

AVISTA CORP
Form S-4/A
May 08, 2014
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As filed with the Securities and Exchange Commission on May 8, 2014

Registration No. 333-194310

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-4/A
AMENDMENT NO. 1
to
REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

AVISTA CORPORATION
(Exact name of Registrant as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	4931 (Primary Standard Industrial Classification Number) 1411 East Mission Avenue Spokane, Washington 99202 (509) 489-0500	91-0462470 (I.R.S. Employer Identification No.)
----------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

MARIAN M. DURKIN

Senior Vice President, General Counsel and

Chief Compliance Officer

Avista Corporation

1411 East Mission Avenue

Spokane, Washington 99202

(509) 489-0500

(Name and address, including zip code, and telephone number, including area code, of agents for service)

J. ANTHONY TERRELL

Pillsbury Winthrop Shaw Pittman LLP

1540 Broadway

New York, New York 10036

(212) 858-1000

Copies to

WILLIAM A. CORBUS

Chairman of the Board and President

Alaska Energy and Resources Company

5601 Tonsgard Court

Juneau, Alaska 99801

STEVEN G. ROWLES

Morrison & Foerster LLP

12531 High Bluff Drive, Suite 100

San Diego, California 92130

Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after this registration statement becomes effective and upon completion of the merger described in the enclosed document.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting Company)

Smaller reporting company

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) "

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) "

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Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This document shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale is not permitted.

PRELIMINARY, SUBJECT TO COMPLETION, DATED May 8, 2014

Information Statement	Prospectus
of	of
ALASKA ENERGY AND	AVISTA
RESOURCES COMPANY	CORPORATION
MERGER PROPOSED	YOUR VOTE IS VERY IMPORTANT

To Shareholders of Alaska Energy and Resources Company:

Alaska Energy and Resources Company (AERC) and Avista Corporation (Avista) have agreed to a strategic business combination under the terms of an Agreement and Plan of Merger, dated as of November 4, 2013. If the merger is approved by the shareholders of AERC and various other conditions to closing are satisfied or waived, Alaska Merger Sub, Inc., a wholly-owned subsidiary of Avista, would merge with and into AERC, with AERC surviving, which would result in AERC becoming a wholly-owned subsidiary of Avista. A special meeting of AERC shareholders to consider and vote upon the proposed transaction will be held on June 10, 2014 in Juneau, Alaska. No approval of Avista shareholders is required. This document constitutes an information statement and proxy solicitation of AERC with respect to the merger and the special meeting of shareholders.

If the merger is consummated, AERC shareholders would have the right to receive shares of Avista common stock (with cash paid in lieu of fractional shares), based on a formula set forth in the agreement relating to the merger and described in detail under THE MERGER AGREEMENT Merger Consideration; Conversion of Shares in the Merger on page 45. Avista common stock is listed on the New York Stock Exchange, and the reported last sale price of Avista common stock on November 1, 2013, the trading day immediately before the announcement of the merger, was \$27.89, as shown on the composite tape. This document also constitutes a prospectus of Avista relating to the offering of its common stock in the merger.

The AERC Board of Directors has carefully considered the proposed combination with Avista and, as discussed in detail in this document, has determined that it is in the best interests of AERC and its shareholders. The AERC Board of Directors believes that Avista's utility experience, as well as its corporate culture, will be of great benefit to AERC, its shareholders and the Juneau community in general. Accordingly, the AERC Board of Directors invites you to attend the special meeting of shareholders and recommends that you approve the merger. Whether or not you plan to attend the special meeting, the AERC Board of Directors asks you to sign and date the enclosed proxy card and promptly return it as instructed on the proxy card.

AERC and Avista urge you to read this information statement/prospectus, including the documents of Avista that are incorporated by reference in this document, carefully and in their entirety. **In particular, but without limitation, you should consider the risks and uncertainties described or referred to under RISK FACTORS on page 15.**

William A. Corbus
Chairman of the Board and President
**Alaska Energy and
Resources Company**

Scott L. Morris
*Chairman of the Board, President
and Chief Executive Officer*
Avista Corporation

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the merger and other transaction described in this information statement/prospectus, nor have they approved or disapproved the issuance of the Avista common stock in connection with the merger, or determined if this information statement/prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

This document is dated May 8, 2014, and is first being mailed to the shareholders of AERC on or about May 12, 2014.

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NOTICE OF SPECIAL SHAREHOLDER MEETING

To Shareholders of Alaska Energy and Resources Company:

Alaska Energy and Resources Company (AERC) will hold a special meeting of its shareholders on June 10, 2014 at 11:00 a.m., Alaska Daylight Savings Time, in the registered offices of AERC located at 5601 Tongsgard Court, Juneau, Alaska 99801, to consider and vote upon:

(1) a proposal to approve the plan of merger contained in the Agreement and Plan of Merger, dated as of November 4, 2013, (the Merger Agreement) by and among Avista Corporation (Avista), Alaska Merger Sub, Inc., a wholly-owned subsidiary of Avista, AERC and William A. Corbus, solely as the shareholders representative, a copy of which is included as Annex B to the information statement/prospectus attached to this notice, as such agreement may be amended from time to time, pursuant to which Alaska Merger Sub, Inc. will be merged with and into AERC and each outstanding share of common stock of AERC will be converted into the right to receive shares of common stock of Avista, with cash to be paid in lieu of any fractional shares (the Merger Proposal); and

(2) a proposal to adjourn the AERC special meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes to approve the Merger Proposal (the Adjournment Proposal).

Please refer to the attached information statement/prospectus and the Merger Agreement for further information with respect to the Merger Proposal to be voted on at the AERC special meeting. Please give all of this information your careful attention. AERC will not transact any other business at the AERC special meeting.

Only holders of record of shares of AERC common stock at the close of business on April 21, 2014, the record date for the AERC special meeting, are entitled to notice of, and to vote at, the AERC special meeting and any adjournments or postponements thereof. A list of these shareholders will be available for inspection by any AERC shareholder at AERC s registered office, 5601 Tongsgard Court, Juneau, Alaska 99801 during normal business hours at least 20 days before the AERC special meeting as well as at the time and place of the AERC special meeting.

Your vote is important. AERC cannot complete the merger described in the information statement/prospectus unless holders of at least two-thirds of all shares of AERC s common stock outstanding on the record date for the AERC special meeting vote in favor of the Merger Proposal.

Even if you plan to attend the AERC special meeting in person, AERC requests that you complete, sign and return the enclosed proxy card and thus ensure that your shares will be represented at the AERC special meeting if you are unable to attend. If you fail to return your proxy card or vote at the AERC special meeting, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the AERC special meeting and as a vote against the Merger Proposal. If you do attend the AERC special meeting and wish to vote in person, you may withdraw your proxy and vote in person.

The AERC Board of Directors has carefully considered the merger and the Merger Proposal and has determined that the merger is fair, advisable and in the best interests of AERC and its shareholders. The AERC Board of Directors unanimously recommends that AERC shareholders vote FOR the Merger Proposal and the Adjournment Proposal.

For a discussion of interests of AERC s directors and executive officers in the merger that may be different from, or in addition to, the interests of AERC s shareholders generally, see disclosure included in the information statement/prospectus attached to this notice under the heading THE MERGER Interests of Certain Persons in the Merger

on page 34.

Do not send any share certificates at this time. If the merger is completed, you will be notified of the procedures for exchanging AERC share certificates for shares of Avista.

By Order of the Board of Directors,

William A. Corbus, Chairman of the Board and President

Juneau, Alaska

May 8, 2014

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ADDITIONAL INFORMATION

Avista Corporation (Avista) has filed a registration statement with the Securities and Exchange Commission (the SEC) to register the Avista common stock to be issued in the merger to shareholders of Alaska Energy and Resources Company (AERC). This document is part of that registration statement. The registration statement and the exhibits thereto contain additional information about Avista, the Avista common stock and the merger. This document also incorporates by reference important financial and other information about Avista from other documents that Avista has not included in or delivered with this document. The registration statement and the information incorporated by reference are available for you to read and copy at the SEC s Public Reference Room located at 100 F Street, N.E., Room 1580, Washington, DC 20549, and through the SEC s website, www.sec.gov. You can also obtain those documents free of charge by requesting them in writing or by telephone from Avista at Avista s address and telephone shown below.

This document is not required to and does not include or incorporate the consolidated financial statements or other financial information of AERC. AERC shareholders can obtain AERC s consolidated annual financial statements, as well as AERC s articles of incorporation and bylaws, free of charge by requesting them in writing or by telephone from AERC at AERC s address and telephone number shown below.

Avista Corporation	Alaska Energy and Resources Company
1411 East Mission Avenue	5601 Tonsgard Court
Spokane, WA 99202	Juneau, AK 99801
Attention: Marian M. Durkin, Esq.	Attention: William A. Corbus
Senior Vice President, General Counsel	Chairman of the Board and President
and Chief Compliance Officer	(907) 463-6312
(509) 495-8687	

See WHERE YOU CAN FIND MORE INFORMATION ABOUT AVISTA on page 65.

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QUESTIONS AND ANSWERS

The following are certain questions that you, as a shareholder of AERC, may have regarding the merger and the Merger Agreement and brief answers to those questions. You should read the remainder of this information statement/prospectus carefully because the information in this section does not provide all the information that might be important to you with respect to the merger. Additional important information is also contained in the annexes to, and the documents incorporated by reference in, this information statement/prospectus.

Q: Why am I receiving this document?

A: The AERC Board of Directors is using this document to provide notice of a special meeting of the shareholders of AERC in connection with the Merger Agreement and the merger and as an information statement and proxy solicitation with respect to that meeting. In addition, Avista is using this document as a prospectus because Avista is offering to AERC shareholders the shares of Avista common stock into which AERC common stock will be converted in the merger.

Q: When and where is the special meeting of the shareholders?

A: The AERC special meeting will take place at 11:00 a.m., Alaska Daylight Savings Time, on June 10, 2014, at AERC's registered offices located at 5601 Tonsgard Court, Juneau, Alaska 99801. For additional information on the AERC special meeting, please see **THE AERC SPECIAL MEETING** on page 26.

Q: Who can vote at the AERC special meeting?

A: If you were an AERC shareholder of record as of the close of business on April 21, 2014, the record date for the AERC special meeting, you are entitled to receive notice of and to vote at the AERC special meeting.

Q: How do I vote?

A: You may cast your vote by either:

Completing, signing and dating your proxy card and returning it by mail in accordance with the instructions provided; or

Attending the AERC special meeting in person or by legal representative.

For additional information on the AERC special meeting and voting procedures, please see **THE AERC SPECIAL MEETING** on page 26.

Q: How will my proxy be voted?

A: If you complete, sign, date and return your signed proxy card, your proxy will be voted in accordance with your instructions. If you sign, date, and send your proxy card and do not indicate how you want to vote, your shares will be voted **FOR** the Merger Proposal and the Adjournment Proposal. See **THE AERC SPECIAL MEETING Voting of Proxies** on page 28.

Q: What do I do if I want to change my proxy vote?

A: You may revoke a proxy at any time after such proxy has been given and before it is voted, in one of the following ways:

by a writing delivered to AERC stating that your proxy is revoked;

by a subsequent proxy executed by the person executing the prior proxy and delivered to AERC; or

by attendance at the AERC special meeting and voting in person by the person executing the proxy.

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The dates contained on the forms of proxy presumptively determine the order of execution, regardless of the postmark dates on the envelopes in which the proxies are mailed.

Q: May I vote in person?

A: Yes. If you were a shareholder of record of AERC common stock at the close of business on April 21, 2014, the record date for the AERC special meeting, you may attend the AERC special meeting and vote your shares in person, in lieu of returning your signed proxy card. If you hold your shares through a bank, broker, custodian or other record holder, you must provide a legal proxy at the AERC special meeting, which you must obtain from your broker or other nominee.

However, even if you plan to attend the AERC special meeting in person, please complete, sign and return the enclosed proxy card so that, if you are unable to attend the meeting, your shares will still be represented at the meeting.

Q: What must I bring to attend the special meeting?

A: Only shareholders of AERC or their authorized representatives may attend the AERC special meeting. If you wish to attend the AERC special meeting, please bring photo identification so that your identity can be confirmed against the AERC shareholder records.

Q: What will happen in the merger?

A: Prior to entering into the Merger Agreement, Avista formed a new Alaska corporation, Alaska Merger Sub, Inc. (Merger Sub). If the merger is completed, Merger Sub will merge with and into AERC, with AERC surviving, as a result of which AERC will become a wholly-owned subsidiary of Avista.

Q: What will I receive in the merger?

A: Under the Merger Agreement, the number of shares of Avista common stock to be issued as consideration in the merger is affected by a number of factors described in this information statement/prospectus. Each share of AERC common stock would be converted into the right to receive shares of common stock of Avista at an exchange ratio that is dependent on several variables including the final calculation of the Merger Consideration, the number of shares of AERC common stock outstanding and the average closing stock price of Avista's common stock for a period of ten trading days prior to the trading day preceding the Closing Date (as defined below), with cash to be paid in lieu of any fractional shares. For more information on how the exchange ratio is calculated, including an illustration of such calculation, see THE MERGER AGREEMENT Merger Consideration; Conversion of Shares in the Merger on page 45. All non-dissenting AERC shareholders also will have a portion of the Merger Consideration that they would otherwise be entitled to receive deposited in (a) an escrow fund that will be used to compensate Avista if Avista is entitled to indemnification under the Merger Agreement and (b) a shareholders' representative expense fund that will be used to reimburse William A. Corbus, as shareholders' representative (the Shareholders' Representative), for expenses incurred in performance of his duties as the Shareholders' Representative (including overhead expenses and legal fees and related expenses).

Q: Why have AERC and Avista decided to enter into the plan of merger?

A: AERC, after considering its strategic alternatives, decided to enter into the plan of merger with Avista, among other reasons, to provide for enhanced scale, scope and geographic diversity, as well as management succession and

increased shareholder liquidity. Avista determined that a business combination with AERC would provide, among other things, the benefits of increased scale, scope and geographic diversity. Furthermore, both companies have a similar focus on providing reliable service to customers with a high level of customer satisfaction, providing opportunities for employees, earning a reasonable return for shareholders and being involved in and supportive of the communities they serve. See THE MERGER AERC s Reasons for the Merger on page 33 and THE MERGER Avista s Reasons for the Merger on page 35.

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Q: Who will the officers and directors of AERC be following completion of the merger?

A: The directors and officers of AERC following the completion of the merger will be selected officers of Avista. Alaska Electric Light and Power Company (AEL&P), AERC 's wholly-owned subsidiary which operates AERC 's regulated utility business, will continue to be operated by the existing employees, including the existing management team.

Q: Where will AERC be headquartered following the completion of the merger?

A: Avista, as the parent company of AERC, will maintain its current headquarters in Spokane, Washington, however, Avista will also maintain the existing AERC corporate offices in Juneau, Alaska for at least two years after the completion of the merger.

Q: Will the operations of AERC and AEL&P become part of the operations of Avista?

A: The customers, service territory, facilities and generating resources of AEL&P are geographically isolated. If the merger is completed, Avista intends to hold and manage AEL&P as a stand-alone subsidiary.

Q: What is the recommendation of the AERC Board of Directors?

A: The AERC Board of Directors has determined that the merger is fair, advisable and in the best interests of AERC and its shareholders. The AERC Board of Directors unanimously recommends that the AERC shareholders vote **FOR** the Merger Proposal and the Adjournment Proposal, either by returning your properly executed proxy card or attending the AERC special meeting. See THE AERC SPECIAL MEETING Recommendation of the AERC Board of Directors on page 27 and THE MERGER AERC 's Reasons for the Merger on page 33.

Q: What will happen to my future dividends?

A: Subject to AERC Board approval, AERC expects to pay regular quarterly dividends until the merger is consummated. In addition, pursuant to the Merger Agreement, the parties agreed that AERC would use its commercially reasonable efforts to make special dividend payments to AERC shareholders and/or prepay indebtedness in a minimum amount of \$8 million in the aggregate, less certain transaction expenses incurred by AERC in connection with the merger. AERC has made an initial special dividend payment of \$4 million in the aggregate, declared on November 12, 2013 and paid to shareholders on December 1, 2013. AERC currently anticipates paying a second special dividend in an amount to be determined shortly before the consummation of the transactions contemplated by the Merger Agreement (the Closing) in order to satisfy certain contractual obligations under the Merger Agreement. After the merger, as holders of Avista common stock, former AERC shareholders will receive dividends when and as declared by the Avista Board of Directors and paid on all shares of Avista common stock. For more information about Avista 's dividend policy, see RISK FACTORS Risks Relating to an Investment in Avista Common Stock on page 18, MARKET INFORMATION AND DIVIDENDS on page 14 and THE MERGER Dividends on page 36.

Q: Why is my vote important?

A: The merger cannot be completed unless AERC shareholders approve the plan of merger contained in the Merger Agreement. The approval of the holders of at least two-thirds of the outstanding shares of AERC common stock is required to approve the plan of merger contained in the Merger Agreement. If you do not return your properly completed proxy card or otherwise attend the AERC special meeting and vote your shares in favor of the merger, this

would have the same effect as voting against the proposal.

Regardless of the number of shares you own, your vote is important. The AERC Board of Directors unanimously recommends that AERC shareholders approve the merger.

Q: Can I exercise dissenters' rights?

A: If you are an AERC shareholder who does not vote to approve the merger at the AERC special meeting, either in person, by legal representative or by properly completing your proxy card, you may, by complying with Sections

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574 and 576 of the Alaska Corporations Code, be entitled to the dissenters' rights described therein. Sections 574 through 582 of the Alaska Corporations Code are attached to this information statement/prospectus as Annex C. Failure to follow precisely any of the statutory procedures set forth in Annex C may result in the loss or waiver of dissenters' rights under Alaska law.

Q: Should I send in my stock certificates now?

A: No. You will receive instructions shortly prior to the anticipated Closing Date explaining how to exchange your AERC shares for Avista shares.

Q: When do you expect to complete the merger?

A: The parties currently expect to complete the merger by July 1, 2014. However, the parties cannot assure you when or if the merger will occur. The parties obtained an early termination of the waiting period required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act") on December 6, 2013, however, the parties must also obtain approval of AERC shareholders and satisfy other conditions to completing the merger, including regulatory approvals from the Regulatory Commission of Alaska (the "RCA"), the Washington Utilities and Transportation Commission (the "UTC"), the Idaho Public Utilities Commission (the "IPUC"), and the Public Utility Commission of Oregon (the "OPUC"). Approval has been received from the UTC, the IPUC and the OPUC. See REGULATORY MATTERS on page 43.

Q: Will I be taxed on the shares of Avista common stock that I receive?

A: Generally, no. The merger has been structured to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"). As a result, it is anticipated that AERC shareholders generally should not be subject to tax upon their receipt of Avista common stock in the merger.

However, completion of the merger is not conditioned upon the merger qualifying as a reorganization and the merger will occur even if AERC shareholders are taxed on the shares of Avista common stock they receive in the merger. The merger could be fully taxable to all AERC shareholders if, for example, AERC shareholders holding a significant amount of AERC stock dissent to the merger.

Assuming the merger qualifies as a reorganization, an AERC shareholder generally should not recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of AERC stock for shares of Avista common stock in the merger, except for (a) gain or loss attributable to cash received in lieu of a fractional share of Avista common stock, (b) income or gain attributable to the shareholder's *pro rata* share of the expense fund established for the Shareholders' Representative, (c) income or gain attributable to cash subsequently released from the escrow fund and (d) in certain limited circumstances, income attributable to a portion of the Avista common stock subsequently released from the escrow fund. AERC shareholders that fail to provide certain certifications as to their tax status when requested may be subject to applicable withholding taxes. Certain AERC shareholders may be subject to special tax rules. AERC shareholders are urged to consult their own tax advisors for a full explanation of the specific U.S. federal income and other tax consequences of the merger to them. See THE MERGER Material U.S. Federal Income Tax Considerations on page 37.

Q: Who should I call if I have questions?

A: If you have questions about the merger or the AERC special meeting or if you need additional copies of this document please contact: William A. Corbus, AERC's Chairman of the Board and President at bill.corbus@aelp.com,

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(907) 463-6312 or 5601 Tongard Court, Juneau, AK 99801 or Connie Hulbert, AEL&P's Vice President, Treasurer and Secretary, at connie.hulbert@aelp.com, (907) 463-6313 or 5601 Tongard Court, Juneau, AK 99801.

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SUMMARY

This summary, which is presented solely to furnish limited introductory information regarding Avista, AERC and the merger, is based on the more detailed information contained or incorporated by reference in this document and is qualified in its entirety by reference thereto. It does not contain all of the information that may be important to you. You should read carefully this entire document and the documents to which it refers you. See WHERE YOU CAN FIND MORE INFORMATION ABOUT AVISTA on page 65.

Parties to the Merger

Avista

Avista is an energy company engaged primarily, through its operating division Avista Utilities, in the generation, transmission and distribution of electricity and the distribution of natural gas, serving electric and gas customers in eastern Washington and northern Idaho, and gas customers in parts of Oregon. See THE COMPANIES Avista Corporation on page 24.

AERC

AERC is engaged primarily, through its wholly-owned subsidiary AEL&P, in the generation, transmission and distribution of electricity in the City and Borough of Juneau, Alaska. See THE COMPANIES Alaska Energy and Resources Company on page 25.

Risk Factors

In evaluating the merger and the Merger Agreement, you should read carefully this information statement/prospectus, the documents incorporated by reference into this information statement/prospectus and especially consider the factors discussed in the section entitled RISK FACTORS beginning on page 15.

Agreement and Plan of Merger

Consideration for Your Shares

The Merger Consideration is equal to \$170 million, subject to various adjustments relating to, among other things, the amounts of cash and cash equivalents of AERC at the time of the completion of the merger, certain indebtedness, certain transaction expenses (including the deposit of \$500,000 into the Shareholders Representative expense fund) and net working capital of AERC. Based on current estimates of these adjustments, the Merger Consideration (as adjusted) is estimated to be approximately \$145 million.

AERC had 114,504 shares of common stock outstanding at April 21, 2014, the record date for the special meeting. Assuming no change in this number of shares at the Closing Date (as defined below), the Merger Consideration, as estimated above, for each share of AERC common stock (the AERC Per Share Amount) would be \$1,266.33, payable in shares of Avista common stock. For this purpose, except as noted below, shares of Avista common stock will be valued at the average closing price of Avista common stock as reported on the composite tape for the ten trading days immediately preceding but not including the trading day prior to the Closing Date (as defined below) (the Avista Average Closing Price).

Each share of AERC common stock will be converted into a number of shares of Avista common stock equal to the actual AERC Per Share Amount divided by (i) \$21.48, if the Avista Average Closing Price is less than or equal to \$21.48, (ii) the Avista Average Closing Price, if the Avista Average Closing Price is greater than \$21.48 and less than \$34.30 or (iii) \$34.30, if the Avista Closing Price is greater than or equal to \$34.30 (the Conversion Price).

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For example, if the AERC Per Share Amount were \$1,266.33 per share and the Avista Average Closing Price were \$27.50, each share of AERC common stock would be converted into 46.05 shares of Avista common stock. As described further below, approximately 90% of such amount would be payable in connection with the Closing and approximately 10% of such amount would be deposited into an escrow fund. See THE MERGER AGREEMENT Escrow Fund on page 46.

As noted above, the Merger Consideration is subject to the adjustments referred to above and cannot be determined with any degree of certainty at this time. In addition, the number of AERC shares outstanding may change, although any such change is not expected at this time to be material. Finally, the market price of Avista common stock cannot be predicted. See FORWARD-LOOKING STATEMENTS on page 23, RISK FACTORS Risks Relating to an Investment in Avista Common Stock on page 18, MARKET INFORMATION AND DIVIDENDS on page 14 and THE MERGER AGREEMENT Merger Consideration; Conversion of Shares in the Merger on page 45.

Fractional Shares

Avista will not issue fractional shares in the merger. Specifically, no fractional shares of Avista common stock will be issued to former AERC shareholders at the Closing of the merger, and no fractional shares of Avista common stock will be deposited in or released from the escrow fund. In lieu of the issuance of any such fractional share, Avista will pay to each former AERC shareholder who otherwise would be entitled to receive a fractional share of Avista common stock, or deposit in the escrow fund, an amount in cash (without interest) determined by multiplying (a) the fraction of a share of Avista common stock which such holder would otherwise be entitled to receive (aggregating all fractional shares such holder would otherwise be entitled to receive at such time) by (b) the Conversion Price. See THE MERGER AGREEMENT Fractional Shares on page 46.

Escrow Fund

Upon completion of the merger, Avista will deduct from the Merger Consideration payable to AERC shareholders at the Closing an amount equal to 10% of the sum of (a) the Merger Consideration (as adjusted) and (b) \$500,000 (the amount deposited into the Shareholders Representative expense fund), and deposit those shares into an escrow fund. The escrow fund will be used to compensate Avista if Avista is entitled to indemnification under the Merger Agreement. Escrowed shares remaining in the escrow fund after settlement of all claims (together with any dividends paid in respect of such shares) will be distributed to AERC shareholders in accordance with their respective deemed contributions. Pursuant to the Merger Agreement, on or about March 4, 2015, the escrow agent will be instructed to release from escrow all Avista shares other than that number of shares with a value equal to any pending indemnification claims. See THE MERGER AGREEMENT Survival; Indemnification on page 49 and THE MERGER AGREEMENT Escrow Fund on page 46.

Shareholders Representative Expense Fund

Upon completion of the merger, Avista will also deduct from the Merger Consideration payable to AERC shareholders at Closing the amount of \$500,000

and will deposit that amount into an expense fund that, pursuant to the Merger Agreement, will be available for reimbursement of expenses incurred by the Shareholders Representative, who initially will be William A. Corbus. At such time, on or after March 4, 2015, as the Shareholders Representative reasonably believes that all of his obligations as the Shareholders Representative have been satisfied pursuant to the terms of the Merger Agreement and the escrow agreement to be entered into by and

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among Avista, the Shareholders Representative and the escrow agent for the merger (the Escrow Agreement), the Shareholders Representative will distribute any remaining funds in such account to the escrow agent for distribution to AERC shareholders on a pro rata basis. See THE MERGER AGREEMENT Shareholders Representative Expense Fund on page 47.

Closing Date

The Closing is expected to take place on the second business day following the satisfaction or, to the extent permitted under the Merger Agreement and by applicable law, waiver of all conditions to the obligations of the parties set forth in the Merger Agreement (other than such conditions as may, by their terms, only be satisfied at the Closing), or on such other date as Avista and AERC mutually agree (the Closing Date). See THE MERGER AGREEMENT Closing and Effectiveness of the Merger on page 48.

Conduct of Business Prior to Closing

AERC has agreed that, except as permitted by the Merger Agreement or as required by applicable law or governmental regulation, prior to the Closing Date, it will use commercially reasonable efforts to (i) conduct its business and the business of its subsidiaries in the ordinary course of business in all material respects; (ii) to preserve substantially intact the business organization and assets of AERC, (iii) maintain existing goodwill with government authorities, customers, suppliers and regulators; (iv) maintain in effect all material governmental permits, franchises and authorizations; and (v) retain the services of the current officers and key employees. AERC has also agreed that neither it nor its subsidiaries will take certain other actions during the period between the execution of the Merger Agreement and the Closing Date, subject to certain limited exceptions as set forth in the Merger Agreement, without the prior written consent of Avista. See THE MERGER AGREEMENT Certain Covenants of Avista and AERC on page 50.

Dissenters Rights

Holders of AERC shares who do not vote in favor of the merger may, under certain circumstances and by following procedures prescribed by Alaska law, exercise dissenters rights and receive cash for their shares of AERC stock instead of shares of Avista common stock. A dissenting shareholder of AERC must follow the appropriate procedures under Alaska law or the dissenting shareholder will lose such rights. See THE MERGER Dissenters Rights of AERC Shareholders on page 40.

Conditions to the Merger

A number of conditions must be met before the merger can be completed, including:

Approval by AERC shareholders of the plan of merger contained in the Merger Agreement;

Receipt of all required government consents and approvals;

No issuance of any injunction or other order preventing the merger since the date of the Merger Agreement by any U.S. federal or state court of competent jurisdiction;

No U.S. federal or state law enacted since the date of the Merger Agreement and still in effect that makes the merger illegal;

Declaration of the effectiveness of the registration statement, of which this information statement/prospectus forms a part, and such registration statement not being subject to a stop order or proceedings seeking a stop order; and

Approval for listing on the New York Stock Exchange (the NYSE) of additional shares of Avista s common stock to be

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issued in the merger.

AERC's obligation to complete the merger is subject to Avista and Merger Sub satisfying a number of conditions (in addition to the above), including (i) that the representations and warranties of Avista and Merger Sub shall be accurate in all respects as of the Closing Date, except for inaccuracies that, considered collectively, do not have a material adverse effect on the economic benefits to be derived by AERC shareholders from the merger, and (ii) that Avista and Merger Sub shall have performed in all material respects all agreements and covenants required to be performed by Avista and Merger Sub under the Merger Agreement at or prior to the Closing Date.

Avista's obligation to complete the merger is subject to AERC and its subsidiaries satisfying a number of conditions (in addition to the above), including (i) that the representations and warranties of AERC shall be accurate in all respects as of the Closing Date, except for inaccuracies that, considered collectively, do not have a Company Material Adverse Effect, and (ii) that AERC shall have performed in all material respects all agreements and covenants required to be performed by AERC under the Merger Agreement at or prior to the Closing Date. See THE MERGER AGREEMENT Conditions to the Completion of the Merger on page 53 and THE MERGER AGREEMENT Definition of Company Material Adverse Effect on page 55.

Termination of the Merger Agreement

The Merger Agreement may be terminated at any time before the Closing of the merger:

by mutual written consent of Avista and AERC;

by either Avista or AERC if:

the merger has not closed by December 31, 2014, provided the party seeking to terminate the Merger Agreement is not responsible for such failure to close; or

any injunction or other order by any governmental authority having the effect of seeking to restrain, prohibit or enjoin the consummation of the merger, provided the party seeking to terminate the Merger Agreement is not responsible for such injunction or other order.

by AERC if Avista has breached its obligation to make certain payments, or if Avista has breached in any material respect any of its representations, warranties, covenants, agreements or obligations contained in the Merger Agreement and fails to cure such breach as provided in the Merger Agreement.

by Avista if AERC has breached any of its representations, warranties, covenants, agreements or obligations contained in the Merger Agreement, and fails to cure such breach as provided in the Merger Agreement, and such breach would result in any of (a) a Company Material Adverse Effect, (b) a material adverse effect on the business of Avista as a whole, (c) a material adverse effect on the ability of Avista to continue to operate the business of AERC and its subsidiaries, taken as a whole and consistent with past practices, or (d) a material adverse effect on the ability of the parties to consummate the merger as contemplated by the Merger Agreement.

See THE MERGER AGREEMENT Termination of the Merger

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	Agreement on page 55.
<i>Amendment of the Merger Agreement</i>	The Merger Agreement may be amended, modified or supplemented by Avista and AERC by action taken or authorized by their respective boards of directors at any time prior to the completion of the merger.
Approval of the Plan of Merger contained in the Merger Agreement	
<i>Persons Entitled to Vote; Record Date</i>	The record date for shareholders of AERC is the close of business on April 21, 2014. Only shareholders as of the record date are being notified of, and will be entitled to attend, the AERC special meeting and vote on the Merger Proposal and the Adjournment Proposal. See THE AERC SPECIAL MEETING AERC Record Date; Outstanding Shares; Shares Entitled to Vote and Vote Required on page 28.
<i>Special Shareholder Meeting</i>	The AERC Board of Directors is asking shareholders of AERC to attend the AERC special meeting (either in person or by proxy) and vote on the Merger Proposal to approve the plan of merger contained in the Merger Agreement through which Merger Sub will merge with and into AERC, so that AERC, as the surviving entity, will become a wholly-owned subsidiary of Avista, as described in this information statement/prospectus. See THE AERC SPECIAL MEETING on page 26.
<i>Required Vote</i>	Approval of the plan of merger contained in the Merger Agreement requires the approval of the holders of two-thirds of the outstanding shares of AERC common stock. No shareholder approval of Avista is required by the Merger Agreement or applicable law.
<i>Outstanding Shares</i>	As of the close of business on April 21, 2014, the record date for the AERC special meeting, the outstanding voting securities of AERC consisted of 114,504 shares of AERC common stock. As of April 21, 2014, directors and executive officers of AERC beneficially owned approximately 57.1% of AERC common stock. See SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF AERC on page 56 for further information.
<i>AERC Directors and Officers</i>	AERC currently expects that AERC's directors and executive officers will vote their shares of AERC common stock in favor of each of the proposals to be considered at the AERC special meeting, although none of them has entered into any agreements obligating them to do so.
Recommendation of the Board of Directors of AERC	The AERC Board of Directors has unanimously approved the plan of merger contained in the Merger Agreement and recommends that AERC shareholders approve the plan of merger contained in the Merger Agreement by either signing, dating and returning a proxy card for the special meeting or attending the AERC special meeting and voting in favor of the Merger Proposal and Adjournment Proposal. The AERC Board of Directors reviewed several factors in reaching its

decision to recommend that shareholders approve the plan of merger contained in the Merger Agreement and believes that the merger is fair, advisable and in the best interests of AERC and its shareholders. See THE AERC SPECIAL MEETING Recommendation of the AERC Board of Directors on page 27 and THE MERGER AERC s Reasons for the

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Interests of Certain Persons in the Merger

Merger on page 33.

In considering the recommendation of the AERC Board of Directors with respect to the Merger Agreement and the merger, AERC shareholders should be aware that certain executive officers and directors of AERC have interests in the merger that may be different from, or in addition to, the interests of AERC shareholders generally. These interests, which are described more fully in THE MERGER Interests of Certain Persons in the Merger on page 34 of this information statement/prospectus, include, without limitation, the following:

employees who are shareholders may have interests that diverge from those of other shareholders because Avista has agreed that for a period of two years following the Closing Date, it will (a) cause AERC and its subsidiaries to continue to provide such entities employees with compensation and benefits no less favorable than that provided to such employees immediately prior to the Closing Date and (b) not terminate the employment of such employees without cause; and

Mr. William A. Corbus, AERC's President and Chairman of the Board, and certain of his relatives and certain other directors, officers and/or employees of AERC and/or its subsidiaries collectively own a substantial percentage of the outstanding shares of AERC common stock. The merger transaction has been structured to limit the tax impact of the merger and to provide liquidity. While AERC believes that these attributes should benefit all AERC shareholders, they will be of particular value to the foregoing individuals given the magnitude of their shareholdings.

The AERC Board of Directors was aware of these interests and considered them, among other matters, in making its recommendation.

The Management of the Companies Following the Merger

The directors and executive officers of Avista immediately prior to the completion of the merger will continue to be the directors and executive officers of Avista following the Closing. The directors and officers of AERC immediately following the Closing will be selected officers of Avista. AEL&P, AERC's wholly-owned subsidiary, will continue to be operated by the existing employees, including the existing management team, following the Closing of the merger. William Corbus, AERC's President and Chairman of the Board, will end his service to AERC following the Closing of the merger.

The Merger Agreement

The Merger Agreement is attached to this document as Annex B. You should read carefully the Merger Agreement in its entirety. It is the principal document governing the merger.

Accounting Treatment

Avista prepares its financial statements in accordance with accounting principles generally accepted in the United States. If completed, the merger will be accounted for by applying the acquisition method with Avista treated as the acquiror.

**Material U.S. Federal Income
Tax Considerations**

The merger has been structured to qualify as a reorganization within the meaning of Section 368(a) of the Code, but will occur even if it does not so qualify. Each of Avista and AERC has received a legal opinion from tax counsel, based on certain representations and assumptions, to the effect that the merger will qualify as a reorganization. Accordingly, it is

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anticipated that an AERC shareholder generally should not recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of AERC stock for shares of Avista common stock in the merger, except for (a) gain or loss attributable to cash received in lieu of a fractional share of Avista common stock, (b) income or gain attributable to the shareholder's *pro rata* share of the expense fund established for the Shareholders' Representative, (c) income or gain attributable to cash subsequently released from the escrow fund and (d) in certain limited circumstances, income attributable to a portion of the Avista common stock subsequently released from the escrow fund. AERC shareholders that fail to provide certain certifications as to their tax status when requested may be subject to applicable withholding taxes. Certain AERC shareholders may be subject to special tax rules.

Completion of the merger, however, is not conditioned upon the merger qualifying as a reorganization. Moreover, the tax opinions received by Avista and AERC are based both on representation letters provided by Avista and AERC as to factual matters and on certain factual assumptions, including with respect to the number of AERC shares held by, and the amount of consideration payable to, AERC shareholders, if any, that dissent to the merger. If any of the representations or assumptions on which the tax opinions are based proves incorrect, the U.S. federal income tax consequences of the merger described above may be adversely affected. For example, if AERC shareholders holding a significant amount of AERC stock were to dissent to the merger, the merger could be fully taxable to all AERC shareholders.

The discussion of material U.S. federal income tax consequences of the merger contained in this document only provides a general summary, is based on existing law and certain factual assumptions, and is not a complete analysis or description of all potential U.S. federal income tax consequences of the merger. The discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. In addition, it does not address the effects of any foreign, state or local tax laws.

AERC shareholders are urged to consult with their own tax advisors regarding the specific tax consequences of the merger that may apply to them, including the effects of U.S. federal, state, local, foreign and other tax laws.

For additional information, please see THE MERGER – Material U.S. Federal Income Tax Considerations – on page 37.

Regulatory Matters

To complete the merger, Avista and AERC must obtain approvals or consents from, or make filings with, a number of United States federal and state regulatory authorities. The parties have already received from the antitrust division of the Department of Justice and the Federal Trade Commission an early termination of the waiting period required by the HSR Act. The parties still need to obtain approval from the RCA. Approval has been received from the UTC, the IPUC and the OPUC. The parties have already submitted applications requesting approval from these state commissions. See REGULATORY MATTERS on page 43.

Comparison of Shareholder Rights

AERC is an Alaska corporation. Avista is a Washington corporation. The shares of Avista common stock that AERC shareholders will receive in the merger will be shares of a Washington corporation. AERC shareholder rights under Alaska law and Avista shareholder rights under Washington

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law are different. In addition, Avista's articles of incorporation and its bylaws contain provisions that are different from AERC's articles of incorporation and bylaws.

For a summary of certain differences between the rights of Avista shareholders and AERC shareholders, see DESCRIPTION OF COMMON STOCK - COMPARISON OF SHAREHOLDER RIGHTS beginning on page 57.

Table of Contents**SELECTED FINANCIAL DATA OF AVISTA**

The table below contains certain selected consolidated financial information for the years ended December 31, 2009, 2010, 2011, 2012 and 2013 and for the three months ended March 31, 2013 and 2014. This information has been selected from the consolidated financial statements of Avista, which are incorporated herein by reference. This information is qualified in its entirety by reference to the consolidated financial statements and related notes, management's discussion and analysis of financial condition and results of operations and other financial information that is incorporated herein by reference and should be read together therewith.

	As of and for the three months ended March 31,			As of and for the years ended December 31,			
	2014	2013	2013	2012	2011	2010	2009
(in thousands, except per share data)							
Operating Revenues:							
Avista Utilities	\$ 437,574	\$ 431,577	\$ 1,403,995	\$ 1,354,185	\$ 1,443,322	\$ 1,419,646	\$ 1,395,201
Ecova	44,384	42,407	176,761	155,664	137,848	102,035	77,275
Other	9,454	9,372	39,549	38,953	40,410	61,067	40,089
Intersegment eliminations	(450)	(450)	(1,800)	(1,800)	(1,800)	(24,008)	
Total	\$ 490,962	\$ 482,906	\$ 1,618,505	\$ 1,547,002	\$ 1,619,780	\$ 1,558,740	\$ 1,512,565
Income (Loss) from Operations (pre-tax):							
Avista Utilities	\$ 90,868	\$ 82,751	\$ 232,572	\$ 188,778	\$ 202,373	\$ 198,200	\$ 188,511
Ecova	2,798	2,924	13,304	2,972	20,917	15,865	11,603
Other	(526)	(613)	(1,483)	(1,680)	4,714	5,669	(7,103)
Total	\$ 93,140	\$ 85,062	\$ 244,393	\$ 190,070	\$ 228,004	\$ 219,734	\$ 193,011
Net income	\$ 48,981	\$ 43,101	\$ 112,294	\$ 78,800	\$ 103,539	\$ 94,948	\$ 88,648
Net income attributable to noncontrolling interests	(482)	(760)	(1,217)	(590)	(3,315)	(2,523)	(1,577)
Net Income (Loss) attributable to Avista Corporation Shareholders:							
Avista Utilities	\$ 47,996	\$ 42,250	\$ 108,598	\$ 81,704	\$ 90,902	\$ 86,681	\$ 86,744
Ecova	1,111	1,198	7,129	1,825	9,671	7,433	5,329
Other	(608)	(1,107)	(4,650)	(5,319)	(349)	(1,689)	(5,002)

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Total \$ 48,499 \$ 42,341 \$ 111,077 \$ 78,210 \$ 100,224 \$ 92,425 \$ 87,071

Average common shares outstanding, basic 60,122 59,866 59,960 59,028 57,872 55,595 54,694

Average common shares outstanding, diluted 60,168 59,898 59,997 59,201 58,092 55,824 54,942

Common shares outstanding at period-end 60,161 59,912 60,077 59,813 58,423 57,120 54,837

Income from continuing operations per Avista Corporation common share:
Diluted \$ 0.81 \$ 0.71 \$ 1.85 \$ 1.32 \$ 1.72 \$ 1.65 \$ 1.58

Basic \$ 0.81 \$ 0.71 \$ 1.85 \$ 1.32 \$ 1.73 \$ 1.66 \$ 1.59

Dividends paid per common share \$ 0.3175 \$ 0.305 \$ 1.22 \$ 1.16 \$ 1.10 \$ 1.00 \$ 0.81

Book value per common share \$ 22.12 \$ 21.43 \$ 21.61 \$ 21.06 \$ 20.30 \$ 19.71 \$ 19.17

Total Assets:
Avista Utilities \$ 3,893,474 \$ 3,878,347 \$ 3,940,998 \$ 3,894,821 \$ 3,809,446 \$ 3,589,235 \$ 3,400,384
Ecova 344,828 361,376 339,643 322,720 292,940 221,086 143,060
Other 77,776 92,415 81,282 95,638 112,145 129,774 63,515

Total \$ 4,316,078 \$ 4,332,138 \$ 4,361,923 \$ 4,313,179 \$ 4,214,531 \$ 3,940,095 \$ 3,606,959

Long-Term Debt and Capital Leases (including current portion) \$ 1,272,902 \$ 1,229,120 \$ 1,272,783 \$ 1,228,739 \$ 1,177,300 \$ 1,101,857 \$ 1,071,338

Nonrecourse Long-Term Debt (including current portion) \$ 13,872 \$ 29,181 \$ 17,838 \$ 32,803 \$ 46,471 \$ 58,934 \$

Long-Term Debt to Affiliated Trusts \$ 51,547 \$ 51,547 \$ 51,547 \$ 51,547 \$ 51,547 \$ 51,547 \$ 51,547

Total Avista Corporation Shareholders \$ 1,330,482 \$ 1,283,976 \$ 1,298,266 \$ 1,259,477 \$ 1,185,701 \$ 1,125,784 \$ 1,051,287

Table of Contents**MARKET INFORMATION AND DIVIDENDS****Avista**

Avista's common stock is currently listed on the NYSE under the ticker symbol AVA. As of March 31, 2014, there were 60,161,140 shares of our common stock outstanding and 9,597 registered shareholders.

The Avista Board of Directors considers the level of dividends on common stock on a regular basis, taking into account numerous factors including, without limitation:

results of operations, cash flows and financial condition,

the success of business strategies, and

general economic and competitive conditions.

Avista's net income available for dividends is generally derived from regulated utility operations.

The payment of dividends on common stock could be limited by:

certain covenants applicable to preferred stock (when outstanding) contained in Avista's articles of incorporation (currently there are no preferred shares outstanding);

certain covenants applicable to Avista's outstanding long-term debt and committed line of credit agreements; and

certain provisions incorporated in Avista's hydroelectric licenses.

The following table presents quarterly high and low prices of Avista common stock, as reported on the consolidated reporting system, as well as dividend information:

	Three Months Ended			
	March 31	June 30	September 30	December 31
2013				
Dividends paid per share	\$ 0.305	\$ 0.305	\$ 0.305	\$ 0.305
Trading price range per share:				
High	\$ 27.48	\$ 29.26	\$ 29.21	\$ 28.45
Low	\$ 24.10	\$ 25.68	\$ 25.55	\$ 25.88
2012				
Dividends paid per share	\$ 0.29	\$ 0.29	\$ 0.29	\$ 0.29

Trading price range per share:

High	\$ 26.18	\$ 27.07	\$ 28.05	\$ 26.77
Low	\$ 24.48	\$ 24.95	\$ 25.07	\$ 22.78

The reported last sale price of Avista common stock as shown on the composite tape for November 1, 2013, the trading day immediately before the announcement of the merger, was \$27.89.

The high and low prices of Avista common stock during the first quarter of 2014 were \$30.83 and \$27.71, respectively, and during the second quarter of 2014 (through May 6) were \$32.37 and \$30.02, respectively. On March 14, 2014, Avista paid a dividend of \$0.3175 per share to shareholders of record as of February 21, 2014.

The market price of Avista common stock will fluctuate between the date of this document and the completion of the merger. No assurance can be given concerning the market price of Avista common stock before or after the completion of the merger.

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AERC

AERC is a privately-held company, and there is no public trading market for AERC common stock.

AERC paid dividends on its common stock in the aggregate amount of \$0.98 million in 2012, consisting of quarterly dividends of \$1.375 per share on each of March 1, 2012, June 1, 2012 and September 1, 2012 and \$1.425 per share on December 1, 2012 and a special dividend of \$3.00 per share on December 14, 2012. AERC paid dividends on its common stock in the aggregate amount of \$4.67 million in 2013, consisting of quarterly dividends of \$1.425 per share on each of March 1, 2013, June 1, 2013 and September 1, 2013 and \$1.475 per share on December 1, 2013 and a special dividend of \$35.00 per share on December 1, 2013. Thus far in 2014, AERC paid a regular quarterly dividend on its common stock in the aggregate amount of \$168,894, or \$1.475 per share, on March 1, 2014.

Subject to approval by the AERC Board of Directors, AERC anticipates continuing to pay regular quarterly cash dividends in the future prior to the Closing, as well as a special dividend in an amount to be determined shortly prior to Closing in order to satisfy certain contractual obligations under the Merger Agreement.

AERC is a holding company and does not have any significant assets other than shares of stock of its subsidiaries. AERC does not produce any operating income of its own. As a result, AERC's ability to pay its indebtedness, if any, and dividends on its common stock is dependent on the receipt of dividends and other payments from its wholly-owned subsidiaries, AEL&P and/or AJT Mining Properties, Inc. ("AJT"). The payment of dividends on AERC common stock is restricted by provisions of certain covenants applicable to preferred stock (when outstanding) contained in AERC's articles of incorporation. There are currently no shares of preferred stock of AERC outstanding. The payment of dividends from AEL&P to AERC is restricted by provisions of certain covenants in AEL&P's credit facility.

RISK FACTORS

In addition to the other information included and incorporated by reference into this document, AERC shareholders should carefully consider the following risks before deciding how to vote. In addition, you should read and consider the risks and uncertainties associated with each of the businesses of Avista and AERC. You should also read and consider the other information in this document and the documents incorporated herein by reference. See WHERE YOU CAN FIND MORE INFORMATION ABOUT AVISTA, on page 65.

Risks Relating to the Merger

Avista's share price may fluctuate prior to the completion of the merger.

Upon completion of the merger, each share of AERC common stock will be converted into Merger Consideration consisting of shares of Avista common stock, with the number of shares of Avista common stock to be issued per share of AERC common stock to be based on the average of the closing price of Avista's common stock on the composite tape for the ten trading days immediately preceding but not including the trading day prior to the Closing Date. Changes in the price of Avista's common stock prior to the completion of the merger will affect the number of shares of Avista common stock issued in exchange for a share of AERC common stock, except that Avista's share price for the purposes of determining the exchange ratio will not be greater than \$34.30 and will not be lower than \$21.48, even if the average closing stock price for that period is outside of that range. In particular, if the market price of Avista common stock decreases to an amount lower than \$21.48, the number of shares of Avista common stock to be issued in the merger will not be increased to reflect that decrease. For more information on the calculation of the exchange ratio, see THE MERGER AGREEMENT – Merger Consideration; Conversion of Shares in the Merger on page 45.

The market price of Avista common stock at the time of completion of the merger may vary significantly from the market prices of Avista common stock on the date the Merger Agreement was executed, the date of this document and/or the date of the AERC special meeting. Accordingly, at the time of the AERC special meeting you will not know the market price of Avista common stock as of the Closing Date and, given the maximum and minimum price limitations to be used in determining the exchange ratio described above, you will not be able to calculate the number of shares of Avista common stock you will receive upon completion of the merger. Changes in the price of Avista common stock could result from a variety of factors, including general market and economic

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conditions, changes in Avista's business, operations and prospects and regulatory considerations. See *Risks Relating to an Investment in Avista Common Stock* on page 18. While AERC will not be required to close the merger in the event that there have been any occurrences that, individually or in the aggregate, have had a material adverse effect on the business of Avista taken as a whole or the common stock of Avista, AERC is not otherwise permitted to terminate the Merger Agreement solely because of changes in the market price of Avista's common stock.

In addition, the merger might not be completed until a significant period of time has passed after the AERC special meeting. Because the Merger Consideration (as adjusted) will not be further adjusted to reflect any changes in the value of AERC or its common stock, the Merger Consideration and the aggregate market value of the Avista common stock issued in connection with the merger may be lower than the value of AERC or its common stock as of earlier dates.

If AERC shareholders holding a significant amount of AERC stock dissent to the merger, the receipt of Avista common stock pursuant to the merger could be fully taxable to all AERC shareholders.

The merger has been structured to qualify as a reorganization within the meaning of Section 368(a) of the Code. However, completion of the merger is not conditioned upon the merger qualifying as a reorganization and, if AERC shareholders holding a significant amount of AERC stock were to dissent to the merger, the merger could be fully taxable to all AERC shareholders. See *THE MERGER – Material U.S. Federal Income Tax Considerations* on page 37.

Current AERC shareholders will have a reduced ownership and voting interest after the merger.

Assuming an aggregate adjusted Merger Consideration of approximately \$145 million and the minimum Conversion Price of \$21.48, the maximum number of shares that Avista anticipates it would issue or reserve for issuance to AERC shareholders in the merger is approximately 6.75 million shares. Based on the number of shares of common stock of Avista outstanding on March 31, 2014 and that minimum Conversion Price, upon the completion of the merger, former AERC shareholders would own at most approximately 10% of the common stock of Avista.

AERC shareholders currently have the right to vote for AERC directors and on other matters affecting AERC. When the merger occurs, each AERC shareholder who receives shares of Avista common stock will become a shareholder of Avista with a percentage ownership of the combined company that will be substantially smaller than the shareholder's percentage ownership of AERC. As a result of this reduced ownership percentage, former AERC shareholders will have substantially less voting power in the combined company than they now have with respect to AERC.

The Merger Agreement contains no provisions that permit AERC to pursue alternatives to the merger.

The Merger Agreement does not permit AERC to enter into an alternative transaction in lieu of the merger, unless and until the Merger Agreement is terminated. This would prohibit AERC from entering into a transaction with a third party that might have an interest in acquiring all or a significant part of AERC, even if such third party were prepared to pay consideration with a higher per share cash or market value than the consideration proposed to be received or realized in the merger.

The issuance of shares of Avista common stock to AERC shareholders in the merger may have a negative impact on Avista's earnings per share.

If the merger is completed, new shares of Avista common stock will be issued to AERC shareholders, increasing the total number of outstanding shares of Avista common stock. This initially will result in Avista's earnings per share being lower than what it would have reported in the absence of the merger unless and until the effect of the inclusion

of AERC's consolidated results of operations in Avista's consolidated results of operations is sufficient to offset the effect of the issuance of such additional shares. There can be no assurance, however, as to if or when the recovery of Avista's earnings per share will occur.

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The merger is subject to the receipt of consent or approval from governmental entities that could delay the completion of the merger or impose conditions that could have a material adverse effect on the combined company or that could cause abandonment of the merger.

Completion of the merger is conditioned upon the receipt of consents, orders, approvals or clearances, to the extent required, from the public utility commissions or similar entities in certain states in which the companies operate. The merger has already been reviewed by the United States Department of Justice Antitrust Division (the DOJ), and the Federal Trade Commission, (the FTC), under the HSR Act, and the parties received notice of the early termination of the waiting period required under the HSR Act effective December 6, 2013. The parties still need to obtain approval from the RCA. Approval has been received from the IPUC, the UTC and the OPUC. The AERC special meeting at which the Merger Proposal will be considered may take place before the RCA approval has been obtained and before all conditions to such approval, if any, are known. In this event, if the shareholder proposal required to complete the merger is approved, Avista and AERC may subsequently agree to conditions without further seeking shareholder approval, even if such conditions could have an adverse effect on Avista, AERC or the combined company.

Avista and AERC cannot provide assurance that they will obtain the required RCA approval or that this approval will not contain terms, conditions or restrictions that would be detrimental to the combined company after the completion of the merger. The Merger Agreement generally permits each party to terminate the Merger Agreement if the final terms of any of the required regulatory consents or approvals require a burdensome condition which is not normal and customary for regulatory approvals requested in connection with similar transactions or materially and adversely affects either the business of Avista, AERC, or certain subsidiaries and partners of theirs, or the ability of Avista to continue to operate AERC and its subsidiaries, taken as a whole, consistent with past practices. The conditions imposed by the UTC, the IPUC and the OPUC are acceptable to Avista and AERC. Any substantial delay in obtaining satisfactory RCA approval or the imposition of any terms or conditions in connection with such approval could delay the completion of the merger or adversely impact the consolidated results of operations of AERC or Avista.

There has been no public market for AERC common stock, and the lack of a public market makes it extremely difficult to determine the fair market value of AERC.

The outstanding capital stock of AERC is privately held and is not traded on any public market. The lack of a public market makes it extremely difficult to determine the fair market value of AERC. The value ascribed to AERC securities in privately negotiated transactions that have occurred from time to time or in other contexts may not be indicative of the price that AERC common stock may have traded at if it were traded on a public market. The number of shares of Avista common stock to be issued to AERC shareholders was determined based on negotiations between the parties, and likewise may not be indicative of the price at which AERC common stock may have traded if it were traded on a public market.

The acquisition of AERC by Avista could result in additional costs, some of which may not be recoverable.

Avista and AERC expect to incur a number of non-recurring transactional expenses associated with completing the merger. Avista may also incur additional unanticipated costs in the process of acquiring AERC, and may face other risks in connection with those acquisition efforts, including difficulties in coordinating cost assignment and other ratemaking issues among the regulatory commissions in Washington, Idaho and Oregon, which have jurisdiction over Avista, and the RCA, which has jurisdiction over AEL&P, and difficulties in implementing internal controls over accounting and financial reporting consistent with Avista's requirements under federal securities regulations. If Avista does encounter challenges to the acquisition process beyond those anticipated, those difficulties may adversely impact Avista's financial condition and results of operations.

AERC will be subject to various uncertainties and contractual restrictions while the merger is pending that may cause disruption and could adversely affect its financial results.

Uncertainty about the effect of the merger on employees, suppliers and customers may have an adverse effect on AERC. These uncertainties may impair the ability of AERC and its subsidiaries to attract, retain and motivate key personnel until the merger is completed and for a period of time thereafter, as employees and prospective employees may experience uncertainty about their future employment and career path, and could cause customers, suppliers and others who deal with AERC or its subsidiaries to seek to change existing business

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relationships with AERC or its subsidiaries. The pursuit of the merger and the preparation for the merger may also place a burden on the management and internal resources of AERC and its subsidiaries. Any significant diversion of management attention away from ongoing business concerns and any difficulties encountered in the transition and acquisition process could affect AERC's financial results.

Avista will record goodwill that could become impaired and adversely affect its operating results.

If completed, the merger will be accounted for as an acquisition of AERC common stock by Avista and will follow the acquisition method of accounting for business combinations. The assets and liabilities of AERC will be included on the balance sheet of Avista and its consolidated subsidiaries. The excess of the purchase price over the fair values of AERC's assets and liabilities will be recorded as goodwill.

The amount of goodwill, which is estimated to be approximately \$48 million based on Merger Consideration of \$170 million (before adjustments), will be allocated to the appropriate reporting units within AERC and its subsidiaries. Avista is required to assess goodwill for impairment at least annually by comparing the fair value of reporting units to the carrying value of those reporting units. To the extent the carrying value of any of those reporting units is greater than the fair value, a second step comparing the implied fair value of goodwill to the carrying amount would be required to determine if the goodwill is impaired. Such a potential impairment could result in a material charge that would have a material impact on Avista's future operating results and consolidated balance sheet.

Directors and officers of AERC may have conflicts of interest that may have influenced them to support or approve the merger.

Although the AERC Board of Directors recommended to AERC shareholders that they approve the plan of merger contained in the Merger Agreement, AERC shareholders should be aware that certain members of the AERC Board of Directors and executive officers of AERC have interests in the merger that may be different from, or are in addition to, the general interests of AERC shareholders, as described in The Merger—Interests of Certain Persons in the Merger on page 34. AERC shareholders should consider whether these interests may have influenced these directors and executive officers to support or recommend the merger.

The rights of AERC shareholders who become Avista shareholders in the merger will be governed by Washington law and by Avista's articles of incorporation and bylaws.

AERC shareholders who receive shares of Avista common stock in the merger will become Avista shareholders. Avista is a corporation formed under the laws of Washington. As a result, AERC shareholders who become shareholders in Avista will be governed by the Washington Business Corporation Act and Avista's articles of incorporation and Avista's bylaws, rather than being governed by the Alaska Corporations Code and AERC's articles of incorporation and AERC's bylaws. There may be material differences between the current rights of AERC shareholders, as compared to the rights they will have as Avista shareholders. For more information, see DESCRIPTION OF COMMON STOCK COMPARISON OF SHAREHOLDER RIGHTS on page 57.

Risks Relating to an Investment in Avista Common Stock

The market price of Avista's common stock fluctuates continuously.

Avista's common stock is listed on the NYSE and is traded on that exchange and elsewhere. The market price fluctuates continuously.

The fluctuation in the market price of Avista's common stock is caused by a variety of factors, many of which are beyond Avista's control. These factors include, but are not limited to:

any and all factors that affect the U.S. and global financial markets generally including, but not limited to, general U.S. and global economic conditions;

events or circumstances relating to Avista, particularly those related to the risk factors discussed in Avista's periodic reports filed with the SEC;

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periodic variations in Avista's operating results, the perceived value of Avista's assets or its business prospects, or the perceptions or expectations of investors or securities analysts as to such variations;

periodic developments in, or changes in the prospects for, the electric and natural gas utility industries, or the perceptions or expectations of investors or securities analysts as to such developments or changes;

Avista's ability to continue to pay dividends or any change in the level of dividends, or the perceptions or expectations of investors or securities analysts as to dividends; and

future sales by Avista of equity and other securities.

Any reduction, interruption or elimination of the quarterly dividend on Avista's common stock would likely have an adverse effect on the market price of its common stock.

The payment of dividends on Avista's common stock is solely within the discretion of Avista's Board of Directors. Avista's Board of Directors considers the level of dividends on a regular basis, taking into account numerous factors including, without limitation:

Avista's results of operation, cash flows and financial condition;

the success of Avista's business strategies; and

general economic and competitive conditions.

Avista's credit facilities have a financial covenant that limits the percentage of debt in relation to Avista's overall capital structure. While Avista is currently in compliance with this provision, in the future, this could have the effect of restricting Avista's ability to pay dividends. In addition, the terms of Avista's preferred stock contained in its articles of incorporation prohibit the payment of dividends on Avista's common stock unless all accumulated dividends on preferred stock have been paid. There are currently no shares of preferred stock of Avista outstanding. Avista may agree to similar, or more stringent, financial covenants or provisions in credit or other agreements in the future, and may issue preferred stock in the future. Avista's hydroelectric licenses also incorporate provisions that could limit Avista's ability to pay dividends.

The market price of Avista's common stock could be adversely affected by future sales of its common stock.

Except for required regulatory approvals, Avista is not restricted from issuing additional shares of common stock, whether in this offering or in any future offering. Avista is also not restricted from issuing other securities that are convertible into, or exercisable for, or exchangeable for, shares of Avista's common stock. The market price of Avista's common stock could be adversely affected by sales of substantial amounts of its common stock or any such other securities, or the perception that these sales may occur.

The shares of Avista's common stock are structurally junior to all its other securities.

If Avista were to be reorganized, liquidated or dissolved in a bankruptcy, insolvency or similar proceeding, holders of debt securities and other indebtedness, including trade payables, and holders of preferred stock would receive distributions of Avista's available assets prior to holders of Avista's common stock. It is possible that, after making such distributions, insufficient assets, or no assets at all, would remain available for distribution to holders of Avista common stock.

Avista and its existing subsidiaries are likely to incur additional indebtedness and may issue shares of preferred stock in the future. Furthermore, if the merger is completed, Avista intends to cause AERC and AEL&P to incur additional indebtedness so that, after the merger, the consolidated capital structure of AERC would more closely resemble the consolidated capital structure of Avista before the merger.

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The market price of Avista's common stock could be adversely affected by the incurrence of additional indebtedness or the issuance of preferred stock in substantial amounts by Avista and/or any of its existing or future subsidiaries.

Risks Relating to Avista's Businesses and Operations

The risks and uncertainties associated with Avista's businesses and operations include those discussed in Risk Factors, Forward Looking Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in Avista's annual and quarterly reports incorporated herein by reference. See WHERE YOU CAN FIND MORE INFORMATION ABOUT AVISTA on page 65.

Risks Relating to AERC's Businesses and Operations

Regulators may not grant rates that provide timely or sufficient recovery of AEL&P's costs or allow a reasonable rate of return for our shareholders.

AEL&P's ability to recover costs associated with its utility operations and capital expenditures therefor depends on the amount and timeliness of rate changes allowed by regulatory agencies. AEL&P expects to periodically file for rate increases with regulatory agencies to recover its costs and provide an opportunity to earn a reasonable rate of return for its shareholders. These proceedings typically involve multiple parties, including government bodies and officials, consumer advocacy groups and various consumers of energy, who have differing concerns, but who generally have the common objective of limiting rate increases while also requiring AEL&P to ensure system reliability. If regulators grant substantially lower rate increases than AEL&P's requests in the future or if deferred costs are disallowed, it could have a negative effect on AERC's consolidated financial results.

AEL&P is subject to operating uncertainties, including costs to maintain, repair and replace utility systems and occurrences of catastrophic events, which could adversely affect AERC's consolidated financial results.

The operation of complex utility systems involves many operating uncertainties and events beyond AEL&P's control. These uncertainties and potential events include the breakdown or failure of electricity generating equipment, transmission and distribution lines or other equipment or processes; unscheduled outages; strikes, lockouts or other labor-related actions; shortage of qualified labor; transmission and distribution system constraints, blackouts or disruptions; cyberattacks; terrorist attacks; fuel shortages or interruptions; unavailability of critical equipment, materials and supplies; low water flows and other weather-related impacts (for example, precipitation (consisting of snowpack, its water content and melting pattern plus rainfall) significantly affects hydroelectric generation capability); performance below expected levels of output, capacity or efficiency; operator error; third party excavation errors; design, construction or manufacturing defects; and catastrophic events such as severe storms, avalanches, floods, fires, earthquakes and explosions. A catastrophic event might result in injury or loss of life, extensive property damage, environmental damage or third party claims against AEL&P for property damage and/or personal injuries. Any of these events or other operational events could significantly reduce or eliminate AEL&P's revenue or significantly increase its expenses, which increased expenses AEL&P may not be able to recover in part or in full from its customers. For example, certain of the AEL&P's transmission lines are subject to avalanche risk and in 2008 and 2009 avalanches disrupted transmission from the Snettisham hydroelectric project for six and three weeks, respectively. Further, the cost to implement rapid repair to such facilities could be significant and such events could disrupt AEL&P's ability to supply power from certain facilities. Current and future insurance coverage might not be sufficient to replace lost revenue or cover repair and replacement costs or other liabilities. The scope, cost and availability of AEL&P's insurance coverage may change. In addition, AEL&P is subject to the risk that insurers and/or other parties would dispute or be unable to perform on their obligations to AEL&P. Any reduction of AEL&P's revenue or increase in its expenses resulting from the risks described above, could adversely affect AERC's consolidated financial results.

Temperatures have a significant effect on AEL&P's results of operations, financial condition and cash flows.

Retail electricity demand varies directly with changes in temperatures. AEL&P normally has its highest retail energy sales during the winter heating season in the first and fourth quarters of the year. In general, warmer weather in the heating season will reduce AEL&P's customers' energy demand and retail operating revenues.

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AEL&P is actively pursuing, developing and constructing new or expanded facilities, the completion and expected costs of which are subject to significant risk, and it has significant funding needs related to its planned capital expenditures.

AEL&P actively pursues, develops and constructs new or expanded facilities. It expects to incur substantial annual capital expenditures over the next several years. Such expenditures could include, among others, amounts for new electric generating facilities, electric transmission or distribution projects, and upgrades of existing assets.

Development and construction of major facilities are subject to substantial risks, including fluctuations in the price and availability of commodities, manufactured goods, equipment, labor, siting and permitting and changes in environmental and operational compliance matters, load forecasts and other items over a multi-year construction period, as well as counterparty risk and the economic viability of AEL&P's suppliers, customers and contractors. These risks could result in the inability to timely complete a project or higher than expected costs to complete an asset and place it in service. Such costs might not be recoverable in the regulated rates or market or contract prices AEL&P is able to charge its customers. The inability to successfully and timely complete a project, avoid unexpected costs or to recover any such costs could adversely affect AERC's consolidated financial results.

Furthermore, AEL&P depends upon both internal and external sources of liquidity to provide working capital and to fund capital requirements. If it were unable to obtain funding from external sources, it could need to postpone or cancel planned capital expenditures. Failure to construct these planned projects could limit opportunities for growth, increase operating costs and adversely affect the reliability of electricity service to its customers.

A significant sustained decrease in demand for electricity in the City and Borough of Juneau, Alaska would decrease its operating revenue and could adversely affect its consolidated financial results.

A significant sustained decrease in demand for electricity in the City and Borough of Juneau, Alaska would significantly reduce its operating revenue and adversely affect AERC's consolidated financial results. Factors that could lead to a decrease in market demand include, among others:

sustained mild weather that reduces heating or cooling needs;

a depression, recession or other adverse economic condition that results in a lower level of economic activity or reduced spending by consumers on electricity;

an increase in the market price of electricity or a decrease in the price of competing sources of energy;

efforts by customers, legislators and regulators to reduce the consumption of energy through various conservation and energy efficiency measures and programs; and/or

a movement of the state capital from Juneau, Alaska.

AERC's subsidiaries are subject to extensive federal, state and local legislation and regulation, including numerous environmental, health, safety and other laws and regulations that affect its operations and costs. These laws and

regulations are complex, dynamic and subject to new interpretations or change. In addition, new laws and regulations are continually being proposed and enacted that create new or revised requirements or standards on AERC s subsidiaries.

AERC s subsidiaries are required to comply with numerous federal, state and local laws and regulations that have broad application to AERC s subsidiaries and limit their ability to independently make and implement management decisions regarding the operation of their businesses. These laws and regulations are implemented and enforced by federal, state and local regulatory agencies, such as, among others, the FERC, the United States Environmental Protection Agency and the RCA.

Compliance with applicable laws and regulations generally requires AERC s subsidiaries to obtain and comply with a wide variety of licenses, permits, inspections, audits and other approvals. Further, compliance with laws and regulations can require significant capital and operating expenditures, including expenditures for new equipment, inspection, cleanup costs, removal and remediation costs, damages arising out of contaminated

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properties and refunds, fines, penalties and injunctive measures affecting operating assets for failure to comply with environmental regulations. Compliance activities pursuant to laws and regulations could be prohibitively expensive or otherwise uneconomical. As a result, AERC and its subsidiaries could be required to shut down some facilities or alter their operations. Further, AERC's subsidiaries may not be able to obtain or maintain all required environmental or other regulatory approvals and permits for its operating assets or development projects. Delays in or active opposition by third parties to obtaining any required environmental or regulatory authorizations, failure to comply with the terms and conditions of the authorizations or enhanced regulatory or environmental requirements may increase costs or prevent or delay AERC and its subsidiaries from operating facilities, developing or favorably locating new facilities or expanding existing facilities. If AERC and its subsidiaries fail to comply with any environmental or other regulatory requirements, they may be subject to penalties and fines or other sanctions, including changes to the way its electric generating facilities are operated that may adversely impact generation. The costs of complying with laws and regulations could adversely affect AERC's consolidated financial results.

To the extent that AERC's subsidiaries are not allowed by its regulators to recover or cannot otherwise recover the costs to comply with existing or future laws or regulations, the costs of compliance could have a material adverse effect on AERC's consolidated financial results. Additionally, even if such costs are recoverable in rates, if they are substantial and result in rates increasing to levels that substantially reduce customer demand, this could have a material adverse effect on AERC's consolidated financial results.

Disruptions in the financial markets could affect AERC and its subsidiaries' ability to obtain debt financing, draw upon or renew its existing credit facility, and have other adverse effects on AERC and its subsidiaries.

Disruptions in the financial markets could affect AERC and its subsidiaries' ability to obtain debt financing, draw upon or renew its existing credit facility, and have other adverse effects on AERC and its subsidiaries. Significant dislocations and liquidity disruptions in the United States and global credit markets, as occurred in 2008 and 2009, could materially impact liquidity in the bank and debt capital markets, making financing terms less attractive for borrowers that are able to find financing and, in other cases, could cause certain types of financing, or any financing, to be unavailable. Additionally, economic uncertainty in the United States or globally could adversely affect the United States' credit markets and could negatively affect the ability of AERC and its subsidiaries to access funds on favorable terms or at all. If AERC or its subsidiaries were unable to access the bank and debt capital markets to meet liquidity and capital expenditure needs, and could not meet such needs internally, this could adversely affect the timing and amount of AERC and its subsidiaries' capital expenditures, their ability to make dividend payments and AERC's consolidated financial condition.

The terms of AEL&P's indebtedness could limit its ability to borrow additional funds or take certain actions.

AEL&P's outstanding credit facility and debt related obligations contain various affirmative and negative covenants that are customary for comparable loan agreements and transactions. Such covenants could serve to reduce AEL&P's ability to incur additional debt, to make certain distributions, to engage in certain transactions and to capitalize on business opportunities. In addition, should AEL&P fail to meet its obligations to repay amounts owed with respect thereto or otherwise default on its other covenants and obligations thereunder, it could be deemed to be in default under such agreements. Any such default could enable the counterparty to take actions which could have a material adverse effect on AERC's consolidated financial results. Further, any subsequent refinancing of AEL&P's current indebtedness or any new indebtedness could have similar or greater restrictions.

A majority of AEL&P's hydroelectric power generation is provided by a single facility that is subject to a long-term power purchase agreement and operating and maintenance agreement in connection with which AEL&P is required to make certain payments.

While AEL&P operates several hydroelectric power generation facilities and has diesel generating capacity from multiple facilities to provide back-up service to firm customers when necessary, a single hydroelectric power generation facility, the Snettisham hydroelectric project, currently accounts for approximately two-thirds of AEL&P's hydroelectric power generation. Such facility was constructed and operated by the federal government and subsequently purchased by the Alaska Industrial Development and Export Authority. AEL&P has a long-term power purchase agreement and operating and maintenance agreement with the Alaska Industrial Development and Export Authority to run and operate such facility. Such agreements and related documents require AEL&P to make certain related payments, including payments related to debt service obligations for bonds issued by the Alaska Industrial Development and Export Authority in connection with the Snettisham hydroelectric project, regardless of

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the amount of power actually received from such facility. Any issues that negatively affect the Snettisham hydroelectric project's ability to generate or transmit power, any decrease in the demand for the power generated by Snettisham hydroelectric project or any loss by AERC and its subsidiaries of their contractual rights with respect thereto or other adverse effect thereon could negatively affect AERC's consolidated financial results.

Sales to a limited number of customers represent a significant portion of AEL&P's revenues and the loss of, or a significant reduction in sales to, any one of these customers could materially harm its business.

Sales to governmental and mining customers represent a significant portion of AEL&P's overall revenues. AEL&P currently expects that sales to such customers will continue to represent a significant percentage of its revenues for the foreseeable future. Any one of such customers could, subject in certain cases to contractual restrictions, decide to discontinue, decrease or delay its purchase of power from AEL&P. The loss of any of such customers could significantly reduce AEL&P's revenues and adversely affect its operating results. AEL&P's ability to maintain or increase its revenues from such key customers depends on a variety of factors, many of which are beyond AEL&P's control. The amount of such revenues may not reach or exceed historical levels in any future period. Because these customers account for a substantial portion of AEL&P's revenues, the failure of any one of these customers to pay on a timely basis would negatively impact AEL&P's cash flows.

AEL&P's success depends on the availability of the services of a qualified workforce and its ability to maintain satisfactory collective bargaining agreements which cover a substantial number of employees.

Approximately one-half of AEL&P's employees are covered by a collective bargaining agreement with one union. The terms of this agreement affect AEL&P's labor costs. It is possible that labor disruptions could occur. In addition, it is possible that some of the remaining non-represented AEL&P employees could join a union in the future. Further, AEL&P relies on its executive officers and senior management to execute its existing business operations and identify and pursue new growth opportunities. It is possible that AEL&P could face challenges in attracting and retaining senior management talent. The loss of key employees could result in significant disruptions to AEL&P's business, and the integration and training of replacement personnel could be time consuming, cause additional disruptions to its business and be unsuccessful. Any such occurrences could negatively impact AERC's consolidated financial condition and results of operations.

FORWARD-LOOKING STATEMENTS

From time to time, Avista and AERC make forward-looking statements such as statements regarding projected or future financial performance, cash flows, capital expenditures, dividends, capital structure, other financial items, strategic goals and objectives, and plans for operations. These statements are based upon underlying assumptions (many of which are based, in turn, upon further assumptions). These statements are made in press releases and reports and other communications delivered to shareholders and, in the case of Avista, in its reports filed under the Securities Exchange Act of 1934, as amended. Forward-looking statements are all statements except those of historical fact, including, without limitation, those that are identified by the use of words such as, but not limited to, will, may, could, should, intends, plans, seeks, anticipates, estimates, expects, forecasts, projects, predicts, and similar.

Forward-looking statements are subject to a variety of risks and uncertainties and other factors. Most of these factors are beyond the parties' control, and many of them could have a significant effect on the parties' operations, results of operations, financial condition or cash flows, which could cause actual results to differ materially from those anticipated in the parties' statements. Such risks, uncertainties and other factors include, among others, those listed or referred to under RISK FACTORS above.

The expectations, beliefs and projections of Avista and AERC are expressed in good faith. The parties believe they are reasonable based on, among other considerations, an examination of historical operating trends, data contained in the parties' records and other data available from third parties. However, there can be no assurance that the parties' 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. The parties 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, except as required by law. New risks, uncertainties and other factors emerge from time to time, and it is not possible for the parties to predict all such

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factors, nor can the parties assess the effect of each such factor on their businesses or the extent that any such factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statement.

THE COMPANIES

Avista Corporation

Overview

Avista, incorporated in the Territory of Washington in 1889, is an energy company engaged in the generation, transmission and distribution of electricity and the distribution of natural gas, as well as other energy-related businesses. As of December 31, 2013, Avista employed 1,643 people in its utility operations and 1,667 people in its subsidiary businesses. Avista's corporate headquarters are in Spokane, Washington, the second-largest city in Washington. Spokane serves as the business, transportation, medical, industrial and cultural hub of the Inland Northwest region (eastern Washington and northern Idaho). Regional services include government and higher education, medical services, retail trade and finance. The Inland Northwest also coincides closely with Avista's utility service area in Washington and Idaho. Avista's gas utility operations also include separate service areas in northeastern and southwestern Oregon.

Avista has two reportable business segments as follows:

Avista Utilities an operating division of Avista that comprises its regulated utility operations. Avista Utilities generates, transmits and distributes electricity and distributes natural gas, serving electric and gas customers in eastern Washington and northern Idaho and gas customers in parts of Oregon. The utility also engages in wholesale purchases and sales of electricity and natural gas.

Ecova an indirect subsidiary of Avista (80.2 percent owned as of December 31, 2013) that provides energy efficiency and cost management programs and services for multi-site customers and utilities throughout North America. Ecova's service lines include expense management services for utility and telecom needs, as well as strategic energy management and efficiency services that include procurement, conservation, performance reporting, financial planning, facility optimization and continuous monitoring, and energy efficiency program management for commercial enterprises and utilities. As discussed in Avista's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, Avista is in the process of exploring the possibility of selling its interest in Ecova.

Avista has other businesses, including a sheet metal fabrication business, emerging technology venture fund investments and commercial real estate investments. These activities do not represent a reportable business segment and are conducted by various indirect subsidiaries of Avista.

Avista Utilities

General

Through Avista Utilities, Avista's utility operating division, Avista generates, transmits and distributes electricity and distributes natural gas. Retail electric and natural gas customers include residential, commercial and industrial classifications. Avista also engages in wholesale purchases and sales of electricity and natural gas as an integral part of energy resource management and its load-serving obligation.

Avista Utilities provides electric distribution and transmission, as well as natural gas distribution, services in parts of eastern Washington and northern Idaho. Avista also provides natural gas distribution service in parts of northeastern and southwestern Oregon. At the end of 2013, Avista supplied retail electric service to approximately 366,000 customers and retail natural gas service to approximately 326,000 customers across its entire service territory. Avista's service territory covers 30,000 square miles with a population of approximately 1.6 million. Certain of Avista's generating facilities are located in Montana, and Avista supplies electricity to a small number of customers in Montana, most of whom are employees who operate one of such facilities.

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Utility Regulation

As a public utility, Avista is subject to regulation by state utility commission for prices, accounting, the issuance of securities, mergers and other matters. The retail electric operations are subject to the jurisdiction of the UTC, the IPUC and the Public Service Commission of the State of Montana, and retail natural gas operations are subject to the jurisdiction of the Washington and Idaho Commissions and the OPUC. The Montana Public Service Commission generally does not have jurisdiction over Avista's issuance of securities and has advised Avista that its approval is not required for this transaction. Avista is also subject to the jurisdiction of the Federal Energy Regulatory Commission (the FERC) for licensing of hydroelectric generation resources, and for electric transmission services and wholesale sales.

If the merger is approved and completed, Avista would be a holding company under the Public Utility Holding Company Act of 2005. As a result, Avista and all of its subsidiaries (whether or not engaged in any energy related business) would be required to maintain books, accounts and other records in accordance with the FERC regulations and to make them available to the FERC and the state utility commissions. In addition, upon the request of any state utility commission, or of Avista, the FERC would have the authority to review assignment of costs of non-power goods and administrative services among Avista and its subsidiaries. The FERC has the authority generally to require that rates subject to its jurisdiction be just and reasonable and in this context would continue to be able to, among other things, review transactions between Avista and any affiliated company, including AERC.

Following the Closing of the merger, Avista Utilities will continue to operate its utility business subject to regulation by the state utility commissions and the FERC, and AEL&P will continue to be subject to regulation by the Regulatory Commission of Alaska.

Alaska Energy and Resources Company

Overview

AERC is a privately-held corporation based in Juneau, Alaska. AERC was incorporated under the laws of the State of Alaska in 1905 and is primarily engaged in the regulated electric utility business in the City and Borough of Juneau, Alaska, the capital of the state of Alaska, through its wholly owned subsidiary, AEL&P, an Alaska corporation. AERC also owns all of the outstanding common stock of AJT, an Alaska corporation, and Snettisham Electric Company, an Alaska corporation (Snettisham).

AEL&P

AEL&P is the primary operating subsidiary of AERC. AEL&P is the sole utility providing electrical energy in the City and Borough of Juneau, Alaska. Juneau is a geographically isolated community with no electric interconnections with the transmission facilities of other utilities and no pipeline access to natural gas or other fuels. Juneau's economy is primarily driven by government activities, tourism, commercial fishing, and mining, as well as activities as the commercial hub of southeast Alaska.

AEL&P owns and operates electric generation, transmission and distribution facilities located in the City and Borough of Juneau. AEL&P operates five hydroelectric generation facilities with 102.7 megawatts of renewable hydroelectric generation capacity as of December 31, 2013. AEL&P owns four of these generation facilities (totaling 24.7 megawatts of capacity) and has a power purchase commitment for the output of the Snettisham hydroelectric project (totaling 78 megawatts of capacity). The Snettisham hydroelectric project is AEL&P's primary generation facility and the main power source for the City and Borough of Juneau, supplying approximately two-thirds of the area's

electricity. The Snettisham hydroelectric project was constructed and operated by the federal government and subsequently purchased by the Alaska Industrial Development and Export Authority. AEL&P has a long-term power purchase agreement and operating and maintenance agreement with the Alaska Industrial Development and Export Authority to operate and maintain the facility. As of December 31, 2013, AEL&P also had 93.9 megawatts of diesel generating capacity from three facilities to provide back-up service to firm customers when necessary.

As of December 31, 2013, AEL&P served approximately 16,100 customers in the City and Borough of Juneau. AEL&P's customer classes include residential, small commercial, large commercial, governmental and street lighting customer classes. Its primary customers include city, state and federal governmental entities located

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in the City and Borough of Juneau as well as a mine located in the Juneau area. Such primary customers accounted for approximately 34% of AEL&P's electricity revenues in 2013, including approximately 11% from its largest customer, Hecla Mining Company, for service at the Greens Creek Mine. Most of AEL&P's customers are served on a firm basis while certain of its customers, including its largest customer, are served on an interruptible sales basis. AEL&P maintains separate rate tariffs for each of its customer classes as well as separate seasonal rates.

AEL&P has experienced moderate load growth in recent years as a result of tourism, mining, growth of state, local and federal government activities and the City and Borough of Juneau's status as a regional hub for southeast Alaska.

As of December 31, 2013, AEL&P had 60 full-time employees and employs approximately 15-18 temporary, seasonal employees each year. Approximately half of AEL&P's full-time employees are members of the International Brotherhood of Electrical Workers and subject to a collective bargaining agreement. AEL&P is one of two members of Kwaan Electric Transmission Intertie Cooperative, Inc., an Alaska nonprofit cooperative.

AEL&P's operations are subject to regulation by the RCA with respect to rates, standard of service, facilities, accounting and certain other matters. Rate adjustments for AEL&P's customers require approval by the RCA pursuant to RCA regulations. AEL&P is also subject to the jurisdiction of FERC concerning the permits and licenses necessary to operate certain of its hydroelectric facilities; the Snettisham hydroelectric project is subject to regulation by the State of Alaska with respect to dam safety and certain aspects of its operations. In addition, AEL&P is subject to regulation with respect to air and water quality, land use and other environmental matters under both federal and state laws.

AJT

AJT owns currently inactive mining properties and other real estate in and around the area of the City and Borough of Juneau. Such real estate includes approximately 1,150 acres of patented mining claims and tidelands. AJT currently leases portions of its surface mining lands to tourist-related interests in order to partially defray the carrying costs (including property taxes and insurance) of the properties and has a unitization agreement with the City and Borough of Juneau with respect to prospective mining related activities, if any. Prior mining activities on certain of AJT's properties by AJT's predecessors have resulted in several such properties having been identified in the EPA's CERCLIS data base, with resulting remediation activities having been implemented, including under the supervision of the Alaska Department of Environmental Conservation at one site. AJT is subject to regulation with respect to air and water quality, land use and other environmental matters under both federal and state laws. AJT also has certain long term access rights to certain mining records located at the State of Alaska Historic Library.

Snettisham

Snettisham is a subsidiary of AERC organized and maintained to hold an option to purchase the Snettisham hydroelectric project pursuant to an agreement entered into with the Alaska Industrial Development and Export Authority, the current owner of the Snettisham hydroelectric project.

Alaska Merger Sub, Inc.

Merger Sub is an Alaska corporation and a wholly-owned subsidiary of Avista. Merger Sub was incorporated on October 31, 2013, for the sole purpose of effecting the merger. Merger Sub has not conducted any activities other than those incidental to its formation and the matters contemplated in the Merger Agreement.

THE AERC SPECIAL MEETING

General

The AERC Board of Directors is using this document as an information statement regarding the merger and to solicit proxies from the holders of shares of AERC common stock for use at the AERC special meeting and any adjournments or postponements thereof. AERC is first mailing this document and accompanying proxy card to its shareholders on or about May 12, 2014.

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Date, Time and Place of the AERC Special Meeting

The AERC special meeting will be held on June 10, 2014, at 11:00 a.m., Alaska Daylight Savings Time, at AERC's executive offices, located at 5601 Tongard Court, Juneau, Alaska 99801.

Purpose of the AERC Special Meeting

At the AERC special meeting, AERC shareholders will consider and vote on:

- (1) a proposal to approve the plan of merger contained in the Merger Agreement, pursuant to which Alaska Merger Sub, Inc. will be merged with and into AERC and each outstanding share of common stock of AERC will be converted into the right to receive shares of common stock of Avista, with cash to be paid in lieu of any fractional shares (the Merger Proposal); and
- (2) a proposal to adjourn the AERC special meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes to approve the Merger Proposal (the Adjournment Proposal).

Recommendation of the AERC Board of Directors

The AERC Board of Directors has carefully considered the merger and the Merger Proposal and has determined that the merger is fair, advisable and in the best interests of AERC and its shareholders. The AERC Board of Directors unanimously recommends that the AERC shareholders vote **FOR** the Merger Proposal and the Adjournment Proposal. See THE MERGER AERC's Reasons for the Merger on page 33. For a discussion of interests of AERC's directors and executive officers in the merger that may be different from, or in addition to, the interests of AERC's shareholders generally, see THE MERGER Interests of Certain Persons in the Merger on page 34.

AERC Record Date; Outstanding Shares; Shares Entitled to Vote

The AERC Board of Directors has fixed the close of business on April 21, 2014 as the record date for determination of shareholders entitled to notice of, and to vote at, the AERC special meeting. Only holders of record of shares of AERC common stock at the close of business on the record date are entitled to notice of, and to vote at, the AERC special meeting and any adjournments or postponements thereof.

On the record date, there were 114,504 shares of AERC common stock outstanding held by 122 holders of record, and no shares of AERC preferred stock outstanding.

Each shareholder is entitled to one vote at the AERC special meeting for each share of AERC common stock held by that shareholder at the close of business on the record date. AERC's common stock is its only voting security for the AERC special meeting.

AERC will make a complete list of shareholders entitled to vote at the AERC special meeting, with the address and the number of shares held by each such shareholder, available for inspection by any AERC shareholder, at AERC's registered office, 5601 Tongard Court, Juneau, Alaska 99801 during normal business hours at least 20 days before the special meeting as well as at the time and place of the AERC special meeting.

Quorum

In order to conduct the AERC special meeting, holders of a majority of the outstanding shares of AERC common stock entitled to vote must be present in person or represented by proxy so that there is a quorum. It is important that you vote promptly by proxy or attend the AERC special meeting so that your shares are counted toward the quorum. All shares of AERC common stock represented at the AERC special meeting, including abstentions, will be treated as shares that are present and entitled to vote for purposes of determining the presence of a quorum.

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Vote Required

Required Vote to Approve the Merger Proposal

The affirmative vote of the holders of record of at least two-thirds of the shares of AERC common stock outstanding on the record date for the AERC special meeting is required to approve the Merger Proposal. If you abstain from voting or fail to vote on the Merger Proposal, it will have the same effect as voting against this proposal.

Required Vote to Approve the Adjournment Proposal

The affirmative vote of the holders of a majority of the AERC common stock represented at the AERC special meeting in person or by proxy is required for the approval of the Adjournment Proposal. If you are present at the meeting and abstain from voting or fail to vote on the Adjournment Proposal, it will have the same effect as voting against this proposal.

Voting by AERC's Directors and Executive Officers

As of April 21, 2014, the record date for the special meeting, the shares of AERC common stock beneficially owned by all of AERC's directors and executive officers constituted approximately 57.1% of the outstanding shares of AERC common stock entitled to vote at the AERC special meeting. See SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF AERC on page 56 for further information. In addition, as of such date, certain relatives of the foregoing beneficially owned, collectively, approximately 8.9% of the outstanding shares of AERC common stock. AERC currently expects that AERC's directors and executive officers will vote their shares of AERC common stock in favor of the Merger Proposal and Adjournment Proposal, although none of them has entered into any agreements obligating them to do so.

Voting of Proxies

Giving a proxy means that an AERC shareholder authorizes the persons named in the enclosed proxy card, the proxy holder, to vote its shares at the AERC special meeting in the manner that such shareholder directs. All shares represented by properly executed proxies received in time for the AERC special meeting will be voted in the manner specified by the shareholders giving those proxies.

The proxy holders named in the proxy will vote properly executed proxies that do not contain voting instructions FOR the approval of the Merger Proposal and FOR the Adjournment Proposal.

If the AERC special meeting is postponed or adjourned, a shareholder's proxy may remain valid for up to eleven months and may be voted at the postponed or adjourned meeting. A shareholder will still be able to revoke the shareholder's proxy until it is voted.

How to Vote

A shareholder may vote at the special meeting in person or by the shareholder's authorized attorney-in-fact or by proxy executed in writing by the shareholder or by the shareholder's authorized attorney-in-fact. A proxy executed by electronic transmission must: (1) be directed to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization, or similar agent that is authorized by the person who will be the holder of the proxy to receive the transmission; and (2) include information that demonstrates that the shareholder authorized the transmission. The named proxy holders will vote all shares at the meeting that have been properly

granted and not revoked.

Only shares affirmatively voted for the approval of the proposals to be considered at the AERC special meeting or properly executed proxies that do not contain voting instructions will be counted as favorable votes for the proposals.

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Revoking Your Proxy

A person may revoke a proxy at any time after such proxy has been given and before it is voted, in one of the following ways:

- (1) by a writing delivered to AERC stating that the proxy is revoked,
- (2) by a subsequent proxy executed by the person executing the prior proxy and delivered to AERC, or
- (3) by attendance at the AERC special meeting and voting in person by the person executing the proxy.

The dates contained on the forms of proxy presumptively determine the order of execution, regardless of the postmark dates on the envelopes in which the proxies are mailed.

Proxy Solicitation

The AERC Board of Directors is soliciting proxies for the AERC special meeting from AERC shareholders. AERC will bear the entire cost of soliciting proxies from AERC shareholders, except that Avista and AERC will each bear their own expenses incurred in preparing and filing the registration statement of which this document is a part. In addition to this mailing, AERC's directors, officers and employees (who will not receive any additional compensation for such services) may solicit proxies personally, electronically or by telephone or other means.

AERC will also request that banks, brokerage houses, trustees and other custodians, nominees and fiduciaries send proxy materials to the beneficial owners of AERC common stock and will, if requested, reimburse the record holders for their reasonable out-of-pocket expenses in doing so. The extent to which these proxy-soliciting efforts will be necessary depends upon how promptly proxies are submitted.

Assistance

If you need assistance in completing your proxy card or have questions regarding AERC's special meeting, please contact either William A. Corbus, AERC's Chairman of the Board and President, by phone at (907) 463-6312; by electronic correspondence at bill.corbus@aelp.com; or by mail at AERC's headquarters, 5601 Tongsgard Court, Juneau, Alaska 99801 or Connie Hulbert, AEL&P's Vice President, Treasurer and Secretary, by phone at (907) 463-6313; by electronic correspondence at connie.hulbert@aelp.com; or by mail at AERC's headquarters, 5601 Tongsgard Court, Juneau, AK 99801.

PROPOSALS SUBMITTED TO AERC'S SHAREHOLDERS

The Merger Proposal

(Item 1 on AERC Proxy Card)

The AERC Board of Directors is asking its shareholders to consider and vote on a proposal to approve the plan of merger contemplated by the Merger Agreement and the terms and conditions of the Merger Agreement and thereby approve, among other things, the merger. Approval of the plan of merger contained in the Merger Agreement will also

constitute consent to the appointment of William A. Corbus as the shareholders representative for purposes of taking certain actions and giving certain consents on behalf of AERC shareholders, as specified in the Merger Agreement. Holders of AERC common stock should read this document carefully in its entirety, including the annexes, for more detailed information concerning the Merger Agreement and the merger. In particular, holders of AERC common stock are directed to the Merger Agreement, a copy of which is attached as Annex B to this document.

The affirmative vote of the holders of record of at least two-thirds of the shares of AERC common stock outstanding on the record date for the AERC special meeting is required to approve the Merger Proposal. If you abstain from voting or fail to vote on the Merger Proposal, it will have the same effect as voting against this proposal.

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The AERC Board of Directors recommends a vote FOR the Merger Proposal (Item 1). See THE AERC SPECIAL MEETING Recommendation of the AERC Board of Directors on page 27 and THE MERGER AERC s Reasons for the Merger on page 33 for further information regarding the AERC Board of Directors reasons for such recommendation.

The AERC Adjournment Proposal

(Item 2 on AERC Proxy Card)

The AERC special meeting may be adjourned to another time or place, if necessary or appropriate, to permit, among other things, further solicitation of proxies to obtain additional votes in favor of the Merger Proposal.

If, at the AERC special meeting, a quorum is present and the number of shares of AERC common stock present or represented and voting in favor of the Merger Proposal is insufficient to approve such proposal, AERC intends to move to adjourn the AERC special meeting in order to solicit additional proxies for approval of the Merger Proposal.

In the Adjournment Proposal, the AERC Board of Directors is asking its shareholders to authorize the holder of any proxy solicited by the AERC Board of Directors to vote in favor of granting discretionary authority to the proxy holders, and each of them individually, to adjourn the AERC special meeting to another time and place for the purpose of soliciting additional proxies. If the AERC shareholders approve the Adjournment Proposal, AERC could adjourn the AERC special meeting and any adjourned session of the AERC special meeting and use the additional time to solicit additional proxies, including the solicitation of proxies from AERC shareholders who have previously voted against the Merger Proposal.

The affirmative vote of the holders of a majority of the AERC common stock represented at the AERC special meeting in person or by proxy is required for the approval of the Adjournment Proposal. If you are present at the meeting and abstain from voting or fail to vote on the Adjournment Proposal, it will have the same effect as voting against this proposal.

The AERC Board of Directors recommends a vote FOR the Adjournment Proposal (Item 2).

THE MERGER

The discussion in this document of the merger and the principal terms of the Merger Agreement is subject to, and is qualified in its entirety by reference to, the Merger Agreement. You are urged to read carefully the Merger Agreement in its entirety, a copy of which is attached as Annex B to this document and incorporated by reference herein.

General Description of the Merger

Upon completion of the merger, Merger Sub, a wholly-owned subsidiary of Avista formed for the sole purpose of effecting the merger, will merge with and into AERC. AERC will be the surviving company of the merger between it and Merger Sub and will thereby become a wholly-owned subsidiary of Avista.

In the merger, each outstanding share of AERC common stock will be converted at the Closing of the merger into the right to receive shares of Avista common stock, with cash to be paid in lieu of fractional shares. For an explanation and illustration of the exchange ratio to be used in determining the number of shares of Avista common stock to be issued for each share of AERC common stock, see THE MERGER AGREEMENT Merger Consideration; Conversion of Shares in the Merger on page 45.

Upon completion of the merger, the current directors and officers of Avista will continue to serve in their respective roles, and the new directors and officers of AERC will be selected officers of Avista. Avista will maintain its current headquarters in Spokane, Washington, but has also agreed to maintain the current headquarters of AERC for a period of at least two years following the Closing. Until the merger has received all necessary approvals and the parties complete the merger, Avista and AERC will continue operating as separate entities. The companies are targeting the completion of the merger by July 1, 2014, subject to receipt of the necessary shareholder and

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regulatory approvals discussed in this document, although the parties cannot assure completion by any particular date.

Background of the Merger

The AERC Board of Directors has engaged in a regular strategic planning process, including evaluating potential strategic opportunities. On August 3, 2012, the AERC Board of Directors held a meeting with members of AERC and AEL&P management to analyze strategic alternatives for AERC. In light of the business, operations, financial condition, ownership structure, competitive position and prospects of AERC and the nature of the industry in which AERC participates, the AERC Board of Directors directed AERC's management to evaluate the potential sale of the company.

On October 11, 2012, William A. Corbus, AERC's Chairman of the Board and President, received a presentation from Stifel, Nicolaus & Company (Stifel) which he subsequently discussed with the AERC Board of Directors with respect to the environment for mergers and acquisitions in the utility market and for AERC.

On November 30, 2012 and December 7, 2012, the AERC Board of Directors held meetings with members of AERC and AEL&P management to further discuss the potential sale of AERC. Following such discussions, the AERC Board of Directors selected Stifel as its financial advisor for the proposed sale and, following the negotiation and execution of an engagement letter with Stifel on March 1, 2013, directed Stifel and AERC's management to identify and contact potential acquirors for AERC.

In early May 2013, Stifel began contacting prospective buyers regarding a sale of AERC. As part of that process, on May 23, 2013, Parker Weil, Managing Director of Stifel, contacted Mark Thies, Senior Vice President and Chief Financial Officer of Avista, to inquire about Avista's interest in an un-named regulated electric utility company located in a single Pacific Northwest state. After initial internal consideration of the potential opportunity, Kevin Christie, Senior Director of Finance of Avista, responded to Mr. Weil on May 23, 2013 requesting additional information and the proposed form of confidentiality agreement required in order to learn more about the potential opportunity.

In May and early June 2013, AERC negotiated and executed confidentiality agreements with Avista and thirteen other interested prospective acquirors and provided such prospective acquirors with certain preliminary due diligence information concerning AERC and its subsidiaries. As part of such process, Avista and AERC exchanged comments on a draft confidentiality agreement between May 23rd and May 28th, and on May 28, 2013, Avista and AERC executed a confidentiality agreement to govern the provisions of preliminary due diligence information on AERC. Between May 28th and June 14, 2013, AERC provided Avista with certain preliminary due diligence information concerning AERC and its subsidiaries.

In June 2013, AERC received confidential indications of interest from five prospective acquirors, including from Avista on June 14, 2013, outlining the principal terms and conditions by which such parties proposed to acquire AERC and its subsidiaries.

On June 21, 2013, the AERC Board of Directors held a meeting with members of AERC and AEL&P management and representatives from Stifel, Faulkner Banfield, P.C. (Faulkner), legal counsel to AERC, and Morrison & Foerster LLP (Morrison), legal counsel to AERC, to discuss the status of the sale process, evaluate the indications of interest received from prospective acquirors, analyze the characteristics of such prospective acquirors, discuss the AERC Board of Director's fiduciary duties and determine future direction regarding the proposed sale process. Following such discussion, the AERC Board of Directors directed Stifel and AERC's management to continue to negotiate with a number of prospective acquirors and request revised offers therefrom.

Between July 9, 2013 and July 16, 2013, Mr. Corbus, Timothy McLeod, AEL&P's President, Constance Hulbert, AEL&P's Vice President, Secretary and Treasurer, and Scott Willis, AEL&P's Vice President and Generation Engineer, held a series of meetings in Seattle, Washington with representatives from three prospective acquirors, including Avista on July 16, 2013, to discuss AERC's business performance, financial metrics and growth trends, and regulatory and operating environment, the feasibility of a business combination between AERC and any of such parties, and the strategic direction for a combined company.

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On July 19, 2013, the AERC Board of Directors held a meeting with members of AERC and AEL&P management and representatives from Stifel, Morrison and Faulkner to discuss the status of discussions with prospective acquirors, the characteristics of such parties and management's initial impressions thereof following the recently completed management presentations, material considerations for a transaction and the expected timeline for the sales process.

On July 31, 2013, John Cesarz, a director of Stifel, informed Mr. Christie that Avista's indication of interest was sufficient to permit Avista to continue with second round activities, including a visit to certain AERC facilities, meetings with AERC personnel and access to additional due diligence materials. The transmittal also included a form of Merger Agreement for Avista's review and comment.

Between July 31, 2013 and September 6, 2013, Avista undertook additional due diligence activities and engaged the services of selected outside advisers to assist Avista in its due diligence activities.

Between August 12, 2013 and August 16, 2013, Mr. Corbus, as well as other executives on AERC's management team, held an additional series of meetings with representatives from three prospective acquirors, including Avista, in Juneau, Alaska, to provide such parties the opportunity to conduct additional in-person diligence. As part of such meetings and Avista's due diligence activities, on August 13 and 14, 2013, Dennis P. Vermillion, Senior Vice President and President of Avista Utilities, Don F. Kopczynski, Vice President of Energy Delivery and Customer Service, Mr. Christie, together with several other representatives of Avista responsible for generation, transmission and environmental matters, made site visits to AEL&P's generating stations and service areas and participated in meetings with their counterparts at AEL&P. Their AEL&P counterparts included Mr. Corbus, Mr. McLeod, Ms. Hulbert, Mr. Willis and Eric Eriksen, AEL&P's Vice President and Transmission and Distribution Engineer.

On August 20, 2013, the AERC Board of Directors held a meeting with members of AERC and AEL&P management and representatives from Stifel, Morrison and Faulkner, to discuss the recently completed management presentations, the characteristics and management's views of prospective acquirors, and material timing and strategic considerations for a transaction.

On September 6, 2013, three potential acquirors, including Avista, submitted confidential second round bids for the acquisition of AERC and its subsidiaries.

On September 11, 2013 and September 12, 2013, the AERC Board of Directors held meetings with members of AERC and AEL&P management and representatives from Stifel, Morrison and Faulkner to discuss the status of negotiations with prospective acquirors, evaluate the features of the revised offers received from such prospective acquirors and strategic considerations related thereto, and determine future direction regarding the proposed sale process. The AERC Board of Directors discussed, among other things, the AERC Board of Directors' preferences among the prospective acquirors, the characteristics thereof, and preferred strategy with regards to each as well as the issues the AERC Board of Directors considered in determining such preferences and strategy, including without limitation, the economic, risk allocation and other terms offered, the impact of the transaction on various AERC stakeholders, certain risks related to the transaction and the certainty of completing a transaction with the various prospective acquirors. Based on the foregoing, the AERC Board of Directors viewed Avista's offer as superior to competing offers and opportunities and directed Stifel and AERC's management to negotiate primarily with Avista moving forward.

On September 16, 2013, Mr. Weil and Mr. Cesarz informed Mr. Christie that Avista had been selected as the party with which AERC wanted to pursue negotiations of a definitive merger agreement for the acquisition of AERC and its subsidiaries.

Between September 16, 2013 and November 4, 2013 Avista's management, and legal and financial advisors, worked with AERC's management, and legal and financial advisors, to finalize the terms and conditions of the Merger Agreement. Avista also continued its due diligence activities during this period.

On October 30, 2013, the Avista Board of Directors held a meeting, at which members of Avista's management provided an update as to the potential acquisition of AERC, and summarized various operational and financial aspects of AERC. Members of Avista's management also described the due diligence that had been conducted to date with respect to AERC, summarized their findings and described the transaction timeline and next

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steps. By resolutions adopted at that meeting, the Avista Board of Directors unanimously approved the merger and the Merger Agreement and authorized representatives of Avista's management to execute the Merger Agreement.

On October 31, 2013, the AERC Board of Directors held a meeting, at which members of AERC's management, Stifel and Morrison provided an update as to the potential acquisition of AERC by Avista. The AERC Board of Directors also discussed matters involving the interest of AERC and AEL&P management team in the potential transaction. The AERC Board of Directors discussed with representatives of Stifel and AERC's management the potential financial and strategic benefits that AERC shareholders might receive in a combination with Avista, as well as the potential risks related thereto, and a comparison of those risks and benefits to competing offers and opportunities. The AERC Board of Directors discussed the key items to be addressed in evaluating a combination with Avista, including the combined company strategy and organizational structure to support that strategy, the financial and other key terms of the proposed transaction, the potential impact of the transactions on stakeholders of AERC and the parties' regulatory approval strategy. The members of the AERC Board of Directors considered the information presented at the meeting and at prior meetings and, by unanimous vote, determined that the Merger Agreement and the merger were advisable and in the best interests of AERC and its shareholders, approved the plan of merger contained in the Merger Agreement, and authorized representatives of AERC's management to execute the Merger Agreement.

On November 4, 2013, Avista and AERC executed the Merger Agreement. A joint press release announcing the merger was issued on November 4, 2013.

AERC's Reasons for the Merger

In reaching its decision to approve the Merger Agreement and recommend its approval by the AERC shareholders, the AERC Board of Directors consulted with AERC's management and its legal and financial advisors, and considered a variety of factors with respect to the merger, including those matters discussed in *THE MERGER* Background of the Merger on page 31. The following discussion of the information and factors considered by the AERC Board of Directors is not exhaustive. In view of the wide variety of factors considered in connection with the merger, the AERC Board of Directors did not consider it practical, nor did it attempt, to quantify or otherwise assign relative weight to different factors it considered in reaching its decision. In addition, individual members of the AERC Board of Directors may have given different weight to different factors. The AERC Board of Directors considered this information as a whole, and overall considered it to be favorable to, and in support of, its determination and recommendations.

In addition to the interests of certain directors and executive officers of AERC (see *THE MERGER* Interests of Certain Persons in the Merger on page 34), among the material information and factors considered by the AERC Board of Directors were the following:

Alternatives to the Merger. Following a careful review of the strategic alternatives to the merger, including alternative competing offers and continuing to operate as a stand-alone entity, and in light of the current business, operations, financial condition, competitive position and prospects of AERC, and the nature of the industry in which AERC participates, none of the alternatives available to AERC are, in the view of AERC's Board of Directors, as or more favorable to AERC and its shareholders than the merger.

Consideration to be received under the terms of the Merger Agreement. The amount, type, timing, conditions, adjustments and contingencies of and with respect to the consideration to be received by the

shareholders of AERC in connection with the merger (including, without limitation, the floor and ceiling prices related to the exchange ratio with respect thereto), as well as the other financial terms of the Merger Agreement, are, in the view of AERC's Board of Directors, fair and reasonable to the shareholders of AERC and provide the shareholders of AERC with enhanced liquidity in a tax efficient manner.

Terms of the Merger Agreement. The additional terms of the Merger Agreement and other agreements referenced in the Merger Agreement, attached thereto or contemplated thereby, including, among others, the operation of the escrow and indemnification arrangements, restrictions on operations between signing and closing, and conditions to the parties' obligations to consummate the merger, are, in the view of AERC's Board of Directors, fair and reasonable to the shareholders of AERC.

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Condition and Prospects of Avista and Combined Operations. The business, operations and financial condition of Avista following the merger, including the scale, scope and geographic diversification of Avista following the merger, were superior to those of AERC on a stand-alone basis.

Management Succession and Shareholder Liquidity. Avista's experience in the utility industry, similar corporate culture and focus, and broad shareholder base and trading volume as a publicly traded NYSE listed company provided a compelling solution to the AERC Board of Directors' desire to provide its long-term shareholder base additional liquidity and address AERC management succession plans and related issues which the AERC Board of Directors had been evaluating and considering.

Impact on Stakeholders. Due to Avista's expertise and experience in managing regulated utilities, the cultural similarities between Avista and AERC, the common strategic visions for the future of AERC shared by AERC and Avista, and certain contractual assurances in the Merger Agreement increasing the likelihood of effective implementation of such strategic visions (including covenants with respect to (i) compensating, providing benefits to, and retaining the employees of AERC and its subsidiaries following the consummation of the merger (as of the date of this document, only AEL&P has employees), (ii) maintaining AERC's existing corporate offices in Juneau, Alaska and (iii) continuing the charitable contribution practices and the community support practices of AERC and its subsidiaries), the merger is expected to continue AERC's strategic focus on its stakeholders including the ratepayers, employees, shareholders and other business relationships of AERC and its subsidiaries.

Likelihood of Completion of the Merger. Each party's experience in working closely with its respective state regulators is anticipated to enhance the likelihood that the merger will be completed on a timely basis, including the likelihood that the merger will timely receive all requisite regulatory approvals without imposition of unfavorable conditions or delay that could jeopardize the parties' ability or desire to close the merger. Such profile helps mitigate the risks and costs to AERC relating to the announcement and pendency of the merger and if the closing of the merger is not timely, or if the merger does not close at all, the impact on AERC's relationships with employees, customer, suppliers, regulators and other business relationships and the costs of diverting management focus, employee attention and resources from other strategic opportunities and from operational matters while working to complete the merger.

The AERC Board of Directors believed that, overall, the potential benefits of the merger to AERC and AERC's shareholders outweighed the risks considered by the AERC Board of Directors.

The AERC Board of Directors recognized that there can be no assurance about future results, including results considered or expected as described in the factors listed above. It should be noted that this discussion of the reasoning of the AERC Board of Directors and all other information presented in this section are forward-looking in nature and, therefore, should be read in light of the factors referred to under the heading FORWARD-LOOKING STATEMENTS on page 23.

Interests of Certain Persons in the Merger

Members of the AERC Board of Directors and executive officers and employees of AERC and its subsidiaries may have interests in the merger that are different from, or are in addition to, the interests of AERC shareholders generally. The AERC Board of Directors was aware of these interests and considered them, among other matters, in approving the Merger Agreement and in determining to recommend to AERC shareholders to approve the Merger Proposal.

Continuing Service

The Merger Agreement provides that, for a period of two years following completion of the merger, employees of AERC and its subsidiaries (as of the date of this document, only AEL&P has employees) will receive compensation (including any annual incentive compensation opportunities and bonuses) and benefits (including pension and retiree medical benefits) that are each in the aggregate no less favorable than the compensation and benefits provided to such employees immediately prior to the completion of the merger. The Merger Agreement further provides that, during such time period, the employment of such employees may not be terminated absent cause (as determined by Avista in its reasonable discretion) and provides for certain other favorable provisions with respect to benefits for such individuals. Such covenants with respect to employment and benefit arrangements will

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apply to employees who are subject to a collective bargaining agreement only to the extent that such employment terms are not negotiated pursuant to such collective bargaining agreement or are negotiated pursuant to collective bargaining, but are intended to be equivalent to the employment terms, compensation and employee benefits of employees of AERC and its subsidiaries who are not subject to a collective bargaining agreement. Avista will honor the commitments of AERC and its subsidiaries under existing collective bargaining agreements.

Indemnification and Insurance

The Merger Agreement provides that, following the completion of the merger, AERC will (i) continue to fulfill and honor in all respects the obligations of AERC and any of its subsidiaries pursuant to any agreement of the foregoing providing for the indemnification of its officers or directors (which would include, without limitation, indemnification agreements entered into by the foregoing with AERC shortly prior to the signing of Merger Agreement), (ii) cause the articles of incorporation of AERC following the merger to contain the provisions with respect to exculpation from liability currently set forth in AERC's articles of incorporation and not permit any such provisions, or any provisions of the organizational documents of any subsidiary of AERC, to be amended, repealed or otherwise modified after the Closing of the merger in any manner that could adversely affect the rights thereunder of such parties and (iii) continue to maintain the level and scope of the directors' and officers' liability insurance policies maintained by AERC as of the time of the Merger Agreement for six years following the consummation of the merger subject to certain limitations on the amount of premiums payable under such policies. See THE MERGER AGREEMENT - Certain Covenants Of Avista And AERC - *Director And Officer Indemnification* on page 51 for further information.

Other Interests

William A. Corbus, an officer, director and major shareholder of AERC, and certain of his relatives have substantial ownership interests in AERC. Mr. Corbus is the largest shareholder of AERC stock, owning approximately 42.2% of AERC's outstanding shares as of April 21, 2014, the record date for the special meeting. Additionally, certain relatives of Mr. Corbus, including G. Barclay Corbus, William A. Corbus' brother and a director of AERC, and relatives thereof, additionally owned approximately 15.2% of the outstanding shares of AERC as of April 21, 2014. Mr. Corbus will also serve as the shareholders' representative under the Merger Agreement and be reimbursed for costs and expenses incurred in such capacity. Such expenses include overhead (including without limitation, reimbursement for continued rent payments for Mr. Corbus' office) and legal expenses. Certain other directors, executive officers and/or employees of AERC and/or its subsidiaries, or the relatives or affiliates thereof, also hold ownership interests in the Company. See SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF AERC on page 56 for further information regarding the beneficial ownership of the executive officers and directors of AERC. The merger transaction has been structured to limit the tax impact of the merger and to provide liquidity. While AERC believes that these attributes should benefit all AERC shareholders, they will be of particular value to the foregoing individuals given the magnitude of their shareholdings.

Avista's Reasons for the Merger

In evaluating the merger and the Merger Agreement, the Avista Board of Directors consulted with Avista's management and legal and financial advisors, and considered a variety of factors with respect to the merger, including those matters discussed below. In view of the wide variety of factors considered in connection with the merger, the Avista Board of Directors did not consider it practical, nor did it attempt, to quantify or otherwise assign relative weight to different factors it considered in reaching its decision. In addition, individual members of the Avista Board of Directors may have given different weight to different factors. The Avista Board of Directors considered this information as a whole, and overall determined that proceeding with the merger was in the best interests of Avista and its shareholders.

The Avista Board of Directors considered a number of factors pertaining to the rationale for the merger, including the following:

Increased Scale and Scope. Acquiring AERC, and specifically AEL&P, is consistent with Avista's strategy of growing its utility operations in a manner that provides long-term and stable benefits to Avista's customers, employees, shareholders and the communities it serves. Both Avista and AERC have vertically integrated electric utility operations with extensive experience in

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hydroelectric and thermal operations. The combined company will have more geographic diversity with the addition of Alaska electric utility operations.

Improved Business Risk Profile. The combined company would be expected to have an improved business risk profile due to the increased proportion of regulated earnings and cash flows following completion of the merger.

Cultural Fit. The assets, operations and culture of Avista and AERC and AEL&P are a good fit. Both companies have a similar focus on providing reliable service to customers with a high level of customer satisfaction and cost-effective pricing, providing opportunities for employees, earning a reasonable return for shareholders, and being involved in, and supportive of, the communities the companies serve.

Management Following the Merger

Neither the Avista Board of Directors nor the executive officers of Avista will change with the consummation of the merger. Information about Avista's Board of Directors and executive officers, including biographical information, executive compensation and relationships and related transactions between management and Avista, can be found in Avista's proxy statement for the 2014 annual meeting of shareholders and annual report on Form 10-K for the fiscal year ended December 31, 2013, both of which are filed with the SEC and incorporated by reference herein. For more details about how you can obtain copies of Avista's proxy statement and Form 10-K, see **WHERE YOU CAN FIND MORE INFORMATION ABOUT AVISTA** on page 65.

Indemnification and Insurance

The Merger Agreement provides that, following the completion of the merger, AERC as the surviving company will maintain the existing indemnification agreements of AERC or its subsidiaries providing for the indemnification of AERC officers or directors, maintain certain other indemnification rights and provide for a directors' and officers' liability insurance policy providing comparable coverage to the directors' and officers' liability insurance policy in place immediately prior to the execution of the Merger Agreement for all current and former directors and officers of AERC for a period of six years from the Closing Date. See **THE MERGER AGREEMENT - Certain Covenants Of Avista And AERC Director And Officer Indemnification** on page 51.

Listing of Avista Common Stock

The Merger Agreement provides that the sales of Avista common stock to be issued to AERC shareholders in connection with the merger shall be approved for listing on the NYSE, subject to official notice of issuance.

Dividends

Subject to approval by the AERC Board of Directors, AERC anticipates continuing to pay regular quarterly dividends until the merger is consummated.

The parties agreed in the Merger Agreement that prior to the Closing, AERC will use its commercially reasonable efforts to pay one or more special dividends to its shareholders and/or prepay indebtedness in an aggregate amount of at least \$8 million less aggregate out-of-pocket fees paid to brokers, financial advisors, accountants and legal advisors by AERC in connection with the merger. An initial special dividend of an aggregate \$4 million was paid to AERC

shareholders on December 1, 2013, and AERC currently anticipates paying a second special dividend in an amount to be determined shortly before the Closing in order to satisfy such contractual obligations under the Merger Agreement.

If the merger is completed, as holders of Avista common stock, former AERC shareholders will receive dividends when and as declared by the Avista Board of Directors and paid on all shares of Avista common stock. See **RISK FACTORS** **Risks Related To An Investment In Avista Common Stock** on page 18 and **MARKET INFORMATION** **DIVIDENDS** on page 14.

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Material U.S. Federal Income Tax Considerations

The following is a general summary of the material U.S. federal income tax consequences of the merger to AERC shareholders that are U.S. persons (as defined below) and that receive shares of Avista common stock in exchange for their shares of AERC stock in the merger. This discussion and the opinions of counsel referred to below are based on the Code, Treasury Regulations promulgated thereunder, administrative interpretations thereof and court decisions, all of which are subject to change, possibly with retroactive effect, as of the date of the registration statement on Form S-4 of which this information statement/prospectus is a part. Any such change could affect the accuracy of the statements below regarding the U.S. federal income tax consequences of the merger.

This discussion applies only to AERC shareholders that are U.S. persons (as defined below) that hold their shares of AERC stock, and will hold the shares of Avista common stock received in exchange therefor, as capital assets within the meaning of Section 1221 of the Code. This discussion does not address all U.S. federal income tax consequences of the merger that may be relevant to a particular AERC shareholder, including a shareholder that is subject to special tax rules. Some examples of shareholders that are subject to special tax rules are:

dealers in securities;

banks and other financial institutions;

insurance companies;

mutual funds, regulated investment companies and real estate investment trusts;

tax-exempt organizations;

shareholders whose shares are part of a position in a straddle or are part of a hedging, conversion or constructive sale transaction;

shareholders that have a functional currency other than the U.S. dollar;

shareholders that are not U.S. persons;

shareholders that own their shares indirectly through partnerships, S corporations, trusts or other entities that may be subject to special treatment; and

shareholders that acquired their shares of AERC stock through the exercise of stock options or otherwise as compensation, or through tax qualified retirement plans.

This discussion does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction, or U.S. federal taxes other than regular income taxes (for example, estate and gift taxes or the alternative minimum tax). This discussion also does not address the tax consequences of transactions undertaken prior to or in connection with the merger, including the receipt of any dividends from AERC, the exercise of options or the conversion of convertible stock or securities, any tax consequences arising under the unearned income Medicare contribution tax pursuant to the Health Care and Education Reconciliation Act of 2010, or the tax consequences for any AERC shareholder that exercises dissenters' rights in connection with the merger.

If a partnership or other entity treated as a partnership for U.S. federal income tax purposes holds shares of AERC stock, the tax treatment of a partner generally will depend on the status of the partner and on the activities of the partnership. Partnerships (and other entities treated as partnerships for U.S. federal income tax purposes) that own AERC stock and partners of partnerships (and owners of other such entities) that hold AERC stock are urged to consult their own tax advisors about the tax consequences of the merger to them.

For purposes of this discussion, a U.S. person means:

an individual citizen or resident of the United States, as determined for U.S. federal income tax purposes;

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a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

a trust, the substantial decisions of which are controlled by one or more United States persons (as defined in the Code) and which is subject to the primary supervision of a U.S. court, or a trust that has elected under applicable Treasury Regulations to be treated as a United States person for U.S. federal income tax purposes; or

an estate that is subject to U.S. federal income tax on its income regardless of its source.

Holders of AERC stock that are not U.S. persons may have different U.S. federal income tax consequences than those described below and are urged to consult their own tax advisors regarding the tax treatment of the merger to them under U.S. and non-U.S. tax laws.

AERC shareholders are urged to consult their own tax advisors as to the specific tax consequences to them of the merger, including the applicability and effect of any state, local or foreign tax laws and of changes in applicable tax laws.

U.S. Federal Income Tax Consequences of the Merger

The merger has been structured to qualify as a reorganization within the meaning of Section 368(a) of the Code. In connection with this information statement/prospectus, Avista has received a tax opinion from Davis Wright Tremaine LLP and AERC has received a tax opinion from Morrison & Foerster LLP, each dated as of the date of this information statement/prospectus, to the effect that the merger will qualify as a reorganization (together, the Tax Opinions).

However, completion of the merger is not conditioned upon the delivery of any additional opinions from counsel dated as of the closing date of the merger, or any other determinations as of such date, that the merger will qualify as a reorganization. In addition, neither Avista nor AERC intends to obtain a ruling from the Internal Revenue Service with respect to the U.S. federal income tax consequences of the merger, and the Tax Opinions will not bind the courts or preclude the Internal Revenue Service from adopting a position contrary to those expressed therein. Moreover, the Tax Opinions themselves are based on representation letters provided by Avista and AERC and on certain factual assumptions, including the assumption that, if any AERC shareholders dissent from the merger, the aggregate number of dissenting shares they hold and the aggregate amount of cash paid to them will not equal or exceed such number and amount as would cause the merger to fail to constitute a reorganization. If any of the representations or assumptions on which the Tax Opinions are based proves incorrect, either in whole or in part (and regardless of whether such inaccuracy has occurred or occurs as of the date of this information statement/prospectus or thereafter), the merger may not qualify as a reorganization.

Assuming the merger qualifies as a reorganization within the meaning of Section 368(a) of the Code, the following are the anticipated material U.S. federal income tax consequences to AERC shareholders who exchange their shares of AERC stock for shares of Avista common stock pursuant to the merger:

An AERC shareholder generally will not recognize gain or loss on the receipt of Avista common stock upon the consummation of the merger. However, an AERC shareholder generally will

recognize gain (but not loss) with respect to such shareholder's pro rata share of the expense fund established for the Shareholders' Representative (which pro rata share will be treated for U.S. federal income tax purposes as if it had been received by such AERC shareholder upon consummation of the merger). Expenditures on behalf of an AERC shareholder paid out of the expense fund will be treated as expenses incurred by such shareholder, and any subsequent release of unexpended funds to such shareholder will not result in additional income to such shareholder. Deductions for expenses related to the merger may be subject to limitations.

Cash received by an AERC shareholder in lieu of a fractional share of Avista common stock upon the consummation of the merger or from the escrow fund will be treated as received in exchange for that fractional share, and gain or loss generally will be recognized for U.S. federal income tax purposes on the receipt of such cash equal to the difference between the amount of cash received and the portion of the tax basis of such shareholder's AERC stock allocable to such fractional

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share. Such gain or loss will be long-term capital gain or loss if the AERC stock exchanged in the merger has been held for more than one year at the time of the merger.

An AERC shareholder generally should not recognize gain or loss on the receipt of Avista common stock released from the escrow fund and should recognize gain (but not loss) on the receipt of cash released from the escrow fund, except to the extent such amounts constitute cash received in lieu of a fractional share of Avista common stock (as discussed above) or interest income (as discussed below). Although unlikely, alternative characterizations of the escrow fund are possible for U.S. federal income tax purposes. In particular, the Internal Revenue Service could assert an AERC shareholder's right to receive Avista common stock and cash representing dividends paid and interest accrued thereon, in itself, constitutes the taxable receipt by such shareholder of property other than Avista common stock, in which case such shareholder generally would recognize gain (but not loss) with respect to the receipt of such right upon the consummation of the merger. AERC shareholders are urged to consult their own tax advisors regarding the treatment of the escrow fund and amounts released from it. The remainder of this discussion assumes an AERC shareholder's right to receive Avista common stock and cash from the escrow fund, in itself, will not be taxable upon the consummation of the merger.

Cash released to an AERC shareholder from the escrow fund will be reported to the Internal Revenue Service as interest to the extent it represents interest accrued on cash held in escrow during the escrow period. In addition, in the event Avista common stock and cash are released from escrow more than one year after the merger, a portion of such cash and, under certain limited circumstances, a portion of such Avista common stock, also will be reported as interest.

Each AERC shareholder's aggregate tax basis in the Avista common stock received pursuant to the merger (including, for this purpose, such shareholder's allocable share of Avista common stock placed in the escrow fund) generally will be the same as the aggregate tax basis in the AERC stock surrendered in exchange therefor, increased by the amount of any gain recognized in the merger, and decreased by (i) any cash received or treated as having been received for such AERC stock (other than cash received in lieu of a fractional share of Avista common stock) and (ii) the amount of any tax basis allocable to any fractional share of Avista common stock for which cash is received. If any shares of Avista common stock held in the escrow fund are released to Avista, each AERC shareholder will be required to recompute the tax basis of any remaining shares owned by such shareholder and, under certain circumstances, may be entitled to claim a capital loss if shares of Avista common stock were disposed of before such release. The holding period of Avista common stock received pursuant to the merger (including, for this purpose, Avista common stock released from the escrow fund) generally will include the holding period of the AERC stock surrendered in exchange therefor. If an AERC shareholder has differing tax bases or holding periods in respect of such shareholder's AERC stock, such shareholder should consult with a tax advisor in order to identify the tax bases and holding periods of the particular shares of Avista common stock that the shareholder receives.

If the merger failed to qualify as a reorganization, the merger would be a fully taxable transaction. In that event, each AERC shareholder generally would recognize gain or loss for U.S. federal income tax purposes equal to the amount by which the sum of the fair market value of the Avista common stock and cash received (or treated as received) by such shareholder exceeded the aggregate tax basis in the AERC stock surrendered in exchange therefor. AERC

shareholders are urged to consult their own tax advisors regarding the possibility of the merger failing to qualify as a reorganization and the tax consequences of such event. The remainder of this discussion assumes the merger will qualify as a reorganization.

Recordkeeping, Information Reporting, Backup Withholding and FIRPTA Withholding

An AERC shareholder will be required to retain records pertaining to the merger. Each AERC shareholder who is required to file a U.S. federal income tax return and who is a significant holder that receives shares of Avista common stock generally will be required to file a statement with such shareholder's U.S. federal income tax return setting forth the names and employer identification numbers of Avista and AERC, the date of the merger, and such shareholder's tax basis in, and the fair market value of, the AERC stock surrendered in the merger. A significant holder is a shareholder who, immediately before the merger, owned either (i) at least 1% (by vote or

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value) of the outstanding stock of AERC or (ii) securities of AERC with a tax basis of \$1,000,000 or more and received Avista common stock in the merger.

Certain shareholders may be subject to information reporting with respect to the cash received in lieu of a fractional share of Avista common stock, treated as received with respect to the Shareholders' Representative expense fund or received in connection with the release of Avista common stock from the escrow fund. Shareholders who are subject to information reporting and who do not provide appropriate information on an IRS Form W-9 (or substitute Form W-9) when requested may also be subject to backup withholding currently at a rate of 28%, as well as penalties. Any amount withheld under the backup withholding rules is not an additional tax and may be refunded or credited against such shareholder's U.S. federal income tax liability provided that the required information is properly furnished by the AERC shareholder in a timely manner to the Internal Revenue Service.

Under the Foreign Investment in Real Property Tax Act (FIRPTA), the disposition of United States real property interests (USRPIs), including stock in certain U.S. corporations that own significant amounts of USRPIs (such corporations being referred to as United States real property holding corporations or USRPHCs), by an AERC shareholder who is not a United States person (within the meaning of the Code) is generally subject to withholding at a rate of 10% of the gross amount of consideration received in the disposition. Withholding is not required if appropriate certifications as to the shareholder's non-foreign status are provided. Due to uncertainty regarding whether AERC may currently be, or at some point during the relevant period prior to the merger may have been, a USRPHC, AERC shareholders who do not provide the requested certification as to their status as United States persons will be subject to FIRPTA withholding in an amount equal to 10% of the gross proceeds that they otherwise would have been entitled to receive in the merger. Any amount withheld under the FIRPTA rules is not an additional tax, and in the case of a United States person, may be refunded or credited against such shareholder's U.S. federal income tax liability, provided that the required information is properly furnished to the Internal Revenue Service by the AERC shareholder in a timely manner.

This discussion of material U.S. federal income tax consequences is for general information only and does not constitute tax advice. Holders of AERC stock are urged to consult their own tax advisors with respect to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the U.S. federal estate, gift, alternative minimum and unearned Medicare contribution tax rules or under the laws of any state, local, foreign or other taxing jurisdiction.

Accounting Treatment

Avista will account for the merger as an acquisition of the business, which requires the assets and liabilities of AERC to be measured and recorded at their fair value. Such assets and liabilities, as so measured and recorded, will be included on the balance sheet of Avista and its consolidated subsidiaries. The results of operations of AERC will be included on the income statement of Avista and its consolidated subsidiaries from and after the effective time that control of AERC transfers to Avista, which will occur on the date of the merger. The business combination will be accounted for by applying what is referred to as the acquisition method, as described in Accounting Standards Codification Section 805-Business Combinations.

Dissenters' Rights of AERC Shareholders

If the Merger Agreement is approved by the required vote of AERC shareholders and is not abandoned or terminated, holders of AERC common stock who did not approve the merger by voting their shares in favor of the Merger Proposal at the special shareholders meeting may, by complying with Section 574 and 576 of the Alaska Corporations Code, be entitled to dissenters' rights as described therein and, if the merger is consummated, receive cash for the fair

market value of their AERC common stock. The record holders of the shares of AERC common stock that are eligible to, and do, exercise their dissenters' rights with respect to the merger are referred to herein as dissenting shareholders, and the shares with respect to which they exercise dissenters' rights are referred to herein as dissenting shares.

Please note that if you wish to receive your portion of the Merger Consideration set forth in the Merger Agreement and do not intend to exercise your dissenters' rights, you do not need to take any action with respect to the information and materials set forth under this section, Dissenters' Rights of AERC Shareholders.

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The following discussion is not a complete statement of the law pertaining to dissenters' rights under the Alaska Corporations Code and is qualified in its entirety by reference to Sections 574 through 582 of the Alaska Corporations Code, the full text of which are attached to this information statement/prospectus as Annex C and incorporated herein by reference. Annex C should be reviewed carefully by any AERC shareholder who wishes to exercise dissenters' rights or who wishes to preserve the right to do so, since failure to comply with the procedures of the relevant statute will result in the loss of dissenters' rights. The following discussion does not constitute any legal or other advice, nor does it constitute a recommendation that AERC shareholders exercise their dissenters' rights.

ANY HOLDER OF AERC COMMON STOCK WISHING TO EXERCISE DISSENTERS' RIGHTS IS URGED TO CONSULT LEGAL COUNSEL BEFORE ATTEMPTING TO EXERCISE SUCH RIGHTS. TO PERFECT AND EXERCISE SUCH RIGHTS, DISSENTING SHAREHOLDERS MUST STRICTLY FOLLOW THE SPECIFIC PROCEDURES AND TIMELINES PRESCRIBED BY THE ALASKA CORPORATIONS CODE. FAILURE TO TIMELY FOLLOW THE STEPS REQUIRED FOR PERFECTING DISSENTERS' RIGHTS MAY RESULT IN THE LOSS OF THESE RIGHTS.

In order to exercise the right to dissent, a shareholder must satisfy each of the following requirements under Alaska law:

the shares of AERC common stock must have been outstanding and held of record by the dissenting shareholder on April 21, 2014, the record date for the special meeting of shareholders at which the Merger Proposal is being submitted to a vote;

the shareholder must file with AERC, before or at the special meeting of shareholders at which the Merger Proposal is submitted to a vote, a written objection to the Merger Proposal, including a notice of election to dissent, the shareholder's name and residence address, the number and classes of shares as to which the shareholder dissents, and a demand for payment of the fair value of the shares if the action is taken; and

at the time of filing the notice of election to dissent, or within thirty days thereafter, the shareholder must submit to AERC or its transfer agent stock certificates representing the shares for which dissenters' rights are claimed, if certificates have been issued, and AERC or its transfer agent will note on the certificate that an election to dissent has been made with respect to such shares.

Unless a court, for good cause shown, otherwise directs, a dissenting shareholder who fails to comply with the requirement to return such dissenting shareholder's stock certificate loses the right to dissent granted by Sections 574 through 582 of the Alaska Corporations Code, if the surviving company gives written notice that the dissenting shareholder's right to dissent will be lost within forty-five days from the date that such dissenting shareholder filed the notice of election to dissent. Voting against the Merger Proposal or abstaining from voting for the Merger Proposal does not in and of itself constitute a demand for appraisal under Alaska law.

Pursuant to Section 576 of the Alaska Corporations Code, within ten days of the shareholder vote authorizing the transaction, AERC is required to give written notice of such shareholder approval to all shareholders who have filed an election to dissent and any shareholders who did not vote in favor of the Merger Proposal and was not given notice of the meeting. If a shareholder did not receive notice of the AERC special meeting in accordance with the Alaska Corporations Code, that shareholder is excused from filing an election to dissent at or before the special meeting of

the shareholders, but instead must file a written election of dissent within twenty days of receiving such written notice from AERC of the shareholder vote authorizing the merger.

Upon completion of the merger, all shareholders who have made an election to dissent with regard to the merger will cease to have the rights of a shareholder and instead will have only the right to be paid the fair value for the shares of AERC common stock for which dissenter's rights are perfected under the Alaska Corporations Code.

A dissenting shareholder may withdraw its election to dissent within sixty days of the Closing Date, so long as such shareholder has not already accepted a settlement payment for the fair market value of the shares. In order to be effective, any such withdrawal must be accompanied by the return of any advance payment previously made by the surviving company to such dissenting shareholder. The period for withdrawal may be extended for sixty days from the date an offer is made to the dissenting shareholders for payment of the fair value. A shareholder may not

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withdraw its election to dissent following the expiration of such period without the consent of the surviving company.

Pursuant to Section 578 of the Alaska Corporations Code, within fifteen days after the Closing Date, or within fifteen days after the expiration of the period within which dissenting shareholders may file their notice of election to dissent, whichever is later, the surviving company is required to make a written offer to all dissenting shareholders to pay the amount the surviving company estimates to be the fair value of the shares of AERC common stock. The offer is to be made at the same price to all shareholders, and must be accompanied by:

the most recent balance sheet of AERC produced in the twelve months before such offer;

a profit and loss statement of AERC for at least the twelve months preceding the date of the balance sheet;

a statement of the total number of shares with respect to which notices of election to dissent have been received and the total number of dissenting shareholders;

a copy of Sections 578 and 580 of the Alaska Corporations Code; and

advance payment of the estimated fair value offered for the shares (or a notice of the amount of the advance payment if the dissenting shareholder has not yet submitted such shares), with a notice advising the dissenting shareholder that acceptance of such amount is not a waiver of dissenters rights under the Alaska Corporations Code.

If a dissenting shareholder does not object to the payment offered within thirty days after the advance payment is made to such dissenting shareholder, the dissenting shareholder will be deemed to have accepted the offered payment as fair value for the AERC common stock.

If the surviving company fails to make the offer of its estimated fair value for the shares or if the dissenting shareholder rejects the offer within the thirty day period described above, then within twenty days after the expiration of such thirty day period, the surviving company must file a petition in the Juneau Superior Court requesting that the fair value of the shares be determined. If the surviving company fails to file such a petition, a dissenting shareholder may file such a petition within thirty days after the expiration of the twenty day period in which the surviving company had an obligation to file such petition. All dissenting shareholders who have rejected the offer from the surviving company for payment of estimated fair value will be made a party to the action, and the court shall determine the fair value of the shares as of the close of business on the day before the vote was taken to approve the merger. Payment of the fair value as determined by the court must be made by the surviving company to those dissenting shareholders who were a party to such court action within sixty days after the final determination of the proceeding. The jurisdiction of the court shall be plenary and exclusive.

In determining the fair market value of the dissenting shares, the court may appoint one or more impartial appraisers to make the determination and grant them such power and authority as the court may specify in the order of appointment. The fair value determination will include a rate of interest deemed fair and equitable by the court from the date on which the vote was taken until the payment date, provided that the court is not required to provide for

interest to be paid if the court believes the dissenting shareholder's refusal to accept the offer of estimated fair value from the surviving company was arbitrary, vexatious or otherwise in bad faith.

Each party must bear its own costs and expenses relating to the appraisal action. However, the court may require the dissenting shareholders to pay all or part of the costs and fees of the surviving company if the court determines that the refusal to accept the surviving company's offer of fair value was arbitrary, vexatious or otherwise in bad faith. Likewise, if the court determines the fair value offered was materially less than the fair value for the shares determined by the court, if the surviving company failed to make an offer or a required advance payment to the dissenting shareholders or timely institute certain special proceedings, or if the action of the surviving company in complying with its obligations as provided in Sections 574 through 582 of the Alaska Corporations Code was arbitrary, vexatious, or otherwise in bad faith, the court may require the surviving company to pay part or all of the costs and fees of the dissenting shareholders.

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AERC shareholders considering whether to exercise dissenters' rights should consider that the fair value of their AERC common stock determined under Section 578 or Section 580 of the Alaska Corporations Code could be more than, the same as or less than the value of Merger Consideration to be paid in connection with the merger, as set forth in the Merger Agreement. In fixing the fair value of the shares, the court will consider the nature of the transaction giving rise to the right to dissent, its effects on the surviving company and the AERC shareholders, the concepts and methods customary in the relevant securities and financial markets for determining the fair value of shares of a corporation engaging in a similar transaction under comparable circumstances, and other relevant factors. Also, AERC reserves the right to assert in any appraisal proceeding that, for purposes thereof, the fair market value of AERC common stock is less than the value of the Merger Consideration to be issued and paid in connection with the merger, as set forth in the Merger Agreement.

Strict compliance with certain technical prerequisites is required to exercise dissenters' rights. AERC shareholders wishing to exercise dissenters' rights should consult with their own legal counsel in connection with compliance with the dissenters' rights provisions of the Alaska Corporations Code. Any AERC shareholder who fails to comply with the requirements of the dissenters' rights provisions of the Alaska Corporations Code, attached as Annex C to this information statement/prospectus, will forfeit the right to exercise dissenters' rights and will, instead, receive the Merger Consideration to be issued and paid in connection with the merger, as set forth in the Merger Agreement.

Capital Structure Following the Merger

If the merger is completed, Avista intends to cause AERC and AEL&P to incur additional indebtedness so that, after the merger, the consolidated capital structure of AERC would more closely resemble the consolidated capital structure of Avista before the merger.

Principal Corporate Offices

Following the merger, Avista will maintain its current headquarters in Spokane, Washington, but has also agreed to maintain the current headquarters of AERC for a period of at least two years following the Closing.

Resale of Avista Common Stock

Shares of Avista common stock received in the merger by any AERC shareholder who becomes an affiliate of Avista upon or after completion of the merger (such as AERC officers who become officers of Avista after the merger) may be subject to restrictions on transfer arising under the Securities Act following completion of the merger. This document does not cover resales of shares of Avista common stock received by any person upon completion of the merger, and no person is authorized to make any use of this document in connection with any resale.

REGULATORY MATTERS

To complete the merger, Avista and AERC must obtain approvals or consents from, or make filings with, a number of United States federal and state public utility and antitrust authorities. The material United States federal and state approvals, consents and filings are described below. Avista and AERC are not currently aware of any other material governmental consents, approvals or filings that are required prior to the parties' completion of the merger other than those described below. If additional approvals, consents and filings are required to complete the merger, Avista and AERC contemplate seeking or making such consents, approvals and filings.

Avista and AERC will seek to complete the merger by July 1, 2014. Although Avista and AERC believe that they will receive the required consents and approvals described below to complete the merger, the parties cannot give any

assurance as to the timing of these consents and approvals or as to Avista's and AERC's ultimate ability to obtain such consents or approvals (or any additional consents or approvals which may otherwise become necessary) or that the parties will obtain such consents or approvals on terms and subject to conditions satisfactory to Avista and AERC.

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Hart-Scott-Rodino Antitrust Improvement Act

The merger is subject to the requirements of the HSR Act and the related rules and regulations, which provide that certain acquisition transactions may not be completed until required information has been furnished to the Antitrust Division of the Department of Justice and the Federal Trade Commission (the "FTC") and until certain waiting periods have been terminated or have expired. Avista and AERC provided the required information to the Department of Justice and the FTC on November 26, 2013 and received notice of early termination of the waiting period on December 6, 2013. The early termination of the waiting period does not preclude the Antitrust Division or the FTC from challenging the merger on antitrust grounds and seeking to preliminarily or permanently enjoin the merger. Neither Avista nor AERC believes that the merger will violate federal antitrust laws, but the parties cannot guarantee that the Antitrust Division or the FTC will not take a different position. If the parties do not complete the merger within 12 months after the termination of the HSR Act waiting period, Avista and AERC will need to submit new information to the Antitrust Division and the FTC and wait for the expiration or early termination of a new HSR Act waiting period before the parties could complete the merger.

State Regulatory Approval

Avista is currently subject to regulation by the utility commissions of Washington, Idaho, Oregon and Montana. AEL&P is currently subject to regulation by the utility commission of Alaska. State utility commission approval of the issuance of securities in the merger is required by the UTC, the IPUC and the OPUC, and approval of the merger is required by the RCA. The Montana Public Service Commission has advised Avista that its approval is not required. The following subheadings contain a brief description of the required state regulatory commission approvals for the completion of the merger.

Washington Utilities and Transportation Commission

Under Washington law, in order to have the authority to issue additional shares of common stock in the merger and to provide management and other services to AERC and AEL&P after the merger, Avista is required to demonstrate to the UTC that such issuance would be in compliance with the requirements of state law and that Avista has complied with regulatory requirements with respect to the provision of such services. On December 4, 2013, Avista filed an application with the UTC demonstrating such compliance and seeking an order confirming such compliance. The application provided a description of the proposed transaction, including the expected recapitalization of AERC and AEL&P after the merger. On December 12, 2013, the UTC issued an order that confirms such compliance and evidences all necessary authority under Washington law.

Idaho Public Utilities Commission

Under Idaho law, in order to have the authority to issue additional shares of common stock in the merger, Avista is required to seek and receive from the IPUC an order approving such issuance. On December 4, 2013, Avista filed an application with the IPUC seeking such an order. The application provided a description of the proposed transaction, including the expected recapitalization of AERC and AEL&P after the merger. On March 3, 2014, the IPUC issued such an order.

Public Utility Commission of Oregon

Under Oregon law, in order to have authority to issue additional shares of common stock in the merger and to provide management and other services to AERC and AEL&P after the merger, Avista is required to seek and receive from the OPUC an order approving such issuance and the provision of such services. On December 4, 2013, Avista filed an

application with the OPUC seeking such an order. The application provided a description of the proposed transaction, including the expected recapitalization of AERC and AEL&P after the merger. On April 10, 2014, the OPUC issued such an order.

Regulatory Commission of Alaska

Under Alaska law, authority granted by the RCA is required for a controlling interest in AEL&P, as a subsidiary of AERC, to be acquired by Avista. On December 4, 2013, Avista and AERC jointly filed an application with the RCA seeking an order granting such authority. The application provided background on each of the companies, a description of the proposed transaction, including the expected recapitalization of AERC and AEL&P

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after the merger, and Avista's intended oversight of the operations of AEL&P following the merger, a discussion of the expected impact of the proposed transactions on the respective customers of Avista and AEL&P, and a statement regarding the fitness, willingness and ability of Avista to satisfy AEL&P's public service obligations such that the acquisition is in the public interest. By law, the RCA must act on this application within six months of its submission.

THE MERGER AGREEMENT

Below is a summary of the Merger Agreement, which is attached to this information statement/prospectus as Annex B and is incorporated by reference into this document. You should read the Merger Agreement in addition to this Summary.

Cautionary Statement Concerning Representations and Warranties Contained in the Merger Agreement

The Merger Agreement, this summary of its terms and disclosures about and regarding other agreements included or incorporated by reference in this information statement/prospectus are included to provide investors and shareholders with information regarding the terms of the Merger Agreement and such other agreements, and are not intended to modify any other factual disclosures about Avista, AERC or the other parties to the agreements made in filings with the SEC. The Merger Agreement contains representations and warranties made by each of the parties and other agreements likewise may contain representations and warranties made by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement, and not for the purpose of providing information to be relied upon by shareholders of Avista or AERC. Accordingly, in reviewing the representations and warranties in the Merger Agreement or such other agreements and the descriptions of them included or incorporated by reference in this information statement/prospectus, it is important to bear in mind that the representations and warranties: should not be treated as categorical statements of fact, but rather as a way of allocating risk between the parties; have in some cases been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement; may apply standards of materiality in a way that is different from what may be material to investors; were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and will not be revised notwithstanding more recent developments; and may not describe the actual state of affairs as of the date they were made or at any other time. Information about Avista can be found elsewhere in this information statement/prospectus and in other public filings Avista makes with the SEC. Information about AERC can also be found elsewhere in this information statement/prospectus.

General

The Boards of Directors of both Avista and AERC have unanimously approved the Merger Agreement, which provides for the acquisition by Avista of AERC through the merger. The merger will result in Merger Sub, an Alaska corporation and wholly-owned subsidiary of Avista, merging with and into AERC, so that AERC, as the surviving entity, will become a wholly-owned subsidiary of Avista. The merger will become effective upon the filing of the agreement of merger and other appropriate documents with the Division of Corporations, Business & Professional Licensing of the Department of Commerce, Community and Economic Development of the State of Alaska, as referenced in the Merger Agreement. In exchange for their shares of AERC common stock, AERC shareholders will receive shares of Avista common stock. AERC shareholders will not have any direct equity ownership interest in the surviving company.

Merger Consideration; Conversion of Shares in the Merger

The Merger Consideration is equal to \$170 million, (a) increased by the amount of cash and cash equivalents of AERC and any AERC subsidiary as of immediately prior to the Closing (prior to the payment of any transaction expenses by AERC), (b) decreased by the amount of outstanding indebtedness immediately prior to the Closing under certain loans outstanding to AERC, but not including (i) inter-company indebtedness among AERC and any subsidiary of AERC or (ii) amounts owing by AERC or any subsidiary of AERC pursuant to certain agreements related to the Snettisham hydroelectric project, (c) decreased by the amount of certain transaction expenses payable by AERC, (d) decreased by the \$500,000 cash deposit to an account for reimbursement of expenses to the Shareholders Representative, (e) if the estimated net working capital of AERC at the Closing exceeds the target net working capital agreed to by the parties in the Merger Agreement, increased by the amount of

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such excess, and (f) if target net working capital agreed to by the parties in the Merger Agreement exceeds the estimated net working capital at the Closing, decreased by the amount of such excess. Based on current estimates of the adjustments referred to in clauses (a) through (f) above, the Merger Consideration (as adjusted) is estimated to be approximately \$145 million. The Merger Consideration of \$170 million (before adjustments) includes goodwill of approximately \$48 million.

After the Closing of the merger, the parties will determine AERC's actual net working capital as of the Closing, and, (a) if such amount exceeds the estimated net working capital at the Closing, Avista will issue to the AERC shareholders the amount of such excess in the form of additional shares of Avista common stock valued at the Conversion Price and (b) if the estimated net working capital at the Closing exceeds such amount, such amount shall be released to Avista from the escrow fund in the form of additional shares of Avista common stock valued at the Conversion Price.

AERC had 114,504 shares of common stock outstanding at April 21, 2014, the record date for the special meeting. Assuming no change in this number of shares at the Closing Date of the merger, the Merger Consideration, as estimated above, for each share of AERC common stock (the AERC Per Share Amount) would be approximately \$1,266.33, payable in shares of Avista common stock. For this purpose, except as noted below, shares of Avista common stock will be valued at the Avista Average Closing Price, which is the average closing price of Avista common stock as reported on the composite tape for the ten trading days immediately preceding but not including the trading day prior to the Closing Date.

Each share of AERC common stock will be converted into a number of shares of Avista common stock equal to the actual AERC Per Share Amount divided by the Conversion Price, which is (i) \$21.48, if the Avista Average Closing Price is less than or equal to \$21.48, (ii) the Avista Average Closing Price, if the Avista Average Closing Price is greater than \$21.48 and less than \$34.30 or (iii) \$34.30, if the Avista Average Closing Price is greater than or equal to \$34.30.

For example, if the AERC Per Share Amount were \$1,266.33 per share and the Avista Average Closing Price were \$27.50, each share of AERC common stock would be converted into 46.05 shares of Avista common stock. As described further below, approximately 90% of such amount would be payable in connection with the Closing and approximately 10% of such amount would be deposited into an escrow fund. See THE MERGER AGREEMENT - ESCROW FUND on page 46.

As noted above, the Merger Consideration is subject to the adjustments referred to in clauses (a) through (f) in the first paragraph of this subsection, as well as the post-Closing net working capital adjustments referred to in the second paragraph of this subsection, and cannot be determined with any degree of certainty at this time. In addition, the number of AERC shares outstanding may change, although any such change is not expected at this time to be material. Finally, the market price of Avista common stock cannot be predicted. See Forward-Looking Statements on page 23, Risk Factors - Risks Relating to an Investment in Avista Common Stock on page 18 and MARKET INFORMATION AND DIVIDENDS on page 14.

Fractional Shares

No fractional shares of Avista common stock will be issued in connection with the merger and no dividends or other distributions with respect to the Avista common stock will be payable on or with respect to any fractional share. Specifically, no fractional shares of Avista common stock will be issued to former AERC shareholders at the Closing of the merger, and no fractional shares of Avista common stock will be deposited in or released from the escrow fund. In lieu of the issuance of any such fractional share, Avista will pay to each former AERC shareholder who otherwise

would be entitled to receive a fractional share of Avista common stock, or deposit in the escrow fund, an amount in cash (without interest) determined by multiplying (a) the fraction of a share of Avista common stock which such holder would otherwise be entitled to receive (aggregating all fractional shares such holder would otherwise be entitled to receive at such time) by (b) the Conversion Price.

Escrow Fund

At the Closing, Avista will deduct from the Merger Consideration payable to AERC shareholders and deposit with Computershare Trust Company, as escrow agent, shares of Avista common stock (valued at the

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Conversion Price) in an amount equal to 10% of the sum of (a) the Merger Consideration (as adjusted) and (b) \$500,000 (the amount deposited into the Shareholders Representative expense fund). The escrowed shares will not be voted while such shares are being held in escrow. For more on the shares held in escrow, see the section entitled THE MERGER AGREEMENT Survival; Indemnification on page 49.

From time to time after the completion of the merger, Avista may deposit additional shares of Avista common stock to the escrow fund upon the occurrence of any of the following events between the Closing Date and the expiration of the escrow period:

for each holder of dissenting shares that withdraws his, her or its rights as a dissenting shareholder between the Closing Date and the release of the escrow fund, Avista will deposit with the exchange agent a number of shares of Avista common stock equal to (a) the number of shares of Avista common stock that such holder of dissenting shares is entitled to pursuant to the terms of the Merger Agreement multiplied by (b) 10% (subject to adjustment as provided in the Merger Agreement), on behalf of such dissenting shares as if it, he or she were a shareholder as of the Closing Date; and

any additional shares of Avista common stock as may be issued after the Closing Date of the merger with respect to the shares constituting the escrow fund upon any stock split, stock dividend or recapitalization effected by Avista after the merger.

Upon a successful claim by Avista for indemnification, a number of shares of Avista common stock held in escrow equal to the recoverable damages underlying such claim (together with any dividends paid in respect of such shares) will be returned to Avista and such shares and related dividends will not be paid out to former AERC shareholders upon expiration of the escrow period. Further, shares may be distributed to Avista from the Escrow Fund as a result of certain post-Closing net working capital adjustments. See the section entitled THE MERGER AGREEMENT Merger Consideration; Conversion of Shares in the Merger on page 45. For the purposes of determining the number of shares of Avista common stock to be delivered to Avista out of the escrow fund, a share of Avista common stock will be valued at the Conversion Price.

Pursuant to the Merger Agreement, on or about March 4, 2015, the escrow agent will be instructed to release from escrow all Avista shares (together with any dividends or other distributions paid in respect of such shares) other than that number of shares with a value, calculated at a per share price equal to the Conversion Price, equal to the value of any pending indemnification claims. Such released shares and related dividends and other distributions will be distributed to former AERC shareholders in accordance with their respective contributions. Escrowed shares remaining in the escrow fund after settlement of all claims (together with any dividends or other distributions paid in respect of such escrowed shares) will be distributed to former AERC shareholders in accordance with their respective contributions. See the section entitled THE MERGER AGREEMENT Survival; Indemnification on page 49.

Shareholders Representative

Pursuant to the Merger Agreement, AERC shareholders will appoint a representative for purposes of taking certain actions and giving certain consents on behalf of AERC shareholders, as specified in the Merger Agreement. Approval of the merger and adoption and approval of the plan of merger contained in the Merger Agreement also constitutes consent to the appointment of William A. Corbus as the Shareholders Representative.

Shareholders Representative Expense Fund

Upon completion of the merger, Avista will deduct from the Merger Consideration payable to AERC shareholders and deposit into an expense fund (the Representative Reimbursement Fund) a cash payment of \$500,000. The Representative Reimbursement Fund shall be available to reimburse the Shareholders Representative for expenses incurred in performing his duties as the Shareholders Representative (including overhead expenses, legal fees and related expenses). The Shareholders Representative shall have the authority to distribute any amounts held in the Representative Reimbursement Fund to either the Shareholders Representative personally, or at his instruction, to any third party providing services in connection with the obligations of the Shareholders Representative. Any amount of the Representative Reimbursement Fund remaining will be distributed to the former AERC shareholders at such time, on or after March 4, 2015, as the Shareholders Representative

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reasonably believes that all of his obligations as the Shareholders Representative have been satisfied pursuant to the terms of the Merger Agreement and the Escrow Agreement.

Closing and Effectiveness of the Merger

The Closing is expected to take place on the second business day following the satisfaction or, to the extent permitted under the Merger Agreement and by applicable law, waiver of all conditions to the obligations of the parties set forth in the Merger Agreement and described below (other than such conditions as may, by their terms, only be satisfied at the Closing, subject to such satisfaction or waiver thereof) (see THE MERGER AGREEMENT Conditions To The Completion Of The Merger on page 53), or on such other date as Avista and AERC mutually agree. At the Closing, Avista and AERC shall cause articles of merger, a plan of merger and other appropriate documents to be executed and filed with the Division of Corporations, Business & Professional Licensing of the Department of Commerce, Community and Economic Development of the State of Alaska.

Exchange Fund

The Merger Agreement provides that Avista will deposit with the exchange agent the shares of Avista common stock issuable to AERC shareholders, less the shares deposited into the escrow fund, and any dividends or distributions and any cash in lieu of fractional shares to which holders of such shares are entitled. The exchange agent will be Computershare Inc. and Computershare Trust Company, acting together.

Exchange of AERC Stock Certificates for the Merger Consideration

The Merger Agreement provides that Avista will cause the exchange agent to mail, at least twenty business days prior to the Closing Date, to each record holder of AERC common stock, a letter of transmittal and instructions for surrendering and exchanging the record holder's AERC share certificates. Upon surrender of an AERC share certificate for exchange to the exchange agent, together with a duly completed and validly executed letter of transmittal, and such other documents as the exchange agent may reasonably require, the record holder of the AERC certificate will be entitled to receive the following promptly following the Closing of the merger:

the shares of Avista common stock that such holder has the right to receive pursuant to the provisions of the Merger Agreement (which will be in uncertificated book-entry form);

dividends or other distributions, if any, to which such holder is entitled under the terms of the Merger Agreement; and

any cash in lieu of fractional shares of Avista common stock to which such holder is entitled under the terms of the Merger Agreement.

If any AERC share certificate has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such certificate to be lost, stolen or destroyed and, if required by Avista or the exchange agent, the execution of an indemnity by such person against any claim that may be made against it with respect to such certificate, the exchange agent will deliver in exchange for such lost, stolen or destroyed certificate shares of Avista common stock and any dividends or other distributions payable on such shares, and any cash in lieu of fractional shares of Avista common stock payable in respect thereof.

Dissenters Rights

Any shares of AERC common stock that are issued and outstanding immediately prior to the Closing of the merger and that have not been voted in favor of the Merger Proposal at the AERC special meeting (or with respect to which the holder has not otherwise effectively waived its rights under Sections 574 to 582 of the Alaska Corporations Code), and with respect to which an election to dissent has been properly made at or before the AERC special meeting in accordance with Section 576 of the Alaska Corporations Code, will not be converted into the right to receive the Merger Consideration otherwise payable with respect to such shares of AERC common stock, except as set forth below. See **THE MERGER Dissenters Rights of AERC Shareholders** on page 40. Following the Closing, if a holder of dissenting shares withdraws his, her or its demand for such payment and appraisal, Avista

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will deposit the holder's pro rata share of Avista common stock into the escrow fund as described below. See the section entitled THE MERGER AGREEMENT - Escrow Fund on page 46 for additional information.

Representations and Warranties

The Merger Agreement contains customary representations and warranties of the parties. These include representations and warranties of AERC with respect to, among other things: organization; enforceability and authority; subsidiaries; capitalization; financial statements; undisclosed liabilities; legal proceedings and orders; intellectual property; indebtedness with affiliates; absence of certain changes; corporate documents; property; receivables; contracts; compliance with laws; permits; taxes; employee and labor matters; employee benefit plans; environmental matters; insurance; regulatory compliance; financial advisors; consent requirements; and required filings. The Merger Agreement also contains customary representations and warranties of Avista and Merger Sub, including among other things: organization; enforceability and authority; consent required and required filings; no prior operation of Merger Sub; capitalization; Avista common stock matters; SEC reports; adequacy of funds; access to information about AERC; reliance on certain information; litigation; no vote required of Avista shareholders; brokers and finders; and tax matters. In addition, AERC, Avista and Merger Sub have made customary representations as to factual matters related to the requirements for qualification of the merger as a reorganization within the meaning of Section 368(a) of the Code.

The representations, warranties and covenants made by AERC in the Merger Agreement are qualified by information contained in a disclosure schedule delivered to Avista and Merger Sub in connection with the execution of the Merger Agreement. Certain representations and warranties were made as of a specific date, and certain representations and warranties may be subject to contractual standards of materiality different from those generally applicable to Avista and AERC shareholders, or may have been used for the purpose of allocating risk between the parties rather than establishing matters of fact. Avista and AERC shareholders are not third party beneficiaries under the Merger Agreement and should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or condition of Avista or AERC or any of their respective affiliates.

Survival; Indemnification

Survival of Representations and Warranties and Covenants

The representations and warranties of AERC, Avista and Merger Sub contained in the Merger Agreement survive until March 4, 2015. If a valid notice of an indemnification claim is delivered to an indemnifying party prior to March 4, 2015, the specific claim will survive until resolved. All covenants of Avista, AERC and Merger Sub will terminate at the Closing unless such covenant is to be performed after the Closing, in which case it will survive until the term of its performance is complete.

Indemnification of Avista

Pursuant to the terms of the Merger Agreement, if the merger is completed Avista will be entitled to indemnification against any out-of-pocket losses or damages actually incurred (and specifically excluding any special, indirect, consequential, exemplary or punitive damages) as a result of:

any inaccuracies in the representations or warranties made by AERC in Article 3 of the Merger Agreement;

any breach of any covenant by AERC contained in the Merger Agreement;

any amounts required to be paid to holders of dissenting shares, including any interest required to be paid thereon, that are in excess of what such shareholder would have received hereunder had such shareholder not been a holder of dissenting shares; or

any liabilities for taxes of AERC incurred prior to the Closing (other than transfer taxes and taxes attributable to any transaction entered into by Avista after the Closing that is outside of the ordinary course of business).

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Other Limitations

Avista may not recover any loss as a result of breaches of any representation, warranty or covenants until the aggregate amount of loss equals or exceeds \$850,000, in which case the indemnifying party shall be liable only for the losses in excess of such amount, except with respect to any damages awarded in a common law fraud claim, which will not count towards or be subject to any indemnification deductible. The maximum aggregate amount of loss which may be recovered by Avista arising out of or relating to breach of representations or warranties made by AERC, other than a breach arising out of fraud, will be equal to, and consist solely of, the value of the shares of Avista common stock in the escrow fund.

The maximum aggregate amount of loss which may be recovered by Avista as a result of fraud shall not be subject to any limitation.

Avista will be responsible for taking commercially reasonable steps to mitigate the amount of any indemnifiable damages, and all indemnification claims are to be valued net of any third-party insurance proceeds paid to Avista and any federal or state tax savings realized in connection with such indemnified damages actually recognized in the taxable year in which such damages are paid.

Certain Covenants of Avista and AERC

Covenants Relating to the Conduct of AERC's Business

AERC has agreed that prior to the Closing Date, it will use commercially reasonable efforts to (a) conduct its business and the business of its subsidiaries in the ordinary course of business; (b) preserve substantially intact the business organization and assets of it and its subsidiaries, (c) maintain existing goodwill with governmental authorities, customers, suppliers and regulators; (d) maintain in effect all material governmental permits, franchises and authorizations; and (e) retain the services of the current officers and key employees. AERC has also agreed that neither it nor its subsidiaries will take certain other actions during the period between the execution of the Merger Agreement and the Closing Date, subject to certain limited exceptions as set forth in the Merger Agreement, without the prior written consent of Avista, including the following:

issue, sell, or deliver any shares of capital stock of AERC or any of its subsidiaries, or any warrants, options, securities convertible into or other rights to acquire any such shares;

redeem, or purchase or otherwise acquire any outstanding shares of AERC common stock;

split, combine, subdivide or reclassify any shares of AERC common stock;

sell, transfer or encumber any of its assets that, individually or in the aggregate, are material to AERC's business as currently conducted (excluding sales made in the ordinary course);

prematurely terminate, materially amend or knowingly waive any material right under any significant contract;

make any capital expenditure, except in the ordinary course of business or, if outside the ordinary course of business, in an amount that is not in excess of \$5,000,000 in the aggregate;

make any acquisition of any material business or entity;

increase in any material manner, individually or in the aggregate, the compensation to any of AERC's directors or employees or enter into, establish or amend any employment, bonus, incentive compensation, pension, retirement, severance, deferred compensation or other compensation or benefit plan for the benefit of any director or officer of AERC (other than as required by applicable law or governmental regulation or the terms of contracts in effect on the date the Merger Agreement was executed) except for increases in salaries, wages and benefits effected in the ordinary course;

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commence any lawsuit or similar legal proceedings except (a) for the routine collection of bills, (b) in such cases where it in good faith determines that failure to commence suit would result in the material impairment of a material right or asset of AERC, or (c) in connection with an alleged breach of the Merger Agreement or any related agreement or document;

make or change any material tax election, file or amend any income tax return, fail to provide a copy to Avista of each other filed and amended tax return within fifteen days after such filing or amendment, settle any material tax claim or assessment, surrender any right to claim a refund of taxes, consent to any extension or waiver of the limitation period applicable to any material tax claim or assessment or enter into any tax sharing agreement;

make any material change in financial or tax accounting methods, principles or practices, or change an annual accounting period, except as required by GAAP or any applicable law or government regulation;

amend AERC's articles of incorporation or bylaws;

adopt a plan or agreement of complete or partial liquidation or dissolution;

without Avista's consent, make any material regulatory filing with the RCA or otherwise resolve any action before the RCA, the resolution of which could result in a Company Material Adverse Effect; or

enter into any contract requiring that AERC do any of the foregoing.

Covenants Relating to Regulatory Matters and Further Assurances

Avista and AERC have agreed to use commercially reasonable efforts to effect the merger, including cooperating to obtain required statutory approvals of the merger; prevent or lift any restraint, injunction or other legal bar to the merger; defending or challenging any lawsuit or legal proceeding that seeks to challenge or affect the merger or to prohibit or delay the consummation of the merger or rescind, vacate or otherwise challenge any regulatory approval granted by any governmental entity; determine what filings, consents, permits, approvals or waivers may be necessary to complete the merger and make all filings required to seek such consents, permits, approvals or waivers.

Notwithstanding such agreement, Avista will not be required to consent to any regulatory condition or other requirement under any required statutory approval other than conditions or requirements that are normal and customary for regulatory approvals requested in connection with similar transactions and that do not materially and adversely affect either (a) the business of Avista, AERC, AEL&P or Snettisham, each considered separately, or the surviving company and Merger Sub taken as a whole, or (b) the ability of Avista to continue to operate the business of AERC and its subsidiaries, taken as a whole, consistent with past practices.

As used in this summary of the Merger Agreement, required statutory approvals means:

compliance with and filings with the U.S. Federal Trade Commission and the U.S. Department of Justice under the HSR Act; and

to the extent required, notice to and the approval of state regulatory agencies, including:

the RCA;

the UTC;

the IPUC; and

the OPUC.

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Director and Officer Indemnification

Avista will cause the surviving company to fulfill and honor in all respects the indemnification obligations of AERC under any existing indemnification agreements for the benefit of AERC's current and former officers and directors and agreements. In addition, Avista will cause the articles of incorporation of the surviving company to provide the same provisions on exculpation of liability as are contained in the articles of incorporation of AERC immediately prior to the Closing and will not permit such provision to be amended, repealed or otherwise modified thereafter in any manner that could adversely affect the rights of any individual entitled protection under such provision.

For a period of six years after the Closing Date, Avista will also cause AERC, as the surviving company, to provide a directors' and officers' liability insurance policy with the same coverage level and scope as AERC's existing directors' and officers' insurance policy. In the event the cost of such policy exceeds 250% of the current annual policy premiums payable for such policy, the obligations of Avista and AERC as the surviving company will only require provision of a policy with as much coverage as is available at a cost of 250% of the current annual premiums.

In the event that Avista or AERC as the surviving company in the merger is subsequently sold pursuant to a merger or consolidation where Avista or AERC is not the surviving entity, or pursuant to a sale of all or substantially all assets, Avista will make provision in such transaction for the assumption of the indemnification rights provided for in the Merger Agreement.

Employment and Benefits Arrangements

For a period of two years after the Closing Date, Avista has agreed to provide or to cause its subsidiaries to provide, aggregate compensation and aggregate benefits to employees of AERC and its subsidiaries immediately prior to the Closing Date (the "AERC Employees") that are no less favorable than the compensation and benefits such employees were receiving prior to the Closing Date (although the specific benefit plans or employment policies adopted by Avista or its subsidiaries do not have to match the plans and policies in place at AERC). In addition, Avista and its subsidiaries will not terminate any AERC Employee during that period unless such termination is for cause.

In addition, during such two year period, Avista and its subsidiaries will provide former employees of AERC and its subsidiaries who were receiving retiree medical benefits or long-term disability benefits at the time of the Closing with retiree benefits or long-term disability benefits of a comparable level.

Avista and its subsidiaries will also recognize each AERC Employee's term of service with AERC for purposes of eligibility to participate and qualification for a certain level benefits in any benefit plan of Avista or its subsidiary that is available to such AERC Employee, including vacation, paid time-off and severance plans, so long as such recognition does not result in a duplication of benefits. In addition, during the calendar year in which the merger closes, Avista and its subsidiaries will waive or cause to be waived for any AERC Employee any pre-existing condition limitations, exclusions, actively-at-work requirements and waiting periods under any welfare benefit plans of Avista or its subsidiaries in which such AERC Employee has the right to participate so long as such pre-existing condition limitation, exclusion or actively-at-work requirement would have been satisfied or waived under a comparable benefit plan of AERC or its subsidiaries.

The covenants with respect to employment and benefit arrangements will only apply to employees who are subject to a collective bargaining agreement to the extent that such employment terms are not negotiated pursuant to such collective bargaining agreement or are negotiated pursuant to collective bargaining, but are intended to be equivalent to the employment terms, compensation and employee benefits of AERC Employees who are not subject to a collective bargaining agreement. Avista will honor the commitments of AERC and its subsidiaries under existing

collective bargaining agreements.

Juneau Offices, Charitable Giving and Community Involvement of AERC

For a period of at least two years from the Closing, Avista will maintain AERC's existing corporate offices in Juneau, Alaska. In addition, Avista will continue the charitable contribution practices and community support practices of AERC and its subsidiaries for at least two years following the Closing.

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Tax Matters

The parties have agreed to customary covenants regarding preparation of tax returns before and after the Closing Date; payment of taxes for any tax period that straddles the Closing Date; the parties' rights and obligations with respect to any audit, litigation or other proceeding relating to taxes; restrictions on making changes to tax elections and previously filed tax returns; certain tax elections and other similar matters. The covenants also require the parties to cooperate, to the extent reasonably requested by the other, in any audit, litigation or other proceeding with respect to the taxes of AERC or any of its subsidiaries.

In addition, AERC and Avista have agreed to report the merger for income tax purposes in a manner consistent with its characterization as a reorganization within the meaning of Section 368(a) of the Code, unless otherwise required by applicable law (as determined by a Big Four accounting firm in an opinion concluding that it is not more likely than not that the merger qualifies as a reorganization) or a determination within the meaning of Section 1313 of the Code (for example, a final decision by a court).

AERC Dividend Matters

Prior to the Closing, AERC is required to use its commercially reasonable efforts to declare one or more dividends to AERC shareholders and/or prepay indebtedness in an aggregate amount of not less than \$8 million minus the aggregate out-of-pocket fees and expenses paid by AERC to brokers, financial advisors, accountants and legal advisors in connection with the merger.

Company Indebtedness

AERC and its subsidiaries will not have any indebtedness for borrowed money at the Closing other than the indebtedness under certain loans that is deducted from the Merger Consideration and inter-company indebtedness among AERC and its subsidiaries.

Conditions to the Completion of the Merger

Conditions to Each Party's Obligations to Effect the Merger

The obligations of each of the parties to effect the merger are subject to the satisfaction, at or prior to the Closing, of various mutual conditions (which may, to the extent permitted by applicable law, be waived in writing by any party in its sole discretion, with such waiver only effective as to the conditions for the benefit of such party), which include the following:

the merger shall have been approved by AERC shareholders;

the required statutory approvals shall have been obtained;

there shall not be pending any action by a governmental authority seeking to restrain, prohibit or enjoin the consummation of the merger;

the waiting period under the HSR Act shall have expired or been terminated; and

no injunction or other order preventing merger shall have been issued since the date of the Merger Agreement by any United States federal or state court of competent jurisdiction and shall remain in effect; and no United States federal or state law that makes the merger illegal shall have been enacted since the date of the Merger Agreement and shall remain in effect.

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Conditions to AERC's Obligation to Effect the Merger

The obligation of AERC to effect the merger is subject to the satisfaction of several additional conditions (any of which may be waived in writing by AERC), including:

the representations and warranties of Avista and Merger Sub contained in the Merger Agreement shall be accurate in all respects as of the Closing Date, with the same force and effect as if made as of the Closing Date (except to the extent any such representation or warranty speaks as of the date of the Merger Agreement or any other specific date, in which case such representation or warranty shall have been accurate in all respects as of such date), except that any inaccuracies in such representations and warranties will be disregarded for purposes of this closing condition if such inaccuracies (considered collectively) do not have a material adverse effect on the economic benefits to be derived by AERC Shareholders from the merger, it being understood that, for purposes of determining the accuracy of such representations and warranties, all material adverse effect and other qualifications using the terms "in any material respect" or "in all material respects" in such representations and warranties will be disregarded;

Avista and Merger Sub shall have performed in all material respects all agreements and covenants required to be performed by it under the Merger Agreement at or prior to the Closing Date, including but not limited to obtaining any required governmental consents, permits, regulatory approvals, waivers, and making any required filings or completing any required registrations with governmental authorities;

Avista shall have provided AERC with satisfactory evidence that the payments required to be made at the Closing Date by Avista pursuant to the Merger Agreement will be made at the Closing Date;

no required statutory consent shall have imposed a Burdensome Condition (as defined below) not otherwise agreed to or approved by AERC;

Avista and the Escrow Agent shall have executed the Escrow Agreement and Avista shall have deposited all amounts required by the Merger Agreement to be contributed to the Escrow Fund with the Escrow Agent;

The Registration Statement on form S-4 registering the shares of Avista common stock to be issued in the merger shall have been declared effective by the SEC under the Securities Act and no stop order suspending the effectiveness of such registration statement shall have been issued by the SEC and no proceedings for that purpose shall have been initiated or threatened by the SEC;

The Avista common stock to be issued in the merger shall have been approved for listing on the NYSE, subject to customary conditions and official notice of issuance; and

since the date of the Merger Agreement, there shall have been no occurrences that, individually or in the aggregate, have had a material adverse effect on the business of Avista taken as a whole or the Avista common stock.

Conditions to Avista's Obligation to Effect the Merger

The obligation of Avista and the Merger Sub to effect the merger is subject to the satisfaction of several additional conditions (any of which may be waived in writing by Avista), including:

the representations and warranties of AERC contained in the Merger Agreement shall be accurate in all respects as of the Closing Date, with the same force and effect as if made as of the Closing Date (except to the extent any such representation or warranty speaks as of the date of the Merger Agreement or any other specific date, in which case such representation or warranty shall have been accurate in all respects as of such date), except that any inaccuracies in such representations and warranties will be disregarded for purposes of this closing condition if such inaccuracies (considered collectively) do not have a Company Material Adverse Effect as of the Closing Date, provided that for

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purposes of determining the accuracy of such representations and warranties, all Company Material Adverse Effect and other qualifications using the terms in any material respect or in all material respects in such representations and warranties will be disregarded;

AERC shall have performed in all material respects all agreements and covenants required to be performed by it under the Merger Agreement at or prior to the Closing Date, including but not limited to obtaining any required governmental consents, permits, regulatory approvals, waivers, and making any required filings or completing any required registrations with governmental authorities;

no required statutory consent shall have imposed a Burdensome Condition (as defined below) not otherwise agreed to or approved by Avista;

the Shareholders Representative and the Escrow Agent shall have executed the Escrow Agreement; and

since the date of the Merger Agreement, there shall have been no occurrences that, individually or in the aggregate, have had a Company Material Adverse Effect.

Definition of Company Material Adverse Effect

For the purposes of this summary, Company Material Adverse Effect means any material adverse effect on the business of AERC and its subsidiaries taken as a whole; provided, however, that none of the following shall be deemed, either alone or in combination, to constitute, and no change or effect arising from, attributable to or relating to any of the following shall be taken into account in determining whether there has been a Company Material Adverse Effect: (i) the negotiation, execution, delivery, public announcement or pendency of the Merger Agreement or any of the transactions contemplated by the Merger Agreement; (ii) conditions affecting the industry in which AERC operates or participates, the U.S. economy or financial markets or any foreign markets or any foreign economy or financial markets in any location where AERC has material operations or sales, except to the extent any such condition has a substantially disproportionate effect on AERC relative to other persons principally engaged in the same industry as AERC; (iii) compliance with the terms of, or the taking of any action required by, the Merger Agreement, or otherwise taken with the consent of Avista; (iv) any breach by Avista or Merger Sub of the Merger Agreement or the Confidentiality Agreement between Avista and AERC; (v) the taking of any action by Avista or any of its affiliates; (vi) any change in generally accepted accounting principles in the United States (GAAP); (vii) any change in applicable laws, except to the extent any such condition has a substantially disproportionate effect on AERC relative to other persons principally engaged in the same industry as AERC, (viii) any acts of God, calamities, acts of war or terrorism, or national or international political or social conditions, except to the extent any such condition has a substantially disproportionate effect on AERC relative to other persons principally engaged in the same industry as AERC; (ix) any action required to be taken under applicable laws; or (x) any failure in and of itself (as distinguished from any change or effect giving rise to or contributing to such failure) by AERC to meet any projections or forecasts for any period.

Definition of Burdensome Condition

For the purposes of this summary, Burdensome Condition means a condition and requirement that is (i) not normal and customary for regulatory approvals requested in connection with similar transactions or (ii) materially and

adversely affects either (1) the business of Avista, AERC, AEL&P or Snettisham, each considered separately, or the surviving company and Merger Sub taken as a whole (including, but not limited to, the reasonable opportunity to recover prudently incurred costs and earn the authorized rate of return, as applicable) or (2) the ability of Avista to continue to operate the business of AERC and its subsidiaries, taken as a whole, consistent with past practices.

Termination of the Merger Agreement

The Merger Agreement may be terminated at any time before the Closing: