives to make the most of our current resources – including promoting the wise and efficient use of energy – while acquiring a responsible mix of different types of available electric resources.

Our 2005 electric integrated resource plan lays out the course we intend to take over the next 20 years to meet more than half of our future energy needs with renewable resources, plant upgrades and conservation efforts. By 2016 alone, we expect to add 400 megawatts of wind power, 80 megawatts of other renewables and another 52 megawatts through upgrades to our existing generation facilities. In the same timeframe, consistent with the company's long history of promoting and providing funds for customer energy efficiency projects, an additional 69 megawatts of conservation is included in the plan. Lastly, we forecast a need for 250 megawatts of coal-based generation.

Coupled with the acquisition of a diverse supply of energy resources is Avista's long-standing legacy of reliable delivery and excellent service to our customers. In 2005, we met our goal of recording no significant natural gas outages and keeping electric outages to an average of under two hours.

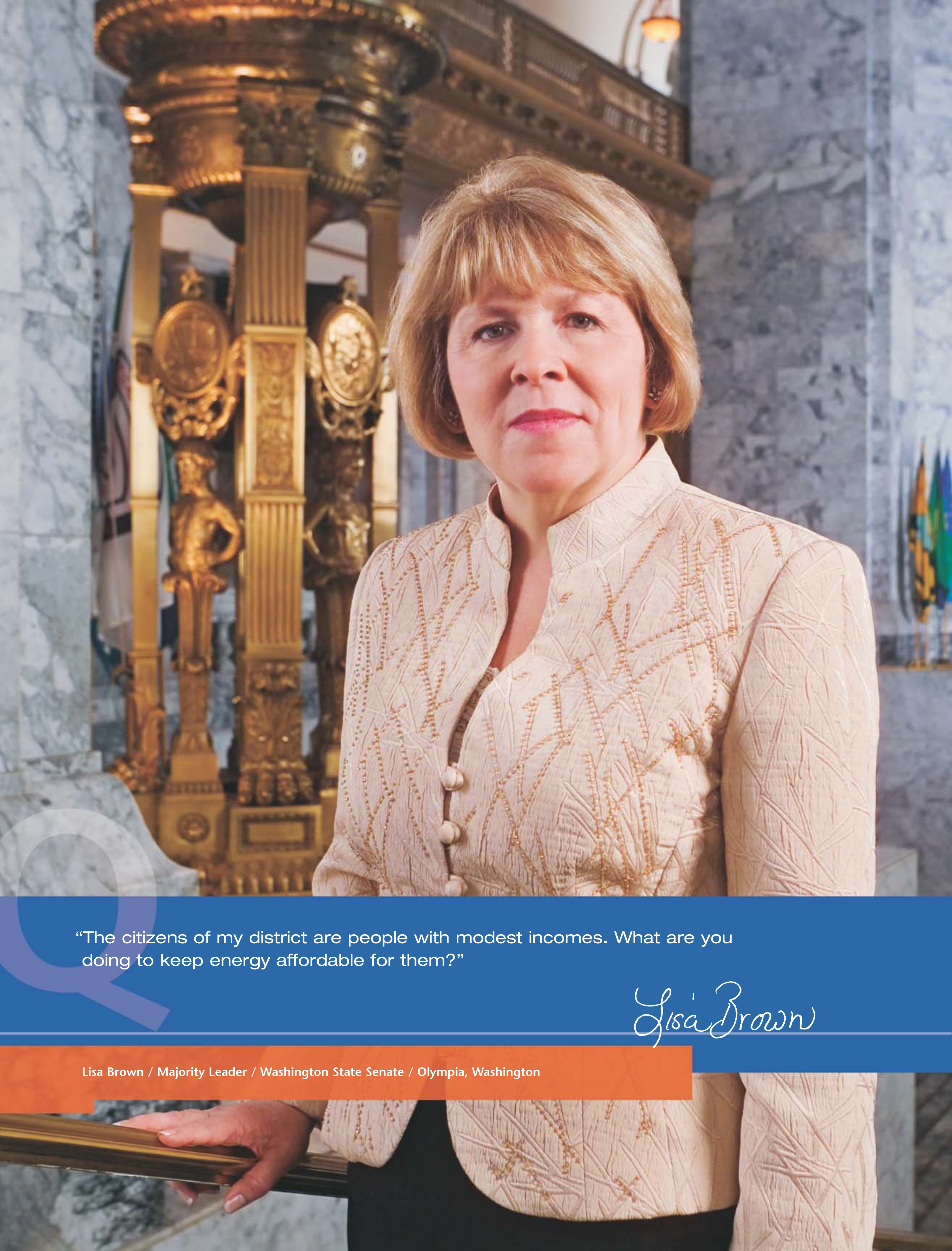
Taking care of today and tomorrow. That's what our customers expect.

Integrated Resource Mix
(Numbers are rounded)



- 54% Hydroelectricity
- 26% Natural Gas
- 10% Coal
- 2% Biomass
- 8% Wind / Other

By diversifying the sources of our energy, we create a stable platform that will give us strength in the face of future market fluctuations.



Q

"The citizens of my district are people with modest incomes. What are you doing to keep energy affordable for them?"

Lisa Brown

Lisa Brown / Majority Leader / Washington State Senate / Olympia, Washington

Whenever we encounter a complicated matter like affordability, we ask ourselves two questions: What can we do on our own? And how can we best collaborate with others?

Scott Morris
Senior Vice President, Avista Corp.
and President, Avista Utilities

At Avista, we resolve those questions the same way: We turn to our employees. They know the territory and its intricacies better than anyone, and their insight consistently renders smart, sustainable solutions.

Through their efforts, we've amassed one of the most diversified – and cost-effective – energy portfolios in the country. While hydro power offers the lowest-cost generation, below-average water conditions in recent years have demonstrated the wisdom of varying our resources to ensure sufficient reliability and minimize the need for spot market purchases. So, in a manner similar to that employed by smart investors with their financial portfolios – spreading out economic risk – we complement our hydro projects with natural gas-fired, wind, biomass and coal generation.

You'll see further evidence of our employees' dedication to affordable service in a recent benchmarking study, which found Avista best in our peer group in distribution and transmission operations and second best in our peer group in hydro operations.

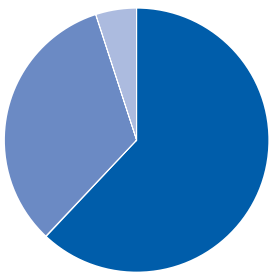
Such efficiency keeps costs down, and we applied those principles to even more areas in 2005. We installed the first phase of our advanced meter reading system and implemented a detailed mapping application in our dispatch center. Mobile dispatch – wireless orders and employee routing on global positioning system-enabled rugged laptops – is on deck for 2006.

We reach outside our walls to engage others in keeping energy affordable, too. We offer many programs to help our customers conserve and get the most value for their energy dollars. In addition to our existing energy efficiency rebates, we have a new energy management tool on our Web site and a 30-minute broadcast special called "The Power to Conserve."

Those who still struggle with their energy bills can access grants from several assistance funds backed by customers and corporate donations.

We think compassion and business acumen can live together – and produce positive results for both our customers and our shareholders.

Energy Assistance Grant Programs



LIHEAP
(Low Income Home Energy Assistance Program)
Households served: 22,647

LIRAP
(Low Income Rate Assistance Program)
Households served: 9,180

Project Share
Households served: 2,951

Total households served: 34,778

We contribute to several energy assistance programs, and Avista customers benefited from more than $9 million in grants in 2005.

"Your primary purpose is to provide energy to your customers and make money doing it. How do you decide if a subsidiary is a good fit with that core business?"

Irene Ertell

Irene Ertell / Retail Shareholder / Falcon Cove, Oregon

Avista puts great stock in our employees' ingenuity. When they see a logical application of our fundamental strengths to a new challenge, we pay attention.

Malyn Malquist
Senior Vice President and
Chief Financial Officer, Avista Corp.

Itron is a great example. In the 1970s, someone at Avista decided there must be a better way to handle one of a utility's most basic functions: reading meters.

Today, Itron stands on its own as the world's leader in meter technology, with more than $500 million in annual revenue and nearly 3,000 customers in 63 countries.

And now, Avista Advantage is beginning to deliver on its promise, as well.

Like Itron, Avista Advantage arose out of an authoritative grasp of our own industry. Our deep understanding of utility billing became a provider of bill-processing and energy expense management services for more than 350 multi-site organizations across the country.

Avista Advantage processed more than 450,000 invoices a month by the end of 2005, saving customers millions of dollars by identifying billing errors and recommending more favorable rate structures. Customers rewarded us with a 95 percent retention rate.

That success led to Avista Advantage's second year of profitability. We anticipate a strong 2006, too, as we continue the expansion into telecom expense management made possible by our 2005 acquisition of TelAssess.

Now worth more than the corporation put into it, Avista Advantage exemplifies the importance of patience in launching a business. Nevertheless, we expect our subsidiaries to deliver a 15 percent return on our investment over the long term.

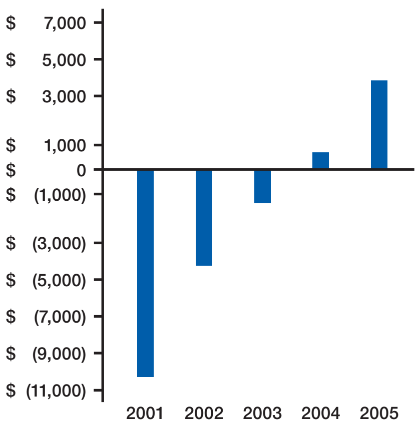
While historically Avista Energy has met that standard, 2005 was a difficult year.

In another illustration of employee skills sparking new opportunities, Avista Energy manages generation assets and markets energy in the Pacific Northwest, a region we understand as well as anyone. However, the instability of the natural gas industry nationwide put our people to the test in 2005, and we didn't always make the right call.

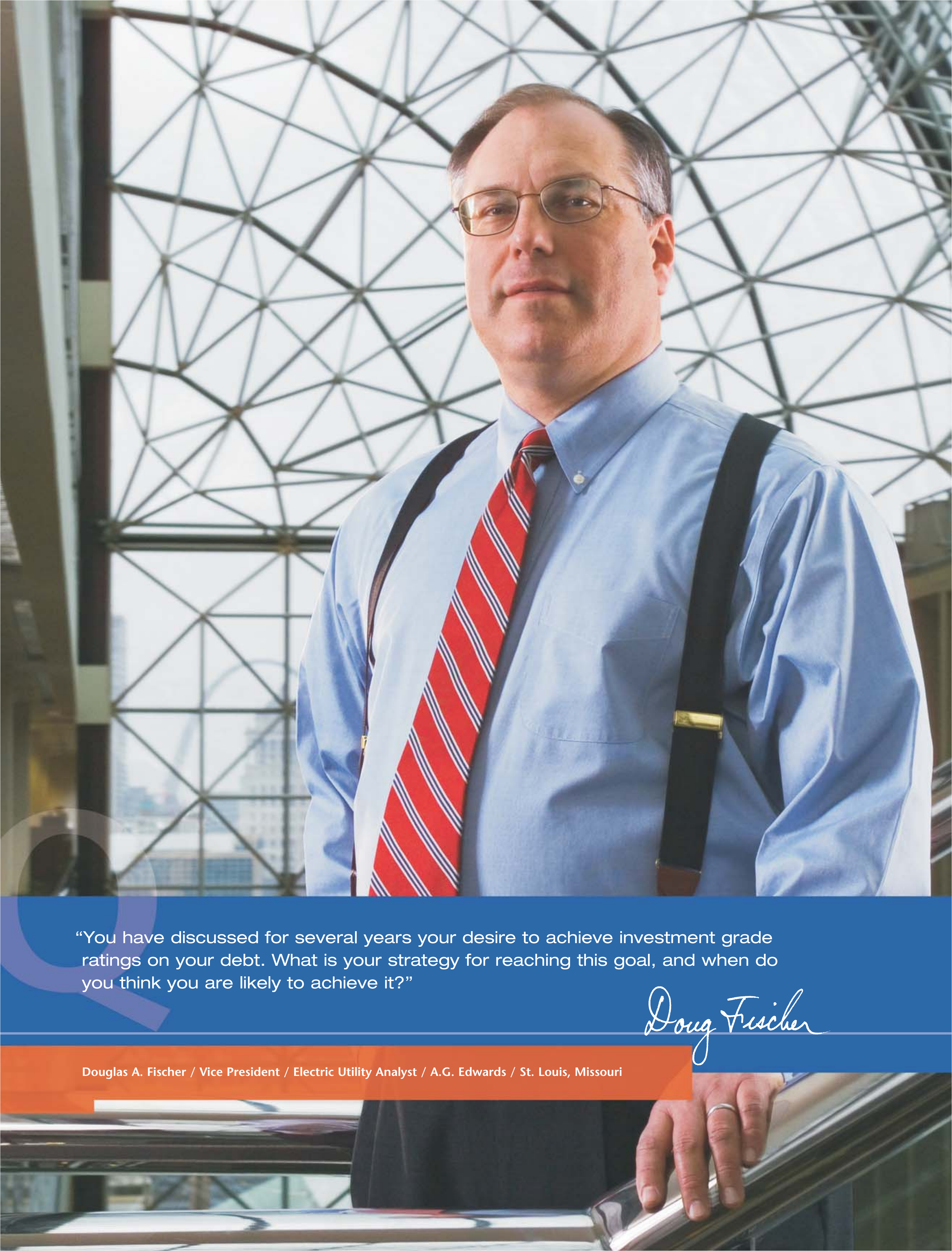
But other activities – energy generation management for industrial and utility customers, and natural gas supply for about 200 small and medium-sized commercial and industrial customers – proved more successful. We're positioned for a profitable 2006, as well.

At Avista Energy – as with all things – we'll stick to what we do best.

Avista Advantage Net Income
(Shown in thousands)



When our people have good ideas, we put our energy behind them. And for Avista Advantage, that's really paid off.



"You have discussed for several years your desire to achieve investment grade ratings on your debt. What is your strategy for reaching this goal, and when do you think you are likely to achieve it?"

Doug Fischer

Douglas A. Fischer / Vice President / Electric Utility Analyst / A.G. Edwards / St. Louis, Missouri

We're acutely aware of the importance of regaining investment grade status, and we're diligently tackling the obstacles that have prevented a quicker recovery.

Christy Burmeister-Smith
Vice President and Treasurer,
Avista Corp.

While we are making progress, a resolution isn't likely until at least 2007. Below-normal hydro conditions in five out of the last six years have left us with an expensive backlog. A mere 5 percent drop in stream flow can add millions of dollars in purchased power costs, tying up cash that could otherwise be used to pay down debt. That explains, in part, our $148 million energy deferral balances.

Still, we have been able to take advantage of favorable interest rates, issuing $150 million in 30-year first mortgage bonds at 6.25 percent in the fourth quarter. This long-term financing, coupled with renegotiation of our corporate credit facility, decreases the overall cost of our debt.

In addition to reducing those expenses, we're striving to improve earnings stability, particularly at Avista Energy where expansion of our asset management activities should provide a moderating influence.

We're also working to earn our allowable rates of return, as determined by the state regulatory bodies overseeing our utility operations.

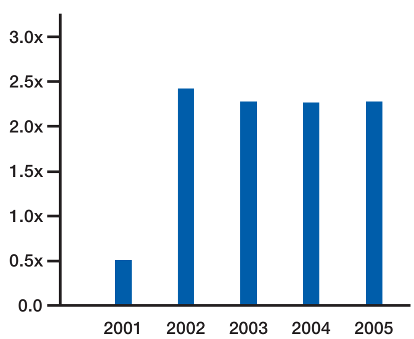
In January 2005, we requested rate recovery in the state of Idaho for the cost of purchasing the second half of Coyote Springs 2, our natural gas-fired generating facility in Boardman, Oregon. The commission quickly turned around a positive response.

The Washington Utilities and Transportation Commission (WUTC) approved our combined electric and natural gas rate case in December, boosting electric revenues by a projected $21.4 million and natural gas revenues by $968,000.

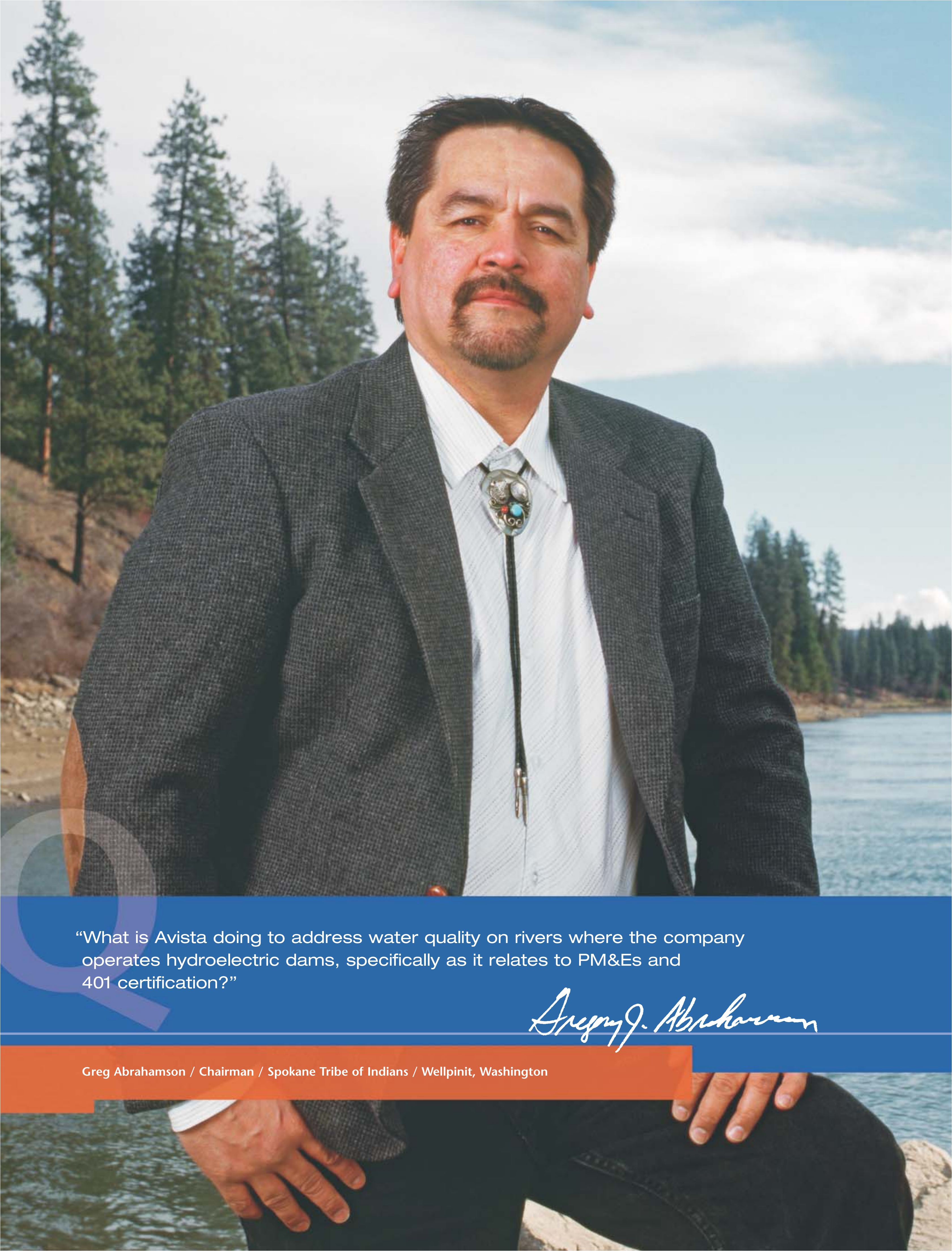
But the WUTC declined our proposal to lower the $9 million deadband – a component of the energy recovery mechanism used to track purchased energy costs and share either the additional expense or savings with customers – to $3 million. However, they asked us to re-file in January 2006, allowing all parties more time to study the issue. We expect a decision by midyear.

In advancing toward financial health, we remain conscious of our responsibility to shareholders. We've raised our dividend four times in the last three years, and we anticipate the board of directors will consider doing so again in the future. As Avista thrives, so should you.

Utility Funds from Operations Interest Coverage

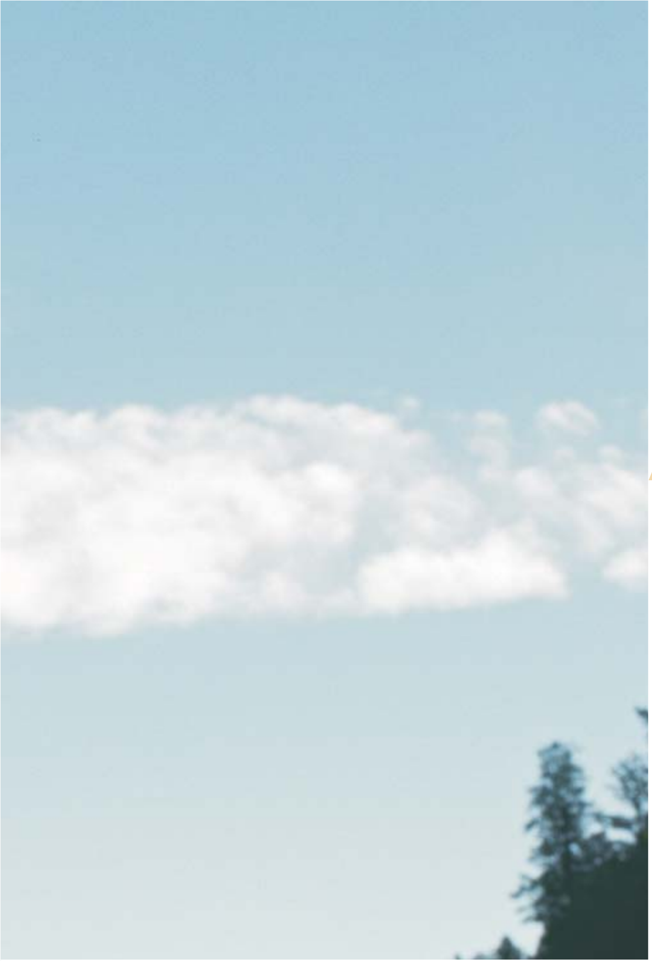


In recent years, we've focused on stabilizing and improving utility cash flow from operations, a key element in regaining our investment grade credit rating.



"What is Avista doing to address water quality on rivers where the company operates hydroelectric dams, specifically as it relates to PM&Es and 401 certification?"

Greg Abrahamson / Chairman / Spokane Tribe of Indians / Wellpinit, Washington



In the life of our region's rivers, we stand among many. Many people. Many interests. Many beliefs. Accordingly, we look beyond mere compliance to what is right.

Bruce Howard
Spokane River License Manager,
Avista Utilities

While crafting our Spokane River hydroelectric license applications, for instance, we proposed a broad range of protection, mitigation and enhancement (PM&E) measures: support for water quality initiatives, increased water discharge to protect fish, improvements to fishery resources, consideration for recreational opportunities, and care for the natural beauty of the river and its falls.

Those recommendations spring from a three-year collaborative process with hundreds of stakeholders, including tribes, government agencies, citizen groups and others.

The applications, covering five hydro projects on the Spokane River, went to the Federal Energy Regulatory Commission (FERC) in August 2005, two years ahead of our current license's expiration. When granted, any new license will require compliance with 401 certification, state approval of water quality under the federal Clean Water Act.

To that end, we're undertaking a number of projects, including an effort to reduce levels of total dissolved gas – a consequence of water spilling over a dam that may harm fish – during high water periods at Lake Spokane. Conversely, we're looking at ways to increase dissolved oxygen levels during times of low flow.

Our work on the Clark Fork River in Idaho and Montana again reflects a belief in good stewardship.

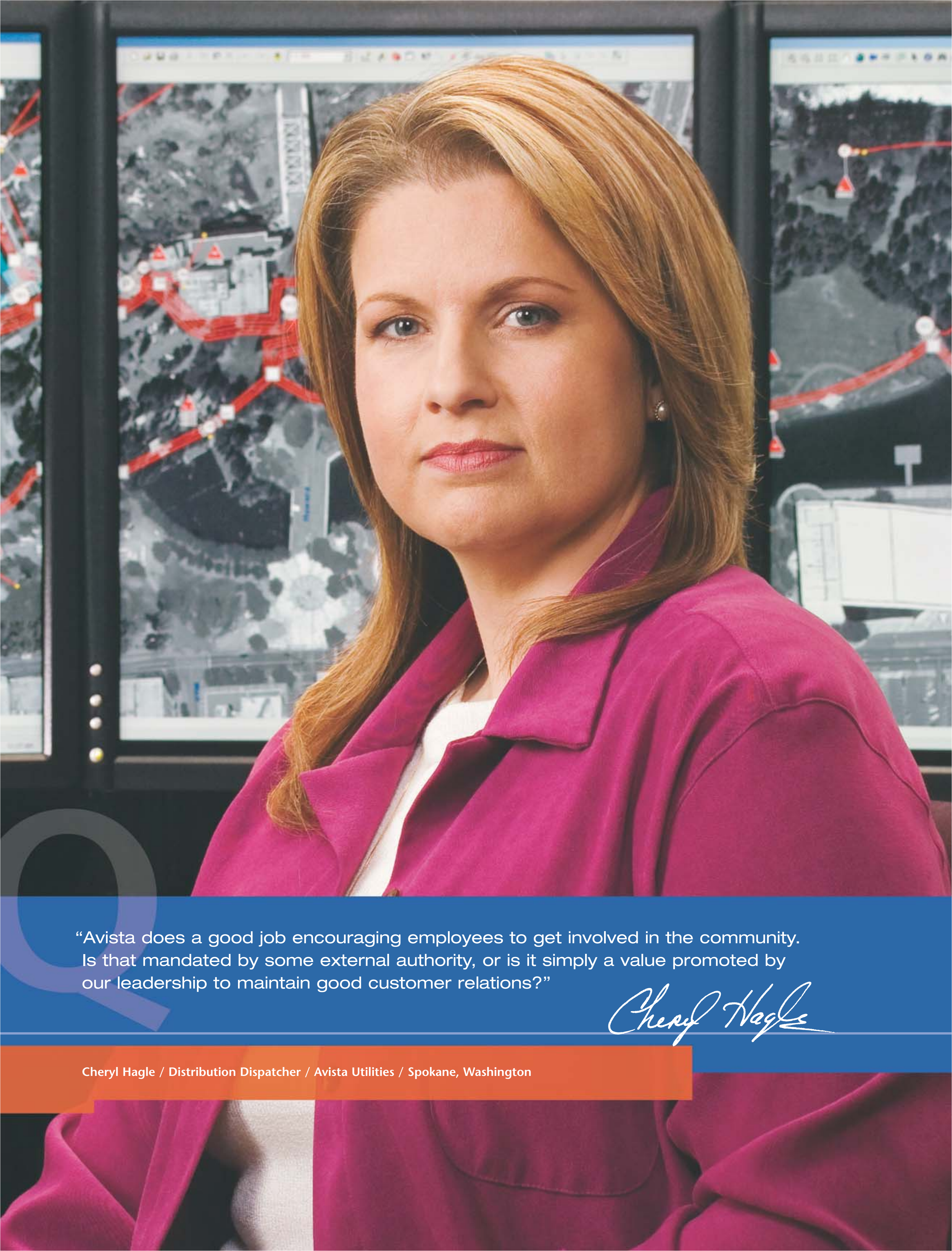
Pursuant to our licensing agreement there, we joined with federal, state and conservation agencies in 2005 to purchase and preserve the Bull River Wildlife Management Area, 1,800 acres formerly owned by mining and timber interests. Sharing the total cost testifies to our view that good stewardship also includes collaboration and prudent financial management.

Indeed, the economics of our environmental work make sense. The cost of noncompliance and loss of good will can be considerable.

That explains why in 2006 we're taking the lead on polychlorinated biphenyls (PCB) cleanup behind Upriver Dam on the Spokane River, though facilities once owned by an Avista subsidiary were responsible for less than 1 percent of the problem.

It's simply the right thing to do.

Earning an Outstanding Stewardship of America's Rivers award for six straight years says something about how seriously we take our environmental responsibilities. In conferring the honor, the National Hydropower Association notes our long legacy of protecting and preserving the Clark Fork River, a source of both energy and beauty for our region.



"Avista does a good job encouraging employees to get involved in the community. Is that mandated by some external authority, or is it simply a value promoted by our leadership to maintain good customer relations?"

Cheryl Hagle

Cheryl Hagle / Distribution Dispatcher / Avista Utilities / Spokane, Washington

No regulatory requirement compels Avista to invest in the communities we serve. But it is absolutely critical to the success of our business – as it has been throughout our entire 117-year history.

Roger Woodworth
Vice President, Avista Corp.

So, in a certain way, today's leadership doesn't differ much from that of years past. Ingrained in Avista's culture lies the understanding that we operate by the consent of our customers, and earning their good will is merely smart business. It starts with great customer service, of course – holding customers' interests equal to our own.

But we reach beyond that, seeking to establish trust by lending support to the common good.

Avista employees take special pride in making a difference in our communities through volunteer involvement. You'll find them seemingly everywhere: on the soccer field, in the classroom, at the chamber of commerce, up to their elbows in produce grown in our community garden for the food bank – wherever their interests take them. In 2005 alone, they rang up 58,000 volunteer hours.

As a corporation, we chip in too, particularly on projects that promote community prosperity. In September, the city council endorsed a strategic master plan for the University District, a concentration of higher education and health care research on the east end of downtown Spokane. Through our participation with others in the district's development, we expect the community we serve to enjoy the benefits of its estimated $200 million to $300 million annual economic impact.

The Virtual Possibilities Network (VPnet), another venture intended to spur collaboration and growth, is progressing nicely, as well. The 200-mile fiber optic system donated by an Avista subsidiary facilitates research, education and business incubation. The network's member school districts, colleges, universities, health care facilities and others implemented more than 20 projects in 2005, and we anticipate an annual economic benefit to the Eastern Washington and North Idaho region of $85 million by 2010.

Fostering the vitality of our communities through efforts like these can only leave Avista the better for it. Such mutually beneficial outcomes appeal to us; they generate positive results for our company while at the same time strengthening our credibility among those we serve.

Ours is a complex business, with many stakeholders and many issues at play. By seeking balance – and respecting those differing perspectives – we build relationships with staying power, cultivate an environment primed for growth and encourage prosperity for all.

Sometimes community involvement requires leadership, and other times we support another's vision. When Marshall Chesrown purchased 78 acres of undeveloped property near downtown Spokane, we saw the potential at once. Our team got busy designing service to the site – the planned future home of 2,600 residential units and more than a million square feet of commercial and retail space – and consulting on energy efficient design.

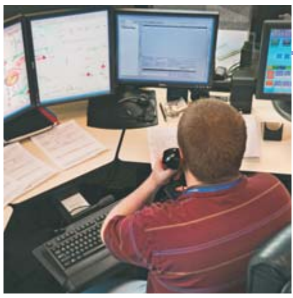
2005 Accomplishments

Leadership

With the right leaders in place, Avista's values will endure. Bearing that in mind, Marian Durkin was named senior vice president, general counsel and chief compliance officer; Karen S. Feltes rose to senior vice president; Christy Burmeister-Smith became vice president and treasurer; and Ann Wilson took on a new role as vice president and controller. ■ For the sixth time in nine years, **Avista Utilities** made Oregon Business magazine's list of the 100 best large companies to work for in Oregon. We ranked 26th.

Reliability

In response to rapid load growth in some of our territory, we added 250 megawatts of transfer capability to the regional grid as part of 2005's capital expenditures of more than $200 million. ■ Completing our purchase of the second half of **Coyote Springs 2** secured another 140 megawatts of generation for Avista customers.



Productivity

The formation of **Distribution Dispatch** marked the end of a four-year effort to link all our distribution feeders to the outage management tool, an application housing geographic information system (GIS) maps of our entire service territory. ■ An analysis of mobile dispatch technology laid the foundation for our next major productivity initiative.

Community

The fiber optic Virtual Possibilities Network (VPnet) grew to 17 participating members. ■ Through our involvement, the community came together to erect the **Lt. Col. Michael P. Anderson memorial statue** in downtown Spokane's Riverfront Park to serve as an inspiration for children to achieve their dreams. The local hero died aboard Space Shuttle Columbia in 2003.

Subsidiary operations

Barrick Goldstrike Mines and Columbia Power Corporation joined the list of organizations turning to Avista Energy for help managing their generation assets. ■ **Avista Advantage's** customer base grew by 7.7 percent, and the number of facilities we serve grew by 33,468 to 174,910.

Our 30,000-square-mile service territory includes energy generation, transmission and distribution operations in four Western states. We provide electricity to more than 338,000 customers in Eastern Washington and North Idaho. Our approximately 297,000 natural gas customers are located in Washington, Idaho and Oregon.

Board of Directors

Erik J. Anderson, 47 – President, Westriver Capital, Kirkland, Washington. Director since 2000.

Kristianne Blake, 52 – Principal, Kristianne Gates Blake, P.S., Spokane, Washington. Director since 2000.

David A. Clack, 71 – Managing Director, Meridian Capital, Spokane, Washington. Director since 1988.

Roy Lewis Eiguren, 54 – Senior Partner, Givens Pursley LLP, Boise, Idaho. Director since 2002.

Gary G. Ely, 58 – Chairman of the Board, President and CEO, Avista Corp., Spokane, Washington. Director since 2001.

Jack W. Gustavel, 66 – Chairman and CEO, Idaho Independent Bank, Coeur d'Alene, Idaho. Director since 2003.

John F. Kelly, 61 – President and CEO, John F. Kelly & Associates, Paradise Valley, Arizona. Director since 1997.

Jessie J. Knight, Jr., 55 – President and CEO, San Diego Regional Chamber of Commerce. Director since 1999.

Michael L. Noël, 64 – President, Noël Consulting Company, Prescott, Arizona. Director since 2004.

Lura J. Powell, Ph.D., 55 – President and CEO, Advanced Imaging Technologies, Richland, Washington. Director since 2003.

R. John Taylor, 56 – Chairman and CEO, AIA Services Corporation and CropUSA Insurance Agency, Lewiston, Idaho. Director since 1985.

Corporate Governance / Nominating Committee

A well-considered structure for the board of directors translates into effective committee oversight, a balanced board membership, and policies and procedures that reflect Avista's values. The Corporate Governance / Nominating Committee advises the board in such matters.

Erik J. Anderson
Kristianne Blake
Jessie J. Knight, Jr.
Jack W. Gustavel – Chair

Executive Committee

Kristianne Blake
David A. Clack
R. John Taylor
Gary G. Ely – Chair

Audit Committee

We owe those who entrust us with their money the highest standard of probity. By overseeing the integrity of our financial statements and our internal controls for finance, accounting, legal compliance and ethics, the Audit Committee helps us meet that standard.

David A. Clack
Jessie J. Knight, Jr.
Michael L. Noël (financial expert)
Kristianne Blake – Chair

Compensation and Organization Committee

Roy Lewis Eiguren
R. John Taylor
John F. Kelly – Chair

Finance Committee

Jack W. Gustavel
Michael L. Noël
Erik J. Anderson – Chair

Environmental, Safety and Security Committee

A company with operations as complex and geographically dispersed as Avista's has a duty to protect our employees' safety and security and the environmental resources under our care. The Environmental, Safety and Security Committee provides management with policy guidance on these issues.

Roy Lewis Eiguren
Lura J. Powell
David A. Clack – Chair

Corporate and Business Unit Officers

Gary G. Ely, 58 – Chairman of the Board, President and Chief Executive Officer

Malyn K. Malquist, 53 – Senior Vice President and Chief Financial Officer

Scott L. Morris, 48 – Senior Vice President and President of Avista Utilities

Marian M. Durkin, 52 – Senior Vice President, General Counsel and Chief Compliance Officer

Karen S. Feltes, 50 – Senior Vice President and Corporate Secretary

Christy M. Burmeister-Smith, 49 – Vice President and Treasurer

Don F. Kopczynski, 50 – Vice President

David J. Meyer, 52 – Vice President and Chief Counsel for Regulatory and Governmental Affairs

Kelly O. Norwood, 47 – Vice President

Ronald R. Peterson, 53 – Vice President

Ann M. Wilson, 40 – Vice President and Controller

Roger D. Woodworth, 49 – Vice President

Stuart A. Stiles, 45 – President and Chief Executive Officer of Avista Advantage

Dennis P. Vermillion, 44 – President and Chief Operating Officer of Avista Energy

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Avista Corporation
Spokane, Washington

We have audited the consolidated balance sheets of Avista Corporation and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005. We also have audited management's assessment of the effectiveness of the Company's internal control over financial reporting and the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. Such consolidated financial statements, management's assessment of the effectiveness of the Company's internal control over financial reporting and our reports thereon dated March 6, 2006, expressing unqualified opinions (which opinion on the consolidated financial statements includes an explanatory paragraph for certain changes in accounting and presentation resulting from the impact of recently adopted accounting standards), which are not included herein, are included in Appendix A to the 2005 annual report. The accompanying condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on such condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 2005 and 2004, and the related condensed consolidated statements of income and of cash flows for each of the three years in the period ended December 31, 2005, is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

Deloitte & Touche LLP

Seattle, Washington
March 6, 2006

Management's Statement of Responsibility

The condensed consolidated financial statements in this summary annual report were derived from the consolidated financial statements that appear in Appendix A to the 2005 annual report. Management of Avista Corporation is responsible for the accuracy and completeness of the information in this summary annual report. The financial and operating information is derived from company records and includes amounts based on judgment and estimates where necessary. Disclosure controls and procedures in combination with Avista Corporation's internal control over financial reporting provide reasonable assurance that the summary annual report fairly and reasonably presents Avista Corporation's financial position and operating results.

The board of directors appointed Deloitte & Touche LLP, an independent registered public accounting firm, to audit the consolidated financial statements included in Appendix A to the 2005 annual report. Their report on the condensed consolidated financial statements appears above.

Gary G. Ely
Chairman, President and
Chief Executive Officer

Malyn K. Malquist
Senior Vice President and
Chief Financial Officer

Condensed Consolidated Statements of Income

(For the Years Ended December 31 – Dollars in Thousands, Except Per Share Amounts)

	2005	2004	2003
Operating Revenues	$ 1,359,607	$ 1,151,580	$ 1,123,385
Operating Expenses			
Resource costs	815,590	618,595	584,662
Other operating expenses	241,131	247,796	228,418
Depreciation and amortization	86,911	78,425	77,811
Utility taxes other than income taxes	68,044	66,294	60,791
Total operating expenses	1,211,676	1,011,110	951,682
Gain on Sale of Utility Properties	4,093	–	–
Income From Operations	152,024	140,470	171,703
Other Income (Expense)			
Interest expense, net of capitalized interest	(91,025)	(91,654)	(91,893)
Other income – net	10,030	8,390	6,173
Total other income (expense) – net	(80,995)	(83,264)	(85,720)
Income From Continuing Operations Before Income Taxes	71,029	57,206	85,983
Income Taxes	25,861	21,592	35,340
Income From Continuing Operations	45,168	35,614	50,643
Loss From Discontinued Operations	–	–	(4,949)
Net Income Before Cumulative Effect of Accounting Change	45,168	35,614	45,694
Cumulative Effect of Accounting Change (net of tax)	–	(460)	(1,190)
Net Income	45,168	35,154	44,504
Preferred stock dividend requirements	–	–	(1,125)
Income Available for Common Stock	$ 45,168	$ 35,154	$ 43,379
Earnings Per Common Share, Basic			
Earnings from continuing operations	$ 0.93	$ 0.74	$ 1.03
Loss from discontinued operations	–	–	(0.10)
Earnings before cumulative effect of accounting change	0.93	0.74	0.93
Loss from cumulative effect of accounting change	–	(0.01)	(0.03)
Total earnings per common share, basic	$ 0.93	$ 0.73	$ 0.90
Earnings Per Common Share, Diluted			
Earnings from continuing operations	$ 0.92	$ 0.73	$ 1.02
Loss from discontinued operations	–	–	(0.10)
Earnings before cumulative effect of accounting change	0.92	0.73	0.92
Loss from cumulative effect of accounting change	–	(0.01)	(0.03)
Total earnings per common share, diluted	$ 0.92	$ 0.72	$ 0.89
Dividends paid per common share	$ 0.545	$ 0.515	$ 0.490

Condensed Consolidated Balance Sheets

(As of December 31 - Dollars in Thousands)

	2005	2004
Assets		
Cash and cash equivalents	$ 25,917	$ 88,317
Restricted cash	25,634	26,175
Accounts and notes receivable	502,947	313,899
Current energy commodity derivative assets	918,609	284,231
Other current assets	297,261	195,518
Total net utility property	2,126,417	1,956,063
Nonutility properties and investments – net	77,731	78,564
Noncurrent energy commodity derivative assets	511,280	254,657
Other property and investments – net	61,944	69,057
Regulatory assets for deferred income tax	114,109	123,159
Other regulatory assets	26,660	43,428
Noncurrent utility energy commodity derivative assets	46,731	55,825
Power and natural gas deferrals	147,622	148,206
Unamortized debt expense	48,522	53,413
Other deferred charges	17,110	21,109
Total Assets	**$ 4,948,494**	**$ 3,711,621**
Liabilities and Stockholders' Equity		
Accounts payable	$ 511,427	$ 325,194
Current energy commodity derivative liabilities	906,794	253,527
Current portion of long-term debt	39,524	85,432
Short-term borrowings	63,494	68,517
Other current liabilities	208,649	149,168
Long-term debt	989,990	901,556
Long-term debt to affiliated trusts	113,403	113,403
Preferred stock (subject to mandatory redemption)	26,250	28,000
Noncurrent energy commodity derivative liabilities	488,644	215,055
Regulatory liability for utility plant retirement costs	186,635	175,575
Deferred income taxes	488,934	488,471
Other noncurrent liabilities and deferred credits	153,622	154,518
Total Liabilities	**$ 4,177,366**	**$ 2,958,416**
Common stock – net (48,593,139 and 48,471,511 outstanding shares)	620,598	617,884
Retained earnings and accumulated other comprehensive loss	150,530	135,321
Total Stockholders' Equity	**$ 771,128**	**$ 753,205**
Total Liabilities and Stockholders' Equity	**$ 4,948,494**	**$ 3,711,621**

Condensed Consolidated Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents (For the Years Ended December 31 – Dollars in Thousands)

	2005	2004	2003
Continuing Operating Activities:			
Net income	$ 45,168	$ 35,154	$ 44,504
Loss from discontinued operations	–	–	4,949
Cumulative effect of accounting change	–	460	1,190
Purchases of securities held for trading	–	(15,260)	(18,865)
Sales of securities held for trading	–	34,192	–
Noncash items included in net income:			
Depreciation and amortization	86,911	78,425	77,811
Provision for deferred income taxes	8,865	19,168	28,395
Power and natural gas cost amortizations, net of deferrals	9,630	11,087	3,829
Amortization of debt expense	7,762	8,301	7,972
Write-offs and impairment of assets	1,001	21,990	4,900
Energy commodity assets and liabilities	38,126	678	22,128
Other	(11,460)	3,770	(11,214)
Changes in working capital components	(57,458)	(79,920)	(39,546)
Net Cash Provided by Continuing Operating Activities	128,545	118,045	126,053
Continuing Investing Activities:			
Utility property capital expenditures (excluding AFUDC)	(213,652)	(115,346)	(102,271)
Other capital expenditures	(4,044)	(3,126)	(3,388)
Decrease (increase) in restricted cash	541	(9,703)	(3,489)
Proceeds from property sales	17,211	2,466	549
Other	2,351	(3,421)	(4,739)
Net Cash Used in Continuing Investing Activities	(197,593)	(129,130)	(113,338)
Continuing Financing Activities:			
Increase (decrease) in short-term borrowings	(5,023)	(12,008)	50,525
Proceeds from issuance of long-term debt	149,633	89,761	44,795
Redemption and maturity of long-term debt	(111,613)	(66,857)	(124,859)
Proceeds from issuance of long-term debt to affiliated trusts	–	61,856	–
Redemption of long-term debt to affiliated trusts	–	(61,856)	–
Redemption of preferred stock	(1,750)	(1,750)	(1,575)
Issuance of common stock	2,066	4,061	5,497
Cash dividends paid	(26,443)	(24,912)	(24,777)
Other	(222)	(17,019)	(4,139)
Net Cash Provided by (Used in) Continuing Financing Activities	6,648	(28,724)	(54,533)
Net Cash Used in Continuing Operations	**(62,400)**	**(39,809)**	**(41,818)**
Net Cash Used in Discontinued Operations	**–**	**–**	**(3,342)**
Net Decrease in Cash and Cash Equivalents	**(62,400)**	**(39,809)**	**(45,160)**
Cash and Cash Equivalents at Beginning of Period	**88,317**	**128,126**	**173,286**
Cash and Cash Equivalents at End of Period	**$ 25,917**	**$ 88,317**	**$ 128,126**

Financial Summary

The following is a brief discussion and analysis of financial condition and results of operations for Avista Corporation (Avista Corp. or the Company). For a more detailed analysis, please refer to Appendix A to the 2005 annual report.

Summary of Results – Net income was $45.2 million for 2005 compared to $35.2 million for 2004. This increase was due to the improved performance of Avista Utilities, as well as Avista Advantage and the Other business segment. This was partially offset by a net loss for Avista Energy (Energy Marketing and Resource Management segment).

Avista Corp.'s operating results and cash flows are derived primarily from Avista Utilities and Avista Energy. Avista Corp. intends to continue to focus on improving earnings and operating cash flows, controlling costs and reducing debt while working to restore an investment grade credit rating.

Avista Utilities is the Company's most significant business segment. Based on Avista Utilities' forecast for electric customer growth of 2.5 percent and natural gas customer growth of 4 percent within its service area, Avista Utilities anticipates retail electric and natural gas load growth will average between 3 and 3.5 percent annually for the next four years. As part of Avista Utilities' strategy to focus on its business in the northwestern United States, in April 2005, the Company completed the sale of its natural gas properties in South Lake Tahoe, California. This was the Company's only regulated utility operation in California.

Avista Utilities operating and financial performance is substantially dependent upon, among other things: 1) weather conditions, including the effect of precipitation and temperatures on the availability of hydroelectric resources and the effect of temperatures on customer demand; 2) the price of natural gas in the wholesale market, including the effect on the price of fuel for generation; 3) the price of electricity in the wholesale market, including the effects of weather conditions, natural gas prices and other factors affecting supply and demand; and 4) favorable regulatory decisions, allowing Avista Utilities to recover its costs, including particularly its purchased power and fuel costs, on a timely basis and to earn a fair return on its investment.

Avista Utilities' hydroelectric generation was 95 percent of normal in 2005. Hydroelectric generation has been below normal (based on a 70-year average) for five of the past six years. The Company cannot determine if this trend of lower-than-normal hydroelectric generation will continue in future years. Avista Utilities forecasts that hydroelectric generation will be near normal in 2006. This is an early forecast, which will change based upon precipitation, temperatures and other variables during the year.

Avista Utilities has increased capital expenditures in order to meet load growth needs and to continue to provide reliable service to its customers. Utility capital expenditures totaled $213.7 million in 2005, the most significant of which were the acquisition of the remaining interest in Coyote Springs 2, transmission system enhancements, and the repurchase of the Company's corporate headquarters and central operating facility in Spokane. For 2006, the Company has established a utility capital budget of approximately $160 million. Significant projects include the continued enhancement of Avista Utilities' transmission system and upgrades to generating facilities.

Avista Utilities regularly reviews the need for electric and natural gas rate changes in each state in which it provides service. Avista Utilities has received base rate increases in each of its jurisdictions since October 2003. Most recently, in December 2005, Avista Utilities received approval from the Washington Utilities and Transportation Commission (WUTC) to increase its base electric and natural gas rates effective January 1, 2006. Avista Utilities will continue to file for rate adjustments to provide for recovery of its operating costs and capital investments and to more closely align earned returns with those allowed by regulatory agencies.

Avista Utilities' net income was $52.5 million for 2005, an increase from $32.5 million for 2004 primarily due to the general rate increases, as well as the $4.1 million pre-tax gain on the sale of the South Lake Tahoe natural gas properties. This was partially offset by increases in other operating expenses, particularly with respect to depreciation and amortization from utility plant additions as well as compensation and other employee related expenses. Results for 2004 were reduced by write-offs of $14.4 million ($9.4 million, net of tax) related to the Idaho Public Utility Commission general rate case order. Avista Utilities expects net income for 2006 to be similar to 2005.

Avista Energy's business activities include trading electricity and natural gas, as well as the optimization of generation assets owned by other entities, long-term electric supply contracts, natural gas storage, and electric transmission and natural gas transportation arrangements. Avista Energy Canada is a wholly owned subsidiary of Avista Energy that provides natural gas services to end-user industrial and commercial customers in British Columbia, Canada.

The earnings and cash flows of Avista Energy are by nature subject to significant volatility because they are derived primarily from the day-to-day trading of electricity and natural gas and optimization of assets owned by other entities, as opposed to long-term revenue streams, and because Avista Energy's activities are for the most part subject to mark-to-market accounting. In addition, with respect to the management of natural gas storage and certain other contracts, Avista Energy's earnings are subject to the anomalies caused by the differences between the required accounting and the economic management of these assets and contracts. While Avista Energy has taken measures to enhance profitability and reduce the risk of losses in the future, this business will continue to have volatility in its results.

Avista Energy is subject to certain regulatory proceedings that remain unresolved; however, Avista Energy believes that it has adequate reserves established for refunds that may be ordered. The wholesale energy markets in which Avista Energy operates continue to have volatile market prices and variations in liquidity.

The Energy Marketing and Resource Management segment, which consists primarily of Avista Energy, incurred a net loss of $8.6 million for 2005 compared to net income of $9.7 million for 2004. The net loss for 2005 was the first annual net loss for this business segment since 1999. The net loss for 2005 was primarily due to losses in Avista Energy's natural gas portfolio. The volatility in natural gas and electricity prices can result in significant changes in earnings from Avista Energy from year to year. Avista Energy's trading of electricity and natural gas as well as asset optimization activities have been cumulatively profitable since 1999. Asset optimization has resulted in the recovery of a majority of the fixed and variable costs associated with the power purchase agreement for the Lancaster Project for 2006. In addition, early in 2006, the Company captured a significant amount of value relative to prior years from the economic management of natural gas storage. Earnings associated with these activities, as well as the anticipated future success of trading natural gas and electricity, are expected to return this segment to profitability in 2006.

Avista Advantage remains focused on increasing revenues, controlling operating expenses, continuously enhancing client satisfaction and developing complementary value-added services in a competitive market. During the first quarter of 2005, Avista Advantage acquired TelAssess, Inc. Although not a significant financial transaction, this acquisition provides Avista Advantage a foundation on which to expand beyond existing utility bill information services to provide similar services relating to telecom expense management. Net income for Avista Advantage was $3.9 million for 2005, an increase from $0.6 million for 2004 based on increased revenues from an expanding customer base and stabilizing operating expenses from processing efficiencies. The Company expects net income for Avista Advantage to increase in 2006 as compared to 2005.

Over time as opportunities arise, the Company plans to continue to dispose of assets and phase out operations in the Other business segment. However, the Company may, from time to time, invest incremental funds in these businesses to protect its existing investments. The net loss in the Other business segment was $2.6 million for 2005, a decrease from $7.2 million (excluding the cumulative effect of accounting change) for 2004 primarily due to decreased losses from asset impairments and write-offs incurred in 2004. The Company expects a similar net loss for 2006 as compared to 2005 for the Other business segment.

Total debt outstanding increased $37.5 million in 2005 primarily to fund utility capital expenditures that were in excess of net cash flows from operating activities. Avista Corp. issued $150.0 million of long-term debt during the fourth quarter of 2005 to, among other things, refinance borrowings on its committed line of credit. For 2006, the Company expects net cash flows from operating activities and Avista Corp.'s committed line of credit to provide adequate resources to fund capital expenditures, maturing long-term debt, dividends and other contractual commitments. However, the Company currently expects to issue long-term debt in the fourth quarter of 2006 primarily to fund debt that matures in the first quarter of 2007.

Overall Results of Operations – Total operating revenues increased $208.0 million due to increases in utility revenues of $188.7 million, non-utility energy marketing and trading revenues of $9.6 million and other non-utility revenues of $9.7 million.

Utility revenues increased due to increases in electric revenues of $71.0 million and natural gas revenues of $117.7 million. The increase in natural gas revenues was primarily due to increased natural gas wholesale sales and increases in retail natural gas sales as a result of rate increases. The increase in electric revenues primarily reflects an increase in wholesale revenues and a slight increase in retail revenues, partially offset by a decrease in sales of fuel.

Non-utility energy marketing and trading revenues increased primarily due to increased revenues for Avista Energy Canada, partially offset by decreased net trading margin on contracts accounted for under Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended.

Other non-utility revenues increased as a result of increased revenues from Avista Advantage of $8.3 million and increased revenues from the Other business segment of $1.4 million. The increase in revenues from Avista Advantage was primarily due to customer growth and the increase from the Other business segment was primarily due to increased sales at Advanced Manufacturing and Development (AM&D).

Total resource costs increased $197.0 million due to increases in utility resource costs of $150.6 million and non-utility resource costs of $46.4 million.

Utility resource costs increased primarily due to increased purchased power costs of $41.4 million and increased purchased natural gas costs of $109.9 million. The increase in purchased power and natural gas costs was primarily due to an increase in prices as well as an increase in the volume of purchases.

Non-utility resource costs increased primarily due to increased resource costs for Avista Energy Canada and partially due to an increase in transportation and transmission costs.

Depreciation and amortization increased $8.5 million for 2005 compared to 2004 due in part to utility plant additions and the resulting increase in depreciation expense. This was also due to a correction for overstated depreciation expense in prior periods recorded during 2004.

Other operating expenses decreased $6.7 million for 2005 compared to 2004 due to asset impairment charges recorded at Avista Power (Energy Marketing and Resource Management segment) in 2004, decreased compensation expense at Avista Energy (Energy Marketing and Resource Management segment), the impairment of good will at AM&D, the accrual of environmental liabilities at Avista Development, and the write-off of an investment in a natural gas storage project during 2004 (Other business segment). This was partially offset by increased operating expenses for Avista Advantage due to expanding operations and a slight increase in other operating expenses for Avista Utilities. The increase for Avista Utilities was primarily due to an increase in incentive compensation expenses including performance share payouts, partially offset by a decrease in certain other operating expenses. These decreases in certain other operating expenses include the sale of the South Lake Tahoe natural gas operations and write-offs related to the Idaho general rate case incurred in 2004.

Interest expense, net of capitalized interest, decreased $0.6 million for 2005 compared to 2004 primarily due to a decrease in the effective borrowing rate on long-term debt as a result of previous debt issuances and repurchases, partially offset by an increase in interest expense on short-term borrowings.

Other income-net increased $1.6 million primarily due to an increase in interest income.

Income taxes increased $4.3 million for 2005 compared to 2004, primarily due to increased income before income taxes. The effective tax rate was 36.4 percent for 2005 compared to 37.7 percent for 2004. The decrease in the effective tax rate was partially due to tax credits for the Kettle Falls Generation Plant that the

Company began receiving the benefit from in 2005.

During 2004, the Other business segment recorded as a cumulative effect of accounting change a charge of $0.5 million related to the implementation of Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities," which was revised in December 2003, which required Avista Ventures to consolidate several minor entities.

Liquidity and Capital Resources – During 2005, positive cash flows from operating activities of $128.5 million, proceeds from property sales (primarily the sale of the Company's South Lake Tahoe natural gas properties) of $17.2 million and an overall reduction in the Company's consolidated cash position of $62.4 million were used to fund the majority of the Company's cash requirements, including utility capital expenditures of $213.7 million and dividends of $26.4 million. To fund the portion of cash needs not met through other sources, total debt increased $37.5 million in 2005. In addition to dividends, the most significant financing transactions in 2005 were long-term debt issuances of $149.6 million and $111.6 million of debt redemptions and maturities. The overall decrease in cash of $62.4 million in 2005 primarily reflects a decrease in cash at Avista Energy primarily due to an increase of $28.7 million in cash deposited with counterparties as collateral funds, as well as Avista Energy's net loss for the year.

The Company's consolidated operating cash flows are primarily derived from the operations of Avista Utilities and Avista Energy. The primary source of operating cash flows for Avista Utilities is revenues (including the recovery of previously deferred power and natural gas costs) from sales of electricity and natural gas. Significant uses of cash flows from operations for Avista Utilities include the purchase of electricity and natural gas, other operating expenses, taxes and interest. The primary source and use of operating cash flows for Avista Energy is revenues and costs from realized energy commodity transactions as well as cash collateral deposited to or held from counterparties. Significant operating cash outflows for Avista Energy also include other operating expenses and taxes.

Operating cash flows do not always fully support the capital expenditure needs of Avista Utilities. As such, from time to time, the Company may need to access capital markets in order to fund these needs, as well as to fund maturing debt.

The general rate increases that have been implemented at Avista Utilities since 2002 are allowing the Company to continue to improve its liquidity. In December 2005, the WUTC approved a settlement agreement (with certain conditions) related to Avista Utilities' Washington general rate case that provides for electric and natural gas base rate increases, which are designed to increase annual revenues by $22.4 million effective January 1, 2006.

The Company monitors on an ongoing basis the potential liquidity impacts of increasing energy commodity prices, particularly with respect to natural gas, for both Avista Utilities and Avista Energy. The Company believes that it has adequate liquidity through current cash and cash equivalents, Avista Corp.'s committed line of credit and Avista Energy's committed line of credit to meet the increased cash needs of higher energy commodity prices. Avista Utilities has regulatory mechanisms in place that provide for the deferral and recovery of the majority of its power and natural gas supply costs. However, if prices increase, deferral balances will increase, which will negatively affect the Company's cash flow and liquidity.

The Company's stockholders' equity increased $17.9 million during 2005 primarily due to net income, partially offset by dividends and other comprehensive loss.

Pension Plan – As of December 31, 2005, the Company's pension plan had assets with a fair value that was less than the present value of the accumulated benefit obligation under the plan. The Company does not expect the current pension plan funding deficit to have a material adverse effect on its financial condition, results of operations or cash flows. The Company believes that it has made significant efforts in addressing the pension plan funding deficit since 2002, primarily through cash contributions to the plan in excess of the amounts that are required to be funded under the Employee Retirement Income Security Act. The Company made $15 million in cash contributions to the pension plan in each of 2005 and 2004, which brings total pension plan contributions to $54 million from 2002 through 2005. The Company expects to contribute $15 million to the pension plan in 2006.

Off-balance Sheet Arrangements – Avista Receivables Corporation (ARC) is a wholly owned, bankruptcy-remote subsidiary of Avista Corp. formed for the purpose of acquiring or purchasing interests in certain accounts receivable, both billed and unbilled, of the Company. Avista Corp., ARC and a third-party financial institution have entered into a Receivables Purchase Agreement. Under the Receivables Purchase Agreement, ARC can sell without recourse, on a revolving basis, up to $85.0 million of those receivables. As of December 31, 2005, $85.0 million in accounts receivables were sold under this revolving agreement. This agreement provides the Company with cost-effective funds for working capital requirements, capital expenditures and other general corporate needs.

Potential Holding Company Formation – In February 2006, the Board of Directors of Avista Corp. made the decision to ask shareholders to approve a change in the Company's organization which would result in the formation of a holding company. The proposed holding company would become the parent to the regulated utility Avista Corp. (Avista Utilities) and Avista Capital, which is the parent to the Company's non-utility subsidiaries. The holding company organizational structure is common in the utility industry. The recent repeal of the Public Utility Holding Company Act of 1935 removed certain restrictions on the formation of a public utility holding company for corporations like Avista Corp. that operate in more than one state.

The proposal for the formation of a holding company will be described for shareholders in Avista Corp.'s Proxy Statement-Prospectus to be distributed to shareholders in connection with the annual meeting of shareholders to be held on May 11, 2006. Avista Corp. has filed for regulatory approval from the Federal Energy Regulatory Commission and the utility regulators in Washington, Idaho, Oregon and Montana, conditioned on approval by shareholders. If shareholders approve the proposal, and if state and federal regulatory approvals are received, the holding company organization could be implemented by the end of 2006.

Corporate Information

Company Headquarters
Avista Corp.
1411 East Mission Avenue
Spokane, Washington 99202

Avista Corp. on the Internet
Financial results, stock quotes, news releases, documents filed with the Securities and Exchange Commission, and information on the company's products and services are available at Avista Corp.'s Web site. The address is www.avistacorp.com.

Transfer Agent
The Bank of New York is the company's stock transfer, dividend payment and reinvestment plan agent. Answers to many shareholder questions and requests for forms are available by visiting The Bank of New York's Web site at www.stockbny.com.

Inquiries should be directed to:
The Bank of New York
Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, New York 10286-1258
800.642.7365
shareowners@bankofny.com

Investor Information
A copy of the company's financial reports, including the reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission, will be provided without charge upon request to:
Avista Corp.
Investor Relations
P.O. Box 3727 MSC-19
Spokane, Washington 99220-3727
800.222.4931

Annual Meeting of Shareholders
Shareholders are invited to attend the company's annual meeting to be held at 10 a.m. PDT on Thursday, May 11, 2006, at Avista Corp. headquarters, 1411 East Mission Avenue in Spokane, Washington.

The annual meeting also will be webcast. Please go to www.avistacorp.com to preregister for the webcast in advance of the annual meeting and to listen to the live webcast. The webcast will be archived at www.avistacorp.com for one year to allow shareholders to listen to it at their convenience.

Exchange Listing
Ticker Symbol: AVA
New York Stock Exchange

Certifications
On June 6, 2005, the Chief Executive Officer of Avista Corp. filed a Section 303A.12(a) Annual CEO Certification with the New York Stock Exchange. The CEO Certification attests that the Chief Executive Officer is not aware of any violations by the Company of NYSE's Corporate Governance Listing Standards.

Avista Corp. has included as exhibits to its annual report on Form 10-K for the year 2005 filed with the Securities and Exchange Commission certifications of Avista Corp.'s Chief Executive Officer and Chief Financial Officer regarding the quality of Avista Corp.'s public disclosure in compliance with Section 302 of the Sarbanes-Oxley Act of 2002.

This annual report contains forward-looking statements regarding the company's current expectations. These statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from the expectations. These risks and uncertainties include, in addition to those discussed herein, all factors discussed in the company's annual report on Form 10-K for the year 2005. Our 2005 annual report is provided for investors. It is not intended for use in connection with any sale or purchase of or any solicitation of others to buy or sell securities.

Special thanks to these talented companies and individuals of the great Inland Northwest for their help with this year's annual report:

Anderson Mraz Design (design)
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George Perks – page 18, Coyote Springs 2

Avista Utilities **Avista Energy** **Avista Advantage**

Avista Corp.
1411 East Mission Avenue
Spokane, Washington 99202
509.489.0500
www.avistacorp.com