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Avista Requests Recovery for Costs in Washington and Idaho to Upgrade System and Meet Growing Energy Demand

Company also requests reduction in power cost surcharges

SPOKANE, Wash. – Jan 23, 2009, 1:05 p.m. PST: Avista **(NYSE: AVA)** has today filed requests with the Washington Utilities and Transportation Commission (WUTC) and the Idaho Public Utilities Commission (IPUC) to increase electric and natural gas rates to recover costs for generating and purchasing electricity to serve growing energy needs, for investments made to continue upgrading the company's aging infrastructure, and to comply with environmental and legal requirements. At the same time, the company is proposing a reduction in the existing power cost surcharges in both states, which would offset a portion of the proposed rate increases.

The WUTC has up to 11 months and the IPUC has up to seven months to review the respective filings, which are discussed in sections below.

Included in the filings are costs for generating and purchasing power which have increased over last year due in part to the need to replace expiring low-cost power contracts and to acquire new resources to serve customer energy needs.

Customer growth along with aging infrastructure, such as generation plants, power lines and poles, and substations, requires Avista to continue investing about $200 million a year in system upgrades to ensure the ongoing safe and reliable delivery of energy. Some of Avista's equipment is over 70 years old.

Also included in the filings are costs associated with relicensing the Spokane River hydroelectric facilities, which annually generate a combined 105 average megawatts of renewable energy. Both the relicensing costs and compensation to the Coeur d'Alene Tribe for the recently announced Settlement Agreement were reviewed by the WUTC and the IPUC in Avista's prior rate filings, but recovery was deferred until the present filings.

The requested natural gas increase in both states is driven primarily by increased operating costs and upgrades in the distribution system which delivers natural gas directly to customers.

"We are continuing to aggressively manage our costs, while at the same time ensuring that we meet growing customer demand with energy that is reliable and brings with it a high level of customer satisfaction," said Scott Morris, Avista chairman of the board, president and chief executive officer.

To reduce costs and realize efficiencies, Avista has delayed until 2013 the construction of its 50 megawatt Reardan Wind Project, projected to cost over $125 million. The delay is partly because of the company's ability to meet its renewable resource requirements and growing customer demand with ongoing upgrades at the company's hydroelectric facilities and renewable energy credits. Other cost savings measures include, but are not limited to, officers foregoing salary increases in 2009 and cancelling plans to construct additional office space, instead purchasing an existing office building for a savings of over $9 million in capital construction costs.

"We know that price increases will result in energy bills that may be more difficult for some of our customers to manage," Morris said. "That's why we are, among other cost-saving actions, continuing to work toward a resolution with the Bonneville Power Administration (BPA) on the Residential Exchange Program, which would restore to Avista customers their fair share of the benefits of the federal hydropower system through a monthly credit on electric bills for our residential and small-farm customers. We also recently received approval to reduce natural gas prices through the purchase gas cost adjustments, which reduced the natural gas costs for our customers in Washington by 3 percent and by 4.7 percent in Idaho. These lower prices were effective earlier in January 2009."

Also to lessen the impact of rising energy prices to customers, Avista has increased funding for popular energy efficiency programs offered by Avista. The programs provide rebates and incentives to residential, commercial, industrial and limited-income customers for implementing qualifying energy efficiency and cost-saving measures in their home or business. In 2008, Avista provided over 18,000 rebates and incentives totaling over $15 million to customers in both Washington and Idaho.

Avista continues to offer services for customers in both states such as comfort level billing, payment arrangements and Customer Assistance Referral and Evaluation Services (CARES) which provides assistance to special-needs customers through referrals to area agencies and churches for help with housing, utilities, medical assistance and other needs. Avista continues its support to Project Share, which provides energy assistance to qualifying residents regardless of the heating source, with a $280,000 donation in 2008.

Washington Filings

In Washington Avista is requesting a net electric rate increase of 8.6 percent. The net electric increase is based on a requested 16.0 percent increase in billed rates with an offsetting 7.4 percent reduction in the current Energy Recovery Mechanism surcharge. The company is also requesting a 2.4 percent increase in natural gas rates.

The requested increases are designed to produce $69.8 million in base revenue for electric service and $4.9 million in revenue for natural gas service. This request is based on a proposed rate of return on rate base of 8.68 percent, with a common equity ratio of 47.5 percent and an 11 percent return on equity.

If the requests are approved, a residential customer using an average 1,000 kilowatt hours of electricity per month would see a $6.99 per month increase, or 9.2 percent, for a revised monthly bill of $82.93. A natural gas customer using an average of 70 therms per month would see a $2.11 increase, or 2.5 percent, for a revised monthly bill of $87.51.

Avista serves over 231,000 electric and 144,000 natural gas customers in Washington.

Idaho Filings

In Idaho Avista is requesting a net electric rate increase of 7.8 percent. The net electric increase is based on a requested 12.8 percent increase in billed rates with an offsetting 5.0 percent reduction in the current Power Cost Adjustment surcharge. The company is also requesting a 3.0 percent increase in natural gas rates.

The requested increases are designed to produce $31.2 million in base revenue for electric service and $2.7 million in revenue for natural gas service. This request is based on a proposed rate of return on rate base of 8.8 percent, with a common equity ratio of 50 percent and an 11 percent return on equity.

If the requests are approved, a residential customer using an average 982 kilowatt hours of electricity per month would see a $6.71 per month increase, or 8.6 percent, for a revised monthly bill of $85.18. A natural gas customer using an average of 66 therms per month would see a $2.56 increase, or 3.2 percent, for a revised monthly bill of $81.94.

Avista is actively participating with other Idaho utilities in energy affordability workshops conducted by the IPUC. The focus of the workshops is to explore ways to address energy affordability and the ability of customers to pay energy bills, including possible legislation to authorize additional programs designed to assist low-income customers.

Avista serves 121,000 electric and over 93,000 natural gas customers in Idaho.

Avista Corp. is an energy company involved in the production, transmission and distribution of energy as well as other energy-related businesses. Avista Utilities is our operating division that provides service to 352,000 electric and 311,000 natural gas customers in three Western states. Avista's primary, non-regulated subsidiary is Advantage IQ. Avista stock is traded under the ticker symbol "AVA." For more information about Avista, please visit www.avistacorp.com.

This news release contains forward-looking statements, including statements regarding our current expectations for future financial performance and cash flows, capital expenditures, financing plans, our current plans or objectives for future operations and other factors, which may affect the company in the future. Such statements are subject to a variety of risks, uncertainties and other factors, most of which are beyond our control and many of which could have significant impact on our operations, results of operations, financial condition or cash flows and could cause actual results to differ materially from those anticipated in such statements.

The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: global financial and economic conditions (including the availability of credit) and their effect on the Company's ability to obtain funding for working capital and long-term capital requirements on acceptable terms and on economic conditions in the Company's service areas, including the effect on the demand for, and customers' ability to pay for, the Company's utility services; our ability to obtain financing through the issuance of debt and/or equity securities, which can be affected by various factors including our credit ratings, interest rates and other capital market conditions; the effect of any change in our credit ratings; changes in actuarial assumptions, the interest rate environment and the actual return on plan assets for our pension plan, which can affect future funding obligations, costs and pension plan liabilities; weather conditions and their effect on energy demand and generation, including the effect of precipitation and temperatures on the availability of hydroelectric resources and the effect of temperatures on customer demand; changes in wholesale energy prices that can affect, among other things, cash needed to purchase electricity, natural gas for our retail customers and natural gas fuel for electric generation, and the value of surplus energy sold; volatility and illiquidity in wholesale energy markets, including the availability of willing buyers and sellers and prices of purchased energy and demand for energy sales; the effect of state and federal regulatory decisions affecting our ability to recover costs and/or earn a reasonable return including, but not limited to, the disallowance of costs that we have deferred; and the possible reluctance of regulators to grant timely and adequate rate increases in an economic slowdown; the potential effects of legislation or administrative *rulemaking, including the possible adoption of national or state laws requiring resources to meet certain standards and placing restrictions on greenhouse gas emissions to mitigate concerns over global climate changes; the outcome of pending regulatory and legal proceedings arising out of the "western energy crisis" of 2000 and 2001, and including possible retroactive price caps and resulting refunds; the outcome of legal proceedings and other contingencies; changes in, and compliance with, environmental and endangered species laws, regulations, decisions and policies, including present and potential environmental remediation costs; wholesale and retail competition including, but not limited to, electric retail wheeling and transmission costs; the ability to relicense and maintain licenses for our hydroelectric generating facilities at cost-effective levels with reasonable terms and conditions; unplanned outages at any of our generating facilities or the inability of facilities to operate as intended; unanticipated delays or changes in construction costs, as well as our ability to obtain required operating permits for present or prospective facilities; natural disasters that can disrupt energy production or delivery, as well as the availability and costs of materials and supplies and support services; blackouts or disruptions of interconnected transmission systems; the potential for future terrorist attacks or other malicious acts, particularly with respect to our utility assets; changes in the long-term climate of the Pacific Northwest, which can affect, among other things, customer demand patterns and the volume and timing of streamflows to our hydroelectric resources; changes in economic conditions in our service territory and the United States in general, including inflation or deflation; changes in industrial, commercial and residential growth and demographic patterns in our service territory; the loss of significant customers and/or suppliers; default or nonperformance on the part of any parties from which we purchase and/or sell capacity or energy; deterioration in the creditworthiness of our customers and counterparties; increasing health care costs and the resulting effect on health insurance provided to our employees and retirees; increasing costs of insurance, changes in coverage terms and our ability to obtain insurance; employee issues, including changes in collective bargaining unit agreements, strikes, work stoppages or the loss of key executives, as well as our ability to recruit and retain employees; the potential effects of negative publicity regarding business practices, whether true or not, which could result in, among other things, costly litigation and a decline in our common stock price; changes in technologies, possibly making some of the current technology obsolete; changes in tax rates and/or policies; and changes in our strategic business plans, which may be affected by any or all of the foregoing, including the entry into new businesses and/or the exit from existing businesses.*

For a further discussion of these factors and other important factors, please refer to our Annual Report on Form 10-K for the year ended Dec. 31, 2007 and Quarterly Report on Form 10-Q for the quarter ended September 30, 2008. The forward-looking statements contained in this news release speak only as of the date hereof. We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on our business or the extent to which any such factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

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