

AVISTA CORP
Form 424B5
November 19, 2004

The information in this prospectus supplement is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not offers to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
File No. 333-64652

Subject to Completion. Dated November 18, 2004.
Prospectus Supplement to Prospectus dated May 19, 2004.

\$90,000,000

Avista Corporation

First Mortgage Bonds, % Series due

Our First Mortgage Bonds, % Series due (the "Offered Bonds"), constitute a series of our Bonds described in the accompanying prospectus.

We will pay interest on the Offered Bonds on and of each year. The first such payment will be made on , 2005. The Offered Bonds will mature on , unless redeemed on an earlier date. The Offered Bonds are redeemable at our option, in whole at any time or in part from time to time, at a "make-whole" price as described herein. See "Description of the Offered Bonds".

See "Risk Factors" beginning on page S-3 to read about certain factors you should consider before buying the Offered Bonds.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Bond	Total
Initial price to public	%	\$
Underwriting discount	%	\$
Proceeds, before expenses, to the selling shareholders	%	\$

The initial public offering price set forth above does not include accrued interest, if any. Interest on the notes will accrue from , 2004 and must be paid by the purchasers if the notes are delivered after , 2004.

The underwriters expect to deliver the Offered Bonds to the purchasers through the facilities of The Depository Trust Company against payment in New York, New York on .

Goldman, Sachs & Co.

BNY Capital Markets, Inc.

KeyBanc Capital Markets

Prospectus Supplement dated _____, 2004.

This prospectus supplement and the accompanying prospectus incorporate by reference important business and financial information about Avista Corporation that is not included in or delivered with the prospectus. This information is available to you as set forth in the accompanying prospectus.

TABLE OF CONTENTS

Prospectus Supplement

Risk Factors	S-3
Use of Proceeds	S-8
Summary Financial Information	S-8
Capitalization	S-9
Description of the Offered Bonds	S-10
Underwriting	S-14

Prospectus

About this Prospectus	1
Safe Harbor for Forward-Looking Statements	1
Avista Corporation	3
Use of Proceeds	4
Description of the Bonds	4
Description of the Notes	12
Description of Common Stock	21
Where You Can Find More Information	25
Plan of Distribution	26
Legal Matters	27
Experts	27

We have not authorized anyone to give you any information other than this prospectus supplement and the accompanying prospectus. You should assume that the information contained or incorporated in this prospectus supplement and the accompanying prospectus is accurate only as of their respective dates. We are not offering to sell the Offered Bonds and we are not soliciting offers to buy the Offered Bonds in any jurisdiction in which offers are not permitted.

S-2

RISK FACTORS

Investing in the Offered Bonds involves risk. You should review all the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding to invest. See [Where](#)

You Can Find More Information in the accompanying prospectus. In particular, you should carefully consider the risks and uncertainties referred to below. Certain other risks and uncertainties are listed under "Safe Harbor For Forward-Looking Statements" in the accompanying prospectus.

We are subject to various operational and event risks, which are common to the utility industry.

Avista Utilities, our regulated utility operation, is subject to operational and event risks including, among others, increases in load demand, transmission or transport disruptions, fuel quality specifications, forced outages at generating plants and disruptions to information systems and other administrative tools required for normal operations. We also have exposure to weather conditions and natural disasters that can cause physical damage to our property, requiring repairs to restore utility service. The emergence of terrorism threats, both domestic and foreign, is a risk to the entire utility industry, including us. The likelihood of disruptions to operations or destruction of facilities from terrorism is not readily determinable.

We are subject to the commodity price risk, credit risk and other risks associated with energy markets.

Both of our energy-related businesses, Avista Utilities and Avista Energy, are subject to electric and natural gas commodity price risk. In the case of electricity, prices can be affected by the adequacy of generating reserve margins, scheduled and unscheduled outages of generating facilities, availability of streamflows for hydroelectric generation, the price and availability of thermal generating plant fuel, and disruptions of or constraints on transmission facilities, among other things. Natural gas prices are affected by a number of factors, including but not limited to, the adequacy of North American production, the level of imports, the level of inventories, and the availability of pipeline capacity to transport natural gas from region to region. In addition, oil prices can influence natural gas prices, because of the fuel-switching capabilities of certain energy users. Demand changes (caused by variations in the weather and other factors) can also affect market prices. Any combination of these factors that results in a shortage of energy generally causes the market price of power to move upward. Price risk also includes the risk of fluctuation in the market price of associated derivative commodity instruments (such as options and forward contracts).

Avista Utilities and Avista Energy are also subject to credit risk. Credit risk relates to the losses that we would incur as a result of non-performance by counterparties of their contractual obligations to deliver energy or make financial settlements. Credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances that relate to other market participants that have a direct or indirect relationship with such counterparty. Should a counterparty, customer or supplier fail to perform, we may be required to replace existing contracts with contracts at then-current market prices or to honor the underlying commitment. In addition, we often extend credit to counterparties and customers. While we perform credit analyses prior to extending credit, Avista Utilities and Avista Energy are exposed to the risk that we may not be able to collect amounts owed to us.

Avista Utilities and Avista Energy are also subject to liquidity risk resulting from the exposure that our counterparties perceive with respect to the possible non-performance by us of our physical and financial energy contracts. These counterparties may seek assurances of performance from us in the form of letters of credit, prepayment or cash deposits, and, in the case of Avista Energy, parent company performance guarantees. In periods of price volatility, the level of exposure can change significantly, with the result that sudden and significant demands may be made against our capital resource reserves (credit facilities and cash).

Avista Energy has concentrations of suppliers and customers in the electric and natural gas industries including electric utilities, natural gas distribution companies, and other energy marketing and trading companies. In addition, Avista Energy has concentrations of credit risk related to geographic location as

Avista Energy operates in the western United States and western Canada. These concentrations of counterparties and concentrations of geographic location may negatively impact Avista Energy's overall exposure to credit risk, because the counterparties may be similarly affected by changes in economic, regulatory or other conditions.

Risk management procedures may not prevent losses.

Avista Utilities and Avista Energy have risk management policies and control procedures designed to measure and mitigate energy market risks. However, these policies and procedures cannot prevent material losses in all possible situations or from all potential causes. Included in Avista Energy's risk management policies are value-at-risk limits and systematic measurement procedures derived from historic price behavior. Losses could exceed the value-at-risk predictive amounts if prices deviate significantly from their historic patterns and in cases when actual events fall into the extreme end of the value-at-risk confidence interval. In addition, continuing trends of small losses that may be individually less than value-at-risk limits may cumulatively become significant. As a result of these and other factors, there can be no assurance that our risk management procedures will prevent losses that could negatively affect our results of operations, cash flows and financial condition.

Our commodity trading, marketing and risk management activities may increase the volatility in our results of operations; we cannot, and do not attempt to, fully hedge our assets or positions against changes in commodity prices; and our hedging procedures may not work as planned.

Avista Energy engages in resource management activities, as well as commodity marketing and trading. These activities include entering into financial and physical derivative transactions. These derivatives are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138 and SFAS No. 149, with respect to the majority of its contracts, which requires Avista Energy to record all derivatives on the Consolidated Balance Sheet at market value. Changes in the market value of derivatives are immediately recognized in earnings unless they are designated as hedges of forecasted transactions. Changes in the market value of derivatives accounted for as cash flow hedges of forecasted transactions are deferred and recorded as a component of accumulated other comprehensive income (loss) until the hedged transactions occur and are recognized in earnings. Most derivative contracts are marked-to-market and changes in their market value, brought upon by fluctuations in the underlying commodity prices, flow through the Consolidated Statements of Income. As a result, we are unable to predict the impact that its energy marketing and resource management activities may have on its results of operations or financial condition.

To reduce financial exposure related to commodity price fluctuations, Avista Utilities and Avista Energy routinely enter into contracts to hedge a portion of our purchase and sale commitments for electricity and natural gas, as well as our inventories of natural gas. As part of this strategy, we routinely utilize derivative instruments, such as forwards, futures, swaps and options traded in the over-the-counter markets or on exchanges. However, we do not always cover the entire exposure of our assets or our positions to market price volatility and the coverage will vary over time. To the extent Avista Utilities or Avista Energy have unhedged positions, or if our hedging positions do not work as planned, fluctuating commodity prices could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Our deferred power costs are subject to regulatory review and it will take several years for recovery.

We defer the recognition in the income statement of certain power supply costs that are in excess of the level currently recovered from our retail customers as authorized by the Washington Utilities and Transportation Commission ("WUTC") and the Idaho Public Utilities Commission ("IPUC"). These excess power supply costs are recorded as a deferred charge on the balance sheet with certain of these costs remaining subject to future prudence review and the opportunity for recovery through retail rates. As such, certain deferred costs may be disallowed by the respective regulatory agencies.

S-4

In Washington, power costs are deferred under an Energy Recovery Mechanism ("ERM") as established by WUTC order. The ERM allows us to increase or decrease electric rates periodically with WUTC approval to reflect changes in power supply costs. Under the ERM, we agreed to make an annual filing on or before April 1st of each year to provide the opportunity for the WUTC and other interested parties to review the prudence of and audit the ERM deferred power costs transactions for the prior calendar year.

In Idaho, power costs are deferred under a Power Cost Adjustment ( PCA ) mechanism, which allows us to modify electric rates periodically with IPUC approval to recover or rebate a substantial portion of the difference between actual net power supply costs and the amount included in base retail rates.

Despite the opportunity to eventually recover a substantial portion of power and natural gas costs in excess of the levels currently recovered from retail customers, our cash flows are negatively affected in the periods in which these costs are paid. Factors that could cause our purchased power costs to exceed the levels currently recovered from our customers include, but are not limited to, higher prices in wholesale markets, higher fuel costs for thermal generation, and/or increased requirements to purchase power. Factors beyond our control that could result in an increased need to purchase power include, but are not limited to, increases in demand (either due to weather or customer growth), low availability of hydroelectric resources, outages at generating facilities, the cost of natural gas to fuel generation and failure of third parties to deliver on energy or capacity contracts. We currently expect that the recovery of current balances of deferred power costs will take several years.

We are currently the subject of several regulatory proceedings and named in multiple lawsuits with respect to our participation in western energy markets.

In August 2002, the Federal Energy Regulatory Commission ( FERC ) commenced an investigation into the trading practices conducted by us and other participants in Western energy markets. In April 2004, the FERC approved an Agreement in Resolution which, among other things, incorporated the FERC Trial Staff s finding that there was no evidence that we engaged in any efforts to manipulate the Western energy markets during 2000 and 2001, and resolved all issues in the investigation. However, various parties, including the Office of the Attorney General of California, the California Public Utilities Commission and the California Electricity Oversight Board, filing jointly, and the City of Tacoma, Washington have filed requests for rehearing, and the State of Montana has filed a motion to intervene. As of November 15, 2004, The FERC has not yet ruled on these rehearing requests or the State of Montana s Motion to Intervene.

The FERC is conducting industrywide proceedings and investigations related to the alleged dysfunctions of the organized California market and the Pacific Northwest market during 2000 and 2001. For the proceedings related to the California organized market, we believe we have sufficiently reserved for any amounts that the FERC may order us to refund. For the proceedings related to the Pacific Northwest market, on June 25, 2003, the FERC denied the request of certain parties for retroactive refunds for spot market sales. In November 2003, the FERC denied rehearing requests made by certain parties seeking refunds in the Pacific Northwest markets. A petition for review of the FERC s decision was filed by the City of Tacoma on December 24, 2003, with the United States Court of Appeals for the Ninth Circuit. The Ninth Circuit has not yet ruled upon the rehearing request for refunds in the Pacific Northwest market.

In addition, the Office of the Attorney General of California (California AG) filed a complaint with the FERC against certain specific companies (not including Avista Corp. or its subsidiaries) and  all other public utility sellers  in California alleging that sellers with market-based rates have violated their tariffs by not filing with the FERC transaction-specific information about all of their sales and purchases at market-based rates. As a result, the California AG contends that all past sales should be subject to refund if found to be above just and reasonable levels. The complaint was denied by the FERC and subsequently appealed by the California AG to the United States Court of Appeals for the Ninth Circuit. In September 2004, the United States Court of Appeals for the Ninth Circuit upheld the FERC s market-based rate authority, but remanded the case back to the FERC in order to determine whether transactional reporting under this authority was

adequate, and what remedies would be appropriate for those not in compliance. In October 2004, Avista Energy joined with others in seeking rehearing of the Court s decision to remand the case back to the FERC for further proceedings.

There has also been a class action shareholder lawsuit filed against us. On August 19, 2003, the plaintiffs filed a consolidated amended class action complaint. In their complaint, the plaintiffs assert violations of the federal securities laws in connection with alleged misstatements and omissions of material fact pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended. In particular, the plaintiffs allege that we did not have adequate risk management processes, procedures and controls supporting our activities in the purchase and

sale of electricity and natural gas. The plaintiffs further allege that we failed to disclose that we engaged in unlawful energy trading practices and that we manipulated western power markets. The plaintiffs assert that alleged misstatements and omissions have occurred in our filings with the Securities and Exchange Commission (the "SEC") and other information made publicly available by us, including press releases. We filed a motion to dismiss this complaint in October 2003. Following argument in March 2004, the Court denied our motion to dismiss in July 2004. We filed our answer to the complaint in November 2004 denying the plaintiff's allegations.

Several parties, including the Port of Seattle, City of Tacoma and the Attorney General of the State of Montana, have filed complaints against numerous companies, including us, alleging various violations of laws with respect to alleged manipulation of western energy markets.

At this time, we cannot predict the outcome or potential impact of these regulatory proceedings and lawsuits.

We have several contingent liabilities, including but not limited to environmental matters.

We are liable for compensation (not yet determined as to amount) for the use of portions of the bed and banks of Lake Coeur d'Alene and the St. Joe River which were determined to be property of the Coeur d'Alene Tribe of Idaho. We and the Tribe are engaged in discussions with respect to past and future compensation (which may include interest) for use of the portions of the bed and banks of the Lake which are owned by the Tribe. If the parties cannot agree on the amount of compensation, the matter could result in litigation.

We are subject to environmental regulation by federal, state and local authorities. Environmental issues include contamination of certain parcels of land that we currently own or have formerly owned, contamination of certain portions of the Spokane River, issues surrounding the relicensing of our hydroelectric facilities on the Spokane River as well as the levels of dissolved gas in waters downstream of our hydroelectric facilities and the resulting impact on free ranging fish.

In addition, a lawsuit was filed against the owners of the Colstrip Generating Project (Colstrip). We have a 15 percent ownership interest in units 3 and 4 of Colstrip, which is located in southeastern Montana. The plaintiffs allege damages to buildings as a result of rising ground water as well as damages from contaminated waters leaking from the lakes and ponds of Colstrip.

Further, a lawsuit was filed against all private owners of hydroelectric dams in Montana, including Avista Corp., alleging that the hydroelectric facilities are located on state-owned riverbeds and the owners have never paid compensation to the state's public school trust fund. In May 2004, the Montana AG filed a complaint on behalf of the state to join in this lawsuit to allegedly protect and preserve state lands/school trust lands from use without compensation. In July 2004, the defendants (including Avista Corp.) filed a motion to dismiss the Montana AG's complaint. In September 2004, the Court granted the motion to dismiss filed with respect to the original plaintiffs. However, the motion to dismiss the Montana AG's complaint was denied, citing, among other things, that the FERC does not have exclusive jurisdiction over this matter.

S-6

These matters are the subject of ongoing litigation, mediation, investigation and/or negotiation. We cannot predict the ultimate outcome or potential impact of any particular issue, including the extent, if any, of insurance coverage or the extent, if any, that amounts payable by us may be recoverable through the ratemaking process.

We need to maintain adequate credit with banks; and a downgrade in our credit ratings could negatively affect our energy trading businesses.

We need to maintain access to adequate levels of credit with our banks. We currently have in place a 364-day revolving credit facility in the amount of \$350.0 million, which is scheduled to expire on May 5, 2005. This committed line of credit is secured by \$350.0 million of our non-transferable first mortgage bonds issued to the agent banks. However, at this time, we cannot predict whether we will have access to credit beyond the May 5, 2005 expiration date. The committed line of credit contains customary covenants and default provisions. As of September 30, 2004 we were in compliance with all such covenants, however, any future default on our committed line of credit or other financing arrangements could result in cross-defaults to other agreements and could induce

vendors and other counterparties to demand collateral. In the event of default, it would be difficult for us to obtain financing on any reasonable terms to pay creditors or fund operations, and we would likely be prohibited from paying dividends on our common stock.

On July 23, 2004, Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, amended their \$110.0 million committed credit agreement to extend the expiration date to July 22, 2005. The Avista Energy credit agreement contains customary covenants and default provisions, including covenants to maintain "minimum net working capital" and "minimum net worth", as well as a covenant limiting the amount of indebtedness which the co-borrowers may incur. The credit agreement also contains covenants and other restrictions related to Avista Energy's trading limits and positions, including Value-at-Risk limits, restrictions with respect to changes in risk management policies or volumetric limits, and limits on exposure related to hourly and daily trading of electricity. Also, a reduction in the long-term corporate credit rating of Avista Corp. below its current levels would represent an event of default under Avista Energy's credit agreement. These covenants, certain counterparty agreements and current market liquidity conditions result in Avista Energy maintaining certain levels of cash and therefore effectively limit the amount of cash dividends that are available for distribution to Avista Capital and ultimately Avista Corp. At this time, we cannot predict whether Avista Energy will have access to credit beyond the July 22, 2005 expiration date of its committed line of credit.

If Avista Energy's credit agreement were to become unavailable, Avista Energy would likely not have sufficient liquidity to meet its obligations.

We cannot assure you that an active trading market for the Offered Bonds will develop.

We do not intend to apply for listing of the Offered Bonds on any securities exchange or automated quotation system. There can be no assurance as to the liquidity of any market that may develop for the Offered Bonds, the ability of the bondholders to see their Offered Bonds or the price at which the bondholders will be able to see the Offered Bonds. Future trading prices of the Offered Bonds will depend on many factors including, among other things, prevailing interest rates, our operating results and the market for similar securities.

The underwriters have informed us that they intend to make a market in the Offered Bonds. However, the underwriters are not obligated to do so, and any such market making activity may be terminated at any time without notice. If a market for the Offered Bonds does not develop, purchasers may be unable to resell the Offered Bonds for an extended period of time. Consequently, a bondholder may not be able to liquidate its investment readily, and the Offered Bonds may not be readily accepted as collateral for loans. In addition, such market making activity will be subject to restrictions of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended.

S-7

USE OF PROCEEDS

We will use net proceeds from the sale of the Offered Bonds to repay a portion of the borrowings outstanding under our committed line of credit.

SUMMARY FINANCIAL INFORMATION

Set forth below is certain summary unaudited consolidated financial information for the nine months ended September 30, 2004 and 2003 and audited consolidated financial information for the years ended December 31, 2003 and 2002. This financial information has been derived from the consolidated financial statements of Avista Corporation, which are incorporated herein by reference. The following material should be read in conjunction with our consolidated financial statements and related notes, management's discussion and analysis of results of operations and other financial information which are incorporated by reference herein.

9 Months Ended

September 30,

**Year Ended
December 31,**

	<u>2004</u>	<u>2003</u>	<u>2003</u>	<u>2002</u>
	(in millions of dollars, except ratios)			
Operating Revenues	\$811	\$814	\$1,123	\$1,063
Income from Operations	84	127	172	157
Income From Continuing Operations	13	36	51	42
Net Income	13	29	45	31
Income Available for Common Stock	13	28	43	29
Ratios of Earnings to Fixed Charges(1)	1.47(2)	1.83(2)	1.88	1.69

(1) The ratios for the years 2001, 2000 and 1999 were 1.98, 3.62 and 1.71, respectively. The ratios are computed using the consolidated earnings and fixed charges of Avista Corp. and its subsidiaries. Earnings consist of Income from Continuing Operations increased by, income tax expense and fixed charges. Fixed charges consist of interest on debt and preferred trust securities, net amortization of debt expense and premium, and the interest portion of rentals.

(2) Calculated for the twelve months ended September 30, 2004 and 2003.

S-8

CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2004 as well as our consolidated cash balance and short-term debt (including the current portion of long-term debt). The following data are qualified in their entirety by our financial statements and other information incorporated herein by reference. The "As Adjusted" column reflects our issuance of the Offered Bonds, our receipt of proceeds of approximately \$ million from this offering (after discounts and commissions and estimated offering expenses) and the application of \$ million of the proceeds as discussed under "Use of Proceeds".

	<u>As of September 30, 2004</u>	
	<u>Actual</u>	<u>As Adjusted</u>
	(unaudited)	
	(in millions of dollars)	
Cash and Cash Equivalents	\$ 106.5	\$ 106.5
Short-Term Debt (including current portion of long-term debt)(1)	181.3	
Long-Term Debt(1)	886.7	886.7
Long-Term Debt to Affiliated Trusts	113.4	113.4
Preferred Stock (subject to mandatory redemption)	29.8	29.8
Common Equity	745.5	745.5
Total Capitalization	\$ 1,956.7	\$

(1) Long-term debt includes \$388.6 million of first mortgage bonds. Short-term debt includes \$9.5 million of maturing secured medium-term notes and indebtedness outstanding under Avista Corp.'s \$350.0 million revolving credit agreement, of which \$170.0 million had been borrowed and was outstanding at September 30, 2004 and \$ million, as adjusted. Avista Corp. has delivered \$350.0 million of non-transferable first mortgage bonds to the agent bank in order to secure its obligations under the revolving credit agreement.

S-9

DESCRIPTION OF THE OFFERED BONDS

The following description of the particular terms of the Offered Bonds supplements the description of the general terms and provisions of the Bonds set forth under "Description of the Bonds" in the accompanying prospectus, to which description reference is hereby made. Certain capitalized terms used and not defined in this prospectus supplement are defined under "Description of the Bonds" in the accompanying prospectus.

General

The Offered Bonds will be issued as one series of Bonds under our Mortgage, which is more fully described in the accompanying prospectus.

The Offered Bonds will be issued in fully registered form only, without coupons. The Offered Bonds will be initially represented by one or more fully registered global securities (the "Global Securities") deposited with or on behalf of The Depository Trust Company ("DTC"), as depository, and registered in the name of DTC or DTC's nominee. A beneficial interest in a Global Security will be shown on, and transfers or exchanges thereof will be effected only through, records maintained by DTC and its participants, as described below under "Book-Entry Only Issuance" The Depository Trust Company. The authorized denominations of the Offered Bonds will be \$1,000 and any larger amount that is an integral multiple of \$1,000. Except in limited circumstances described below, the Offered Bonds will not be exchangeable for Offered Bonds in definitive certificated form.

Principal, Maturity and Interest

We are issuing \$90,000,000 aggregate principal amount of Offered Bonds. The Offered

Bonds will mature on _____, _____. We may, without the consent of holders of the Offered Bonds, issue additional bonds of the same series having the same interest rate, maturity and other terms (except the issue price and issue date) as the Offered Bonds. Interest on the Offered Bonds will accrue at the rate of % per annum and will be payable semi-annually in arrears on _____ and _____ of each year (each such date, an [Interest Payment Date]), and at maturity. The first such payment will be made on _____, 2005. Avista Corp. will make each interest payment to the holders of record on the immediately preceding _____ and _____.

Interest on the Offered Bonds will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Optional Redemption

The Offered Bonds will be redeemable in whole at any time, or in part from time to time, at the option of Avista Corp., at a redemption price equal to the greater of

- 100% of the principal amount of the Offered Bonds being redeemed or
- the sum of the present values of the remaining scheduled payments of principal of and interest (not including the portion of any scheduled payment of

interest
which
accrued
prior to the
redemption
date) on the
Offered
Bonds being
redeemed
discounted
to the
redemption
date on a
semiannual
basis
(assuming a
360-day
year
consisting of
twelve
30-day
months) at a
discount
rate equal to
the Treasury
Yield plus
basis points,

plus, in either of the above cases, accrued interest on such Offered Bonds to the redemption date.

“Treasury Yield” means, with respect to any redemption of Offered Bonds, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the

S-10

Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price. The Treasury Yield will be calculated as of the third business day preceding the redemption date or, if the Offered Bonds to be redeemed are to be defeased prior to the redemption date in accordance with the terms of the Mortgage, then as of the third business day prior to the earlier of (x) the date notice of such redemption is mailed to bondholders and (y) the date irrevocable arrangements with the Mortgage Trustee for the mailing of such notice have been made, as the case may be (the “Calculation Date”).

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Offered Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Offered Bonds.

“Comparable Treasury Price” means (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding the Calculation Date, as set forth in the H.15 Daily Update of the Federal Reserve Bank of New York or (2) if such release (or any successor release) is not published or does not contain such prices on the Calculation Date, the

Reference Treasury Dealer Quotation for the Calculation Date.

“H.15(519)” means the weekly statistical release entitled “Statistical Release H.15 (519)”, or any successor publication, published by the Board of Governors of the Federal Reserve System.

“H.15 Daily Update” means the daily update of H.15(519) available through the worldwide website of the Board of Governors of the Federal Reserve System or any successor site or publication.

“Independent Investment Banker” means Goldman, Sachs & Co. or an independent investment banking institution of national standing appointed by Avista Corp. and reasonably acceptable to the Mortgage Trustee.

“Reference Treasury Dealer Quotation” means, with respect to the Reference Treasury Dealer, the average, as determined by the Mortgage Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount and quoted in writing to the Mortgage Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third business day preceding the Calculation Date).

“Reference Treasury Dealer” means a primary U.S. Government securities dealer in New York City appointed by Avista Corp. and reasonably acceptable to the Mortgage Trustee.

Book-Entry Only Issuance—The Depository Trust Company

DTC will act as initial securities depository for the Offered Bonds. The Offered Bonds will be issued only as fully-registered securities registered in the name of Cede & Co. (DTC’s nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered global certificates will be issued, representing in the aggregate the total principal amount of Offered Bonds and will be deposited with DTC or a custodian therefor.

The following is based upon information furnished by DTC:

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for equity issues, corporate and municipal debt issues and money market instruments from many countries that its participants (“Direct

S-11

Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by The New York Stock Exchange, Inc. (the “NYSE”), the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants” and, together with Direct Participants, “Participants”). The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Offered Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Offered Bonds on DTC’s records. The ownership interest of each actual purchaser of each Offered Bond (“Beneficial Owner”) is in turn to be recorded on the Participants’ records. Beneficial Owners will not

Edgar Filing: AVISTA CORP - Form 424B5

receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmation providing details of the transactions, as well as periodic statements of their holdings, from Participants through which the Beneficial Owners purchased the Offered Bonds. Transfers of ownership interests in the Offered Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Offered Bonds, except in the event that use of the book-entry system for the Offered Bonds is discontinued.

To facilitate subsequent transfers, all Offered Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Offered Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any changes in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Offered Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Offered Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Offered Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Offered Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Avista Corp. as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Offered Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

S-12

Payments on the Offered Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from us or the Mortgage Trustee on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payments on such payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants and not of DTC or Avista Corp., subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Avista Corp., disbursement of payments to Direct Participants is the responsibility of DTC, and disbursement of payments to the Beneficial Owners is the responsibility of Participants.

DTC may discontinue providing its services as depository for the Offered Bonds at any time by giving reasonable notice to us. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Offered Bonds will be delivered to the Beneficial Owners. Additionally, we may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depository) with respect to the Offered Bonds. In that event, certificates for the Offered Bonds will be printed and delivered to the holders of Record.

The information in this section concerning DTC and DTC's book-entry system and procedures has been obtained from DTC, and we take no responsibility for the accuracy thereof. Neither we, the Mortgage Trustee nor the underwriters will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Offered Bonds or for maintaining, supervising or reviewing any such records.

Except as provided herein, a Beneficial Owner of an interest in a global Offered Bond certificate may not receive physical delivery of the Offered Bonds. Accordingly, each Beneficial Owner must rely on the procedures of DTC to

exercise any rights under the Offered Bonds.

S-13

UNDERWRITING

We and the underwriters for the offering named below (the "Underwriters") have entered into an underwriting agreement with respect to the Offered Bonds. Subject to certain conditions, each Underwriter has severally agreed to purchase the principal amount of Offered Bonds indicated in the following table.

Underwriter	Principal Amount of Offered Bonds
Goldman, Sachs & Co.	
BNY Capital Markets, Inc.	
KeyBanc Capital Markets, a Division of McDonald Investments Inc.	
Total	\$90,000,000

The Underwriters are committed to take and pay for all of the Offered Bonds being offered, if any are taken.

Offered Bonds sold by the Underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this Prospectus Supplement. Any Offered Bonds sold by the Underwriters to securities dealers may be sold at a discount from the initial public offering price of up to % of the principal amount of Offered Bonds. Any such securities dealers may resell any Offered Bonds purchased from the Underwriters to certain other brokers or dealers at a discount from the initial public offering price of up to % of the principal amount of Offered Bonds. If all the Offered Bonds are not sold at the initial offering price, the Underwriters may change the offering price and the other selling terms.

The Offered Bonds are a new issue of securities with no established trading market. We have been advised by the Underwriters that the Underwriters intend to make a market in the Offered Bonds but they are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Offered Bonds or that an active public market for the Offered Bonds will develop. If any active public trading market for the Offered Bonds does not develop, the market price and liquidity of the Offered Bonds may be adversely affected. See "Risk Factors".

In connection with the offering of the Offered Bonds, the Underwriters may purchase and sell Offered Bonds in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Underwriters of a greater number of Offered Bonds than they are required to purchase in the offering of the Offered Bonds. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Offered Bonds while the offering of the Offered Bonds is in progress.

The Underwriters also may impose a penalty bid. This occurs when a particular Underwriter repays to the Underwriters a portion of the underwriting discount received by it because the representatives have repurchased Offered Bonds sold by or for the account of such Underwriter in stabilizing or short covering transactions.

These activities by the Underwriters may stabilize, maintain or otherwise affect the market price of the Offered Bonds. As a result, the price of the Offered Bonds may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.

We estimate that our share of the total expenses related to the offering of the Offered Bonds, excluding underwriting discounts and commissions, will be approximately \$.

We have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

S-14

Certain of the Underwriters and their respective affiliates have, from time to time, performed and may in the future perform, various financial advisory and investment banking services for the Company, for which they received or will receive customary fees and expenses. In particular, an affiliate of BNY Capital Markets, Inc. is the Administrative Agent and issuing bank under our credit facility, and an affiliate of KeyBanc Capital Markets, a Division of McDonald Investments Inc., is a Documentation Agent under the same credit facility. The proceeds of this offering will be used to repay loans under the credit facility. See "Use of Proceeds". Because more than ten percent of the net proceeds of this offering will be paid to members or affiliates of members of the National Association of Securities Dealers, Inc. participating in this offering, this offering will be conducted in accordance with NASD Conduct Rule 2710(h).

S-15

PROSPECTUS

\$349,635,000

AVISTA CORPORATION

Debt Securities

**Common Stock
(no par value)**

Avista Corporation may offer from time to time up to \$349,635,000 in total amount of these securities at prices and on terms to be determined at the time of sale.

One or more supplements to this prospectus will indicate the terms of each offering of securities, including the offering price, and, with respect to each series of debt securities and each tranche within a series, the

- series designation,
- principal amount,
- stated maturity date,
- interest rate and interest payment dates,
- initial public offering price,
- provisions for redemption, if any, and
- provisions for conversion, if any.

Edgar Filing: AVISTA CORP - Form 424B5

Outstanding shares of Avista Corp.'s Common Stock are listed on the New York Stock Exchange and the Pacific Stock Exchange under the symbol "AVA". New shares of Common Stock will also be listed on those exchanges. Like the outstanding shares of Common Stock, the new shares will be issued and will trade with the related preferred share purchase rights.

Avista Corporation may sell the securities to or through underwriters, dealers or agents or directly to one or more purchasers.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this Prospectus is May 19, 2004.

This prospectus incorporates by reference important business and financial information about Avista Corp. that is not included in or delivered with this prospectus. See "Where You Can Find More Information". You may obtain copies of documents containing such information from us, without charge, by either calling or writing to us at:

Avista Corporation

Post Office Box 3727
Spokane, Washington 99220

Attention: Treasurer
Telephone: (509) 489-0500

TABLE OF CONTENTS

About This Prospectus	1	Description of Common Stock	21
Safe Harbor For Forward-Looking Statements	1	Where You Can Find More Information	25
Avista Corporation	3	Plan of Distribution	26
Use of Proceeds	4	Legal Matters	27
Description of the Bonds	4	Experts	27
Description of the Notes	12		

We have not authorized anyone to give you any information other than this prospectus and the usual supplements to this prospectus. You should not assume that the information contained in this prospectus, any prospectus supplement or any document incorporated by reference in this prospectus is accurate as of any date other than the date mentioned on the cover page of those documents. We are not offering to sell the Securities (defined below) and we are not soliciting offers to buy the Securities in any jurisdiction in which offers are not permitted.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that Avista Corporation filed with the Securities and Exchange Commission (the "SEC"), using the "shelf" registration process. Under this shelf registration process, we may, from time to time, sell the securities described in this prospectus in one or more offerings up to a total dollar amount of \$349,635,000. This prospectus provides a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about

the terms of that offering. That prospectus supplement may include or incorporate by reference a detailed and current discussion of any risk factors and will discuss any special considerations applicable to those securities, including the plan of distribution. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under "Where You Can Find More Information". If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information contained in that prospectus supplement.

References in the prospectus to the term "we", "us" or "Avista Corp." or other similar terms mean Avista Corporation and its consolidated subsidiaries, unless we state otherwise or the context indicates otherwise.

We may use this prospectus to offer from time to time:

- Secured bonds issued under a Mortgage and Deed of Trust, dated as of June 1, 1939 (the "Original Mortgage") between Avista Corp. and Citibank, N.A., as trustee (the "Mortgage Trustee"); the Original Mortgage, as amended and supplemented from time to time, being hereinafter called the "Mortgage". The secured bonds offered by this prospectus are hereinafter referred to as "Bonds".
- Unsecured notes, debentures or other debt securities issued under an Indenture, dated as of April 1, 1998 (the "Original Indenture") between Avista Corp. and JPMorgan Chase Bank, as trustee (the "Indenture Trustee"); the Original Indenture, as amended and supplemented from time to time, being hereinafter called the "Indenture". The unsecured notes, debentures and other debt securities offered by this prospectus are hereinafter referred to as "Notes" and, together with the Bonds, are hereinafter referred to as "Debt Securities".
- Common Stock, no par value, of Avista Corporation, together with attached preferred share purchase rights (the "Common Stock", and, together with the Debt Securities, the "Securities").

For more detailed information about the Securities, you can read the exhibits to the registration statement. Those exhibits have been either filed with the registration statement or incorporated by reference to earlier SEC filings listed in the registration statement. See "Where You Can Find More Information".

See page 1 for "Safe Harbor for Forward-Looking Statements", which sets forth a warning regarding forward-looking information contained or incorporated by reference in this prospectus.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

We are including the following cautionary statements in this prospectus to make applicable, and to take advantage of, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, Avista Corp. Forward-looking statements include statements concerning plans, objectives, goals, strategies, projections of future events or performance, and underlying assumptions (many of which are based, in turn, upon further assumptions). Forward looking statements are all statements other than statements of historical fact including, without limitation, those that are identified by the use of words such as, but not limited to, "will", "anticipates", "seeks to", "estimates", "expects", "intends", "plans", "predicts", and similar expressions. From time to time, we may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Avista Corp., are also expressly qualified by these cautionary statements.

Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those expressed. Most of these uncertainties are beyond our control. Such risks and uncertainties include, among others:

-
- changes in the utility regulatory environment in the individual states and provinces in which we operate and the United States and Canada in general. This can impact allowed rates of return, financings, or

- industry and rate structures;
- the impact of regulatory and legislative decisions, including Federal Energy Regulatory Commission (FERC) price controls, and including possible retroactive price caps and resulting refunds;
 - the potential effects of any legislation or administrative rulemaking passed into law;
 - the impact from the potential formation of a Regional Transmission Organization and/or an Independent Transmission Company;
 - the impact from the implementation of the FERC's proposed wholesale power market rules;
 - volatility and illiquidity in wholesale energy markets, including the availability and prices of purchased energy and demand for energy sales;
 - wholesale and retail competition (including but not limited to, electric retail wheeling and transmission costs);
 - future streamflow conditions that affect the availability of hydroelectric resources;
 - outages at any Avista Corp. owned generating facilities from any cause, including equipment failure;
 - unanticipated delays or changes in construction costs with respect to present or prospective facilities;
 - changes in weather conditions that can affect customer demand, result in natural disasters and/or disrupt energy delivery;
 - changes in industrial, commercial and residential growth and demographic patterns in our service territory;
 - the loss of significant customers and/or suppliers;
 - failure to deliver on the part of any parties from which we purchase and/or sell capacity or energy;
 - changes in the creditworthiness of customers and energy trading counterparties;
 - 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 rate fluctuations and other capital market conditions;
 - changes in future economic conditions in our service territory and the United States in general, including inflation or deflation and monetary policy;
 - the potential for future terrorist attacks, particularly with respect to utility plant assets;
 - changes in tax rates and/or policies;
 - changes in, and compliance with, environmental and endangered species laws, regulations, decisions and policies, including present and potential environmental remediation costs;
 - the outcome of legal and regulatory proceedings concerning Avista Corp. or affecting directly or indirectly its operations, including the potential disallowance of previously deferred costs;
 - employee issues, including changes in collective bargaining unit agreements, strikes, work stoppages or the loss of key executives, as well as the ability to recruit and retain employees;
 - changes in actuarial assumptions and the return on assets with respect to our pension plan, which can impact future funding obligations, costs and pension plan liabilities;
 - increasing health care costs and the resulting effect on health insurance premiums paid for employees and on the obligation to provide post-retirement health care benefits; and
 - increasing costs of insurance, changes in coverage terms and the ability to obtain insurance.

Our expectations, beliefs and projections are expressed in good faith and are believed by us to have a reasonable basis including, without limitation, management's examination of historical operating trends, data contained in our records

and other data available from third parties. However, there can be no assurance that our expectations, beliefs, or projections will be achieved or accomplished. Furthermore, any forward-looking statement speaks only as of the date on which such statement is made. 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 such factors, nor can it assess the impact of each such factor on Avista Corp.'s business or the extent to which any such factor, or combination of factors, may cause actual results to differ

materially from those contained in any forward-looking statement.

AVISTA CORPORATION

General

Avista Corp., which was incorporated in the State of Washington in 1889, is an energy company engaged in the generation, transmission and distribution of energy as well as other energy-related businesses. Our corporate headquarters are in Spokane, Washington, which serves as the Inland Northwest center for manufacturing, transportation, health care, education, communication, agricultural, financial and service businesses.

Avista Corp. has four business segments:

- Avista Utilities;
- Energy Marketing and Resource Management;
- Avista Advantage, Inc. (["Avista Advantage"]); and
- Other.

Avista Utilities is an operating division of Avista Corp. comprising the regulated utility operations that started in 1889. Avista Capital, our wholly-owned subsidiary, is the parent company of all of the subsidiary companies in the non-utility business segments.

Avista Utilities

Avista Utilities generates, transmits and distributes electricity and distributes natural gas. Retail electric and natural gas customers include residential, commercial and industrial classifications. Avista Utilities also engages in wholesale purchases and sales of electric capacity and energy as part of its resource management and load-serving obligations.

Avista Utilities provides electric distribution and transmission as well as natural gas distribution services in a 26,000 square mile area in eastern Washington and northern Idaho with a population of approximately 850,000. It also provides natural gas distribution service in a combined 4,000 square mile area in northeast and southwest Oregon and the South Lake Tahoe region of California with a population of approximately 495,000. At the end of 2003, Avista Utilities supplied retail electric service to a total of approximately 325,000 customers and retail natural gas service to a total of approximately 298,000 customers across its entire service territory.

In addition to providing electric transmission and distribution services, Avista Utilities generates electricity from its owned facilities. Avista Utilities owns and operates eight hydroelectric projects, a wood-waste fueled generating station, a two-unit natural gas-fired combustion turbine (["CT"]) generating facility and two small generating facilities. In addition, Avista Utilities has a 50 percent ownership interest in a combined-cycle natural gas-fired facility. Avista Utilities also owns a 15 percent share in a two-unit coal-fired generating facility and leases and operates a two-unit natural gas-fired CT generating facility. WP Funding LP, an entity that is included in our consolidated financial statements and included in the Avista Utilities business segment, owns the two-unit natural gas-fired CT generating facility that is leased by Avista Utilities. In addition to company-owned resources, Avista Utilities has a number of long-term power purchase and exchange contracts that increase its available resources.

Energy Marketing and Resource Management

The Energy Marketing and Resource Management business segment includes Avista Energy, Inc. (["Avista Energy"]) and Avista Power, LLC (["Avista Power"]), both subsidiaries of Avista Capital.

Avista Energy is an electricity and natural gas marketing, trading and resource management business, operating primarily within the Western Electricity Coordinating Council geographic area, which is comprised of eleven western states as well as the provinces of British Columbia and Alberta, Canada. Avista Energy focuses on optimization of combustion turbines and hydroelectric assets owned by other entities, long-term electric supply contracts, natural gas storage, and electric transmission and natural gas transportation arrangements. Avista Energy is also involved in trading electricity and natural gas, including derivative commodity instruments.

Avista Power is an investor in certain generation assets, primarily its 49 percent interest in a 270-megawatt natural gas-fired combustion turbine plant in northern Idaho (the Lancaster Project), which commenced commercial operation in September 2001. All of the output from the Lancaster Project is contracted to Avista Energy through 2026.

Avista Advantage

Avista Advantage is a provider of utility bill processing, payment and information services to multi-site customers throughout North America. Avista Advantage's solutions are designed to provide multi-site companies with critical and easy-to-access information that enables them to proactively manage and reduce their facility-related expenses.

Other

The Other business segment includes several subsidiaries, including Avista Ventures, Inc., Pentzer Corporation, Avista Development and certain other operations of Avista Capital. We continue to limit our future investment in the Other business segment. Over time as opportunities arise, we plan to dispose of assets and phase out of operations in the Other business segment.

Discontinued Operations

In July and September 2003, Avista Corp. announced total investments of \$12.2 million by private equity investors in a new entity, ReliOn, Inc. (formerly AVLB, Inc.), which acquired the assets previously held by Avista Corp.'s fuel cell manufacturing and development subsidiary, Avista Labs. As such, these operations are reported as a discontinued operation. As of March 31, 2004, Avista Corp., through Avista Labs, had an ownership interest of approximately 17.5 percent in ReliOn, Inc., with the opportunity, but no further obligation, to fund or invest in this business.

Avista Communications, Inc. provided local dial tone, data transport, internet services, voice messaging and other telecommunications services to several communities in the western United States. In September 2001, we decided to dispose of substantially all of the assets of Avista Communications, Inc. The divestiture of operating assets was completed by the end of 2002.

USE OF PROCEEDS

Unless we indicate differently in a supplement to this prospectus, Avista Corp. intends to use the net proceeds from the issuance and sale of the Securities offered by this prospectus for any or all of the following purposes: (a) to fund Avista Utilities' construction, facility improvement and maintenance programs, (b) to refinance maturing long-term debt, (c) to continue to fund retirements (through redemption, purchase or acquisition) of longer-term debt, (d) to repay short-term debt, (e) to accomplish other general corporate purposes permitted by law and (f) to reimburse Avista Corp.'s treasury for funds previously expended for any of these purposes.

DESCRIPTION OF THE BONDS

Avista Corp. may issue the Bonds in one or more series or tranches within a series. The terms of the Bonds will include those stated in the Mortgage and those made part of the Mortgage by the Trust Indenture Act. The

following summary is not complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Mortgage and the Trust Indenture Act. The Bonds, together with all other debt securities outstanding under the Mortgage, are hereinafter called, collectively, the "Mortgage Securities". Avista Corp. has filed the Mortgage, as well as a form of supplemental indenture to the Mortgage to establish a series of Bonds, as exhibits to the registration statement of which this prospectus is a part. Capitalized terms used under this heading which are not otherwise defined in this prospectus have the meanings set forth in the Mortgage. Wherever particular provisions of the Mortgage or terms

4

defined in the Mortgage are referred to, those provisions or definitions are incorporated by reference as part of the statements made in this prospectus and those statements are qualified in their entirety by that reference. Sections 125 through 150 of the Mortgage appear in the first supplemental indenture to the Original Mortgage. References to article and section numbers, unless otherwise indicated, are references to article and section numbers of the Mortgage.

The registered holder of a Bond will be treated as the owner of it for all purposes. Only registered holders will have rights under the Mortgage.

The applicable prospectus supplements will describe the following terms of the Bonds of each series:

- the title of the Bonds;
- any limit upon the aggregate principal amount of the Bonds;
- the date or dates on which the principal of the Bonds is payable or the method of determination thereof and the right, if any, to extend such date or dates;
- (a) the rate or rates at which the Bonds will bear interest, if any, or the method by which such rate or rates, if any, will be determined, (b) the date or dates from which any such interest will accrue, (c) the interest payment dates on which any such interest will be payable, (d) the right, if any, of Avista Corp. to defer or extend an interest payment date, (e) the regular record date for any interest payable on any interest payment date and (f) the person or persons to whom the interest on the Bonds will be payable on any interest payment date, if other than the person or persons in whose names the Bonds are registered at the close of business on the regular record date for such interest;
- any period or periods within which, or date or dates on which, the price or prices at which and the terms and conditions upon which the Bonds may be redeemed, in whole or in part, at the option of Avista Corp.;
- (a) the obligation or obligations, if any, of Avista Corp. to redeem or purchase any of the Bonds pursuant to any sinking fund or other mandatory redemption provisions or at the option of the Holder, (b) the period or periods within which, or date or dates on which, the price or prices at which and the terms and conditions upon which the Bonds will be redeemed or purchased, in whole or in part, pursuant to such obligation, and (c) applicable exceptions to the requirements of a notice of redemption in the case of mandatory redemption or redemption at the option of the Holder;
- the terms, if any, upon which the Bonds may be converted into other securities of Avista Corp.;
- the denominations in which any of the Bonds will be issuable if other than denominations of \$1,000 and any integral multiple of \$1,000;
- if the Bonds are to be issued in global form, the identity of the depositary; and
- any other terms of the Bonds.

Payment and Paying Agents

Except as may be provided in the applicable prospectus supplement, Avista Corp. will pay interest, if any, on each Bond on each interest payment date to the person in whose name such Bond is registered (for purposes of this section of the prospectus, the registered holder of any Mortgage Security is herein referred to as a "Holder") as of the close of business on the regular record date relating to such interest payment date; *provided, however*, that Avista Corp. will pay interest at maturity (whether at stated maturity, upon redemption or otherwise, "Maturity") to the person to whom principal is paid.

Unless otherwise specified in the applicable prospectus supplement, Avista Corp. will pay the principal of and premium, if any, and interest, if any, on the Bonds at Maturity upon presentation of the Bonds at the corporate

trust office of Citibank, N.A. in New York, New York, as paying agent for Avista Corp. Avista Corp. may change the place of payment of the Bonds, may appoint one or more additional paying agents (including Avista Corp.) and may remove any paying agent, all at its discretion.

Registration and Transfer

The transfer of Bonds may be registered, and Bonds may be exchanged for other Bonds, upon surrender thereof at the principal office of Citibank, N.A. which has been designated by Avista Corp. as its office or agency for such purposes. Avista Corp. may change such office or agency, and may designate an additional office or agency, in its discretion. No service charge will be made for any registration of transfer or exchange of Bonds, but Avista Corp. may require payment of a sum sufficient to cover any tax or other governmental charge incident thereto. Avista Corp. will not be required to make any transfer or exchange of any Bonds for a period of 10 days next preceding any selection of Bonds for redemption, nor will it be required to make transfers or exchanges of any Bonds which have been selected for redemption in whole or in part or as to which Avista Corp. shall have received a notice for the redemption thereof in whole or in part at the option of the Holder.

Redemption

The applicable prospectus supplement will indicate the extent, if any, to which the Bonds will be subject to (a) general redemption at the option of Avista Corp. or (b) special redemption by the application (either at the option of Avista Corp. or pursuant to the requirements of the Mortgage) of (x) cash deposited with the Mortgage Trustee as described under "Special Provisions for Retirement of Bonds" below or (y) cash deposited with the Mortgage Trustee in connection with the release of property from the lien of the Mortgage.

Notice of redemption will be given by mail not less than 30 days prior to the date fixed for redemption. (Mortgage, Sec. 52)

If less than all the Bonds of a series are to be redeemed, the particular Bonds to be redeemed will be selected by the Mortgage Trustee by lot, according to such method as it shall deem proper in its discretion. (Mortgage, Sec. 52)

Any notice of redemption at the option of Avista Corp. may state that such redemption will be conditional upon receipt by the Mortgage Trustee, on or before the date fixed for such redemption, of money sufficient to pay the principal of and premium, if any, and interest, if any, on such Bonds and that if such money has not been so received, such notice will be of no force or effect and Avista Corp. will not be required to redeem such Bonds. (Mortgage, Sec. 52)

Issuance of Additional Mortgage Securities

In addition to the Bonds, other debt securities may be issued under the Mortgage. The present principal amount of debt securities which may be outstanding under the Mortgage is \$10,000,000,000. However, Avista Corp. has reserved the right to amend the Mortgage (without any consent of or other action of Holders of any Mortgage Securities now or hereafter outstanding) to remove this limitation.

Mortgage Securities of any series may be issued from time to time on the basis of:

- 70% of cost or fair value to Avista Corp. (whichever is less) of property additions which have not previously been made the basis of any application under the Mortgage and therefore do not constitute funded property after adjustments to offset property retirements;
- an equal principal amount of Mortgage Securities which have been or are to be paid, redeemed or otherwise retired and have not previously been made the basis of any application under the Mortgage; or
- deposit of cash.

Property additions generally include electric, natural gas, steam or water property acquired after May 31, 1939, but may not include property used principally for the production or gathering of natural gas. Any such property additions may be used if their ownership and operation is within the corporate purposes of Avista Corp. regardless of whether or not Avista Corp. has all the necessary permission it may need at any time from governmental authorities to operate such property additions.

The Mortgage provides that no reduction in the book value of the property recorded in the plant account of Avista Corp. shall constitute a property retirement, otherwise than in connection with physical retirements of property abandoned, destroyed or disposed of, and otherwise than in connection with the removal of such property in its entirety from the plant account.

6

The Holders of the Bonds will be deemed to have consented to an amendment to the provision of the Mortgage which requires that Avista Corp. deliver an opinion of counsel as to the status of the lien of the Mortgage on property additions being certified to the Mortgage Trustee. The amendment would permit us to deliver to the Mortgage Trustee, in lieu of such opinion, title insurance with respect to such property additions in an amount not less than 35% of the cost or fair value to Avista Corp. (whichever is less) of such property additions. Such amendment could not be made without the requisite consent of the Holders of outstanding Mortgage Securities as described under Modification.

No Mortgage Securities may be issued on the basis of property additions subject to prior liens, unless the prior lien bonds secured thereby have been qualified by being deducted from the Mortgage Securities otherwise issuable and do not exceed 70% of such property additions, and unless the Mortgage Securities then to be outstanding which have been issued against property subject to continuing prior liens and certain other items would not exceed 15% of the Mortgage Securities outstanding.

The amount of prior liens on mortgaged property acquired after the date of delivery of the Mortgage may be increased subsequent to the acquisition of such property provided that, if any property subject to such prior lien shall have been made the basis of any application under the Mortgage, all the additional obligation are deposited with the Mortgage Trustee or other holder of a prior lien.

(Mortgage, Secs. 4 through 8, 20 through 30 and 46; First Supplemental, Sec. 2; Eleventh Supplemental, Sec. 5; Twelfth Supplemental, Sec. 1; Fourteenth Supplemental, Sec. 4; Seventeenth Supplemental, Sec. 3; Eighteenth Supplemental, Secs. 1, 2 and 6; Twenty-sixth Supplemental, Sec. 2; Twenty-ninth Supplemental, Art. II)

Net Earnings Test

In general, Avista Corp. may not issue Mortgage Securities on the basis of property additions or cash unless net earnings for 12 consecutive months out of the preceding 18 calendar months (before income taxes, depreciation and amortization of property, property losses and interest on any indebtedness and amortization of debt discount and expense) are at least twice the annual interest requirements on all Mortgage Securities at the time outstanding, including the additional issue, and on all indebtedness of prior rank.

Avista Corp. is not required to satisfy the net earnings requirement prior to the issuance of Mortgage Securities on the basis of retired Mortgage Securities unless

- the annual interest requirements on the retired Mortgage Securities on the basis of which the new Mortgage Securities are to be issued have been excluded from a net earnings certificate delivered to the Mortgage Trustee since the retirement of such Mortgage Securities; or
- the retired Mortgage Securities on the basis of which the new Mortgage Securities are to be issued mature by their terms at a date more than two years after the date for authentication and delivery of the new Mortgage Securities and the new Mortgage Securities bear interest at a higher rate than such retired Mortgage Securities.

In general, the Mortgage permits the inclusion of the following items in net earnings:

- revenues collected or accrued subject to possible refund;
- any portion of the allowance for funds used during construction; and
- any portion of the allowance for funds used to conserve energy (or any analogous amount), which is not included in "other income" (or any analogous item) in Avista Corp.'s books of account.

The Mortgage also provides that, in calculating net earnings, no deduction from revenues or other income shall be made for

- expenses or provisions for any non-recurring charge to income of whatever kind or nature (including without limitation the recognition of expense due to the non-recoverability of investment); or
- provisions for any refund of revenues previously collected or accrued subject to possible refund.

In general, the interest rate requirement with respect to variable interest rate indebtedness, if any, is determined by reference to the rate or rates to be in effect at the time of the initial issuance. However, if any Mortgage Securities

7

or prior ranking indebtedness bears interest at a variable rate, the annual interest requirements thereon shall be determined by reference to the rate or rates in effect on the date next preceding the date of the new issue of Mortgage Securities.

Security; Structural Subordination

The Bonds, together with all other Mortgage Securities now or hereafter issued under the Mortgage, will be secured by the Mortgage, which constitutes a first mortgage lien on Avista Corp.'s facilities for the generation, transmission and distribution of electric energy and the storage and distribution of natural gas and substantially all of Avista Corp.'s assets (except as stated below), subject to

- leases of minor portions of Avista Corp.'s property to others for uses that do not interfere with Avista Corp.'s business;
- leases of certain property of Avista Corp. not used in its utility business;
- excepted encumbrances, as defined in the Mortgage; and
- encumbrances, defects and irregularities deemed immaterial by Avista Corp. in the operation of Avista Corp.'s business.

There are excepted from the lien all cash and securities (including without limitation securities issued by Avista Corp.'s subsidiaries); merchandise, equipment, materials or supplies held for sale or consumption in Avista Corp.'s operations; receivables, contracts, leases and operating agreements; electric energy, and other material or products (including gas) generated, manufactured, produced or purchased by Avista Corp., for sale, distribution or use in the ordinary course of its business. (Mortgage, Granting Clauses)

The Mortgage contains provisions for subjecting to the lien thereof all property (other than property of the kinds excepted from such lien) acquired by Avista Corp. after the execution and delivery thereof, subject to purchase money liens and liens existing thereon at the time of acquisition and, subject to limitations in the case of consolidation, merger or sale of substantially all of Avista Corp.'s assets. (Mortgage, Granting Clauses and Art. XV)

The Mortgage provides that the lien of the Mortgage shall not automatically attach to the properties of another corporation which shall have consolidated or merged with Avista Corp. in a transaction in which Avista Corp. shall be the surviving or resulting corporation. (Mortgage, Sec. 87)

The Mortgage provides that the Mortgage Trustee shall have a lien upon the mortgaged property, prior to the Mortgage Securities, for the payment of its reasonable compensation and expenses and for indemnity. (Mortgage, Secs. 92 and 97; First Supplemental, Art. XXV)

Although its utility operations