

AVISTA CORP  
Form 10-Q  
November 01, 2017

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

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Form 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED September 30, 2017 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

Commission file number 1-3701

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AVISTA CORPORATION

(Exact name of Registrant as specified in its charter)

Washington 91-0462470  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

1411 East Mission Avenue, Spokane, Washington 99202-2600  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 509-489-0500

Web site: <http://www.avistacorp.com>

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes  No

As of October 30, 2017, 64,415,157 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.



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## AVISTA CORPORATION

## AVISTA CORPORATION

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Forward-Looking Statements

From time to time, we 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;

business environment; and

plans for operations.

These statements are based upon underlying assumptions (many of which are based, in turn, upon further assumptions). Such statements are made both in our reports filed under the Securities Exchange Act of 1934, as amended (including this Quarterly Report on Form 10-Q), and elsewhere. Forward-looking statements are all statements except those of historical fact including, without limitation, those that are identified by the use of words that include “will,” “may,” “could,” “should,” “intends,” “plans,” “seeks,” “anticipates,” “estimates,” “expects,” “forecasts,” “p” and similar expressions.

Forward-looking statements (including those made in this Quarterly Report on Form 10-Q) are subject to a variety of risks, uncertainties and other factors. Most of these factors are beyond our control and may have a significant effect on our operations, results of operations, financial condition or cash flows, which could cause actual results to differ materially from those anticipated in our statements. Such risks, uncertainties and other factors include, among others:

Financial Risk

weather conditions (temperatures, precipitation levels and wind patterns), which affect both energy demand and electric generating capability, including the effect of precipitation and temperature on hydroelectric resources, the effect of wind patterns on wind-generated power, weather-sensitive customer demand, and similar effects on supply and demand in the wholesale energy markets;

our ability to obtain financing through the issuance of debt and/or equity securities, which can be affected by various factors including our credit ratings, interest rates and other capital market conditions and the global economy;

changes in interest rates that affect borrowing costs, our ability to effectively hedge interest rates for anticipated debt issuances, variable interest rate borrowing and the extent to which we recover interest costs through retail rates collected from customers;

changes in actuarial assumptions, interest rates and the actual return on plan assets for our pension and other postretirement benefit plans, which can affect future funding obligations, pension and other postretirement benefit expense and the related liabilities;

deterioration in the creditworthiness of our customers;

the outcome of legal proceedings and other contingencies;

economic conditions in our service areas, including the economy's effects on customer demand for utility services;

declining energy demand related to customer energy efficiency and/or conservation measures;

changes in the long-term global and our utilities' service area climates, which can affect, among other things, customer demand patterns and the volume and timing of streamflows to our hydroelectric resources;

Utility Regulatory Risk

state and federal regulatory decisions or related judicial decisions that affect our ability to recover costs and earn a reasonable return including, but not limited to, disallowance or delay in the recovery of capital investments, operating costs and commodity costs and discretion over allowed return on investment;



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possibility that our integrated resource plans for electric and natural gas will not be acknowledged by the state commissions, which could result in future resource acquisitions based on the integrated resource plans, which are later deemed imprudent;

Energy Commodity Risk

volatility and illiquidity in wholesale energy markets, including the availability of willing buyers and sellers, changes in wholesale energy prices that can affect operating income, cash requirements to purchase electricity and natural gas, value received for wholesale sales, collateral required of us by counterparties in wholesale energy transactions and credit risk to us from such transactions, and the market value of derivative assets and liabilities;

default or nonperformance on the part of any parties from whom we purchase and/or sell capacity or energy;

potential environmental regulations affecting our ability to utilize or resulting in the obsolescence of our power supply resources;

Operational Risk

severe weather or natural disasters, including, but not limited to, avalanches, wind storms, wildfires, earthquakes, snow and ice storms, that can disrupt energy generation, transmission and distribution, as well as the availability and costs of materials, equipment, supplies and support services;

explosions, fires, accidents, mechanical breakdowns or other incidents that may impair assets and may disrupt operations of any of our generation facilities, transmission, and electric and natural gas distribution systems or other operations and may require us to purchase replacement power;

wildfires caused by our electric transmission or distribution systems that may result in injuries to the public or property damage;

injuries to the public or damage arising from or allegedly arising from our operations;

blackouts or disruptions of interconnected transmission systems (the regional power grid);

terrorist attacks, cyber attacks or other malicious acts that may disrupt or cause damage to our utility assets or to the national or regional economy in general, including any effects of terrorism, cyber attacks or vandalism that damage or disrupt information technology systems;

work force issues, including changes in collective bargaining unit agreements, strikes, work stoppages, the loss of key executives, availability of workers in a variety of skill areas, and our ability to recruit and retain employees;

increasing costs of insurance, more restrictive coverage terms and our ability to obtain insurance;

delays or changes in construction costs, and/or our ability to obtain required permits and materials for present or prospective facilities;

increasing health care costs and cost of health insurance provided to our employees and retirees;

third party construction of buildings, billboard signs, towers or other structures within our rights of way, or placement of fuel receptacles within close proximity to our transformers or other equipment, including overbuild atop natural gas distribution lines;

the loss of key suppliers for materials or services or disruptions to the supply chain;

adverse impacts to our Alaska operations that could result from an extended outage of its hydroelectric generating resources or their inability to deliver energy, due to their lack of interconnectivity to any other electrical grids and the extensive cost of replacement power (diesel);

changing river regulation at hydroelectric facilities not owned by us, which could impact our hydroelectric facilities downstream;

Compliance Risk

compliance with extensive federal, state and local legislation and regulation, including numerous environmental, health, safety, infrastructure protection, reliability and other laws and regulations that affect our operations and costs;

the ability to comply with the terms of the licenses and permits for our hydroelectric or thermal generating facilities at cost-effective levels;





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Technology Risk

cyber attacks on us or our vendors or other potential lapses that result in unauthorized disclosure of private information, which could result in liabilities against us, costs to investigate, remediate and defend, and damage to our reputation;

disruption to or breakdowns of information systems, automated controls and other technologies that we rely on for our operations, communications and customer service;

changes in costs that impede our ability to effectively implement new information technology systems or to operate and maintain current production technology;

changes in technologies, possibly making some of the current technology we utilize obsolete or the introduction of new technology that may create new cyber security risk;

insufficient technology skills, which could lead to the inability to develop, modify or maintain our information systems;

Strategic Risk

growth or decline of our customer base and the extent to which new uses for our services may materialize or existing uses may decline, including, but not limited to, the effect of the trend toward distributed generation at customer sites;

the potential effects of negative publicity regarding business practices, whether true or not, which could result in litigation or a decline in our common stock price;

changes in our strategic business plans, which may be affected by any or all of the foregoing, including the entry into new businesses and/or the exit from existing businesses and the extent of our business development efforts where potential future business is uncertain;

non-regulated activities may increase earnings volatility;

failure to complete the proposed acquisition could negatively impact the market price of Avista Corp.'s common stock or result in termination fees that could have a material adverse effect on our results of operations, financial condition, and cash flows;

the proposed acquisition of the Company by Hydro One has resulted in multiple shareholder class action lawsuits against the Company and its board of directors that could have a material adverse effect on our results of operations, financial condition, and cash flows and could delay or preclude consummation of the transaction;

External Mandates Risk

changes in environmental laws, regulations, decisions and policies, including present and potential environmental remediation costs and our compliance with these matters;

the potential effects of initiatives, legislation or administrative rulemaking at the federal, state or local levels, including possible effects on our generating resources of restrictions on greenhouse gas emissions to mitigate concerns over global climate changes;

political pressures or regulatory practices that could constrain or place additional cost burdens on our distribution systems through accelerated adoption of distributed generation or electric-powered transportation or on our energy supply sources, such as campaigns to halt coal-fired power generation and opposition to other thermal generation, wind turbines or hydroelectric facilities;

wholesale and retail competition including alternative energy sources, growth in customer-owned power resource technologies that displace utility-supplied energy or that may be sold back to the utility, and alternative energy suppliers and delivery arrangements;

failure to identify changes in legislation, taxation and regulatory issues which are detrimental or beneficial to our overall business;

policy and/or legislative changes resulting from the new presidential administration in various regulated areas, including, but not limited to, potential tax reform, environmental regulation and healthcare regulations; and

the risk of municipalization in any of our service territories.

Our expectations, beliefs and projections are expressed in good faith. We believe they are reasonable based on, without limitation, an examination of historical operating trends, our records and other information available from third parties. There

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can be no assurance that our expectations, beliefs or projections will be achieved or accomplished. Furthermore, any forward-looking statement speaks only as of the date on which such statement is made. We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which such statement is made or to reflect the occurrence of unanticipated events. New risks, uncertainties and other factors emerge from time to time, and it is not possible for us to predict all such factors, nor can we assess the effect of each such factor on our business 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.

Available Information

Our website address is [www.avistacorp.com](http://www.avistacorp.com). We make annual, quarterly and current reports available at our website as soon as practicable after electronically filing these reports with the U.S. Securities and Exchange Commission (SEC). Information contained on our website is not part of this report.

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## PART I. Financial Information

## Item 1. Condensed Consolidated Financial Statements

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Avista Corporation

Dollars in thousands, except per share amounts

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Operating Revenues:				
Utility revenues	\$291,640	\$296,989	\$1,030,906	\$1,022,670
Non-utility revenues	5,456	6,360	17,161	17,690
Total operating revenues	297,096	303,349	1,048,067	1,040,360
Operating Expenses:				
Utility operating expenses:				
Resource costs	108,568	118,737	376,905	390,271
Other operating expenses	77,784	75,160	232,959	229,605
Acquisition costs	6,730	—	8,004	—
Depreciation and amortization	42,968	40,240	127,596	119,110
Taxes other than income taxes	23,269	22,669	79,733	74,669
Non-utility operating expenses:				
Other operating expenses	6,598	6,756	19,863	18,862
Depreciation and amortization	137	193	482	573
Total operating expenses	266,054	263,755	845,542	833,090
Income from operations	31,042	39,594	202,525	207,270
Interest expense	23,955	21,632	71,170	64,223
Interest expense to affiliated trusts	216	164	601	456
Capitalized interest	(899)	(507)	(2,513)	(2,258)
Other income-net	(1,841)	(1,562)	(6,598)	(7,025)
Income before income taxes	9,611	19,867	139,865	151,874
Income tax expense	5,153	7,606	51,548	54,661
Net income	4,458	12,261	88,317	97,213
Net loss (income) attributable to noncontrolling interests	(7)	(27)	21	(76)
Net income attributable to Avista Corp. shareholders	\$4,451	\$12,234	\$88,338	\$97,137
Weighted-average common shares outstanding (thousands), basic	64,412	63,857	64,392	63,282
Weighted-average common shares outstanding (thousands), diluted	64,892	64,325	64,638	63,687
Earnings per common share attributable to Avista Corp. shareholders:				
Basic	\$0.07	\$0.19	\$1.37	\$1.53
Diluted	\$0.07	\$0.19	\$1.37	\$1.53
Dividends declared per common share	\$0.3575	\$0.3425	\$1.0725	\$1.0275

The Accompanying Notes are an Integral Part of These Statements.

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## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Avista Corporation  
Dollars in thousands  
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net income	\$4,458	\$12,261	\$88,317	\$97,213
Other Comprehensive Income (Loss):				
Change in unfunded benefit obligation for pension and other postretirement benefit plans - net of taxes of \$98, \$75, \$295 and \$(512) respectively	182	140	548	(949 )
Total other comprehensive income (loss)	182	140	548	(949 )
Comprehensive income	4,640	12,401	88,865	96,264
Comprehensive loss (income) attributable to noncontrolling interests	(7 )	(27 )	21	(76 )
Comprehensive income attributable to Avista Corporation shareholders	\$4,633	\$12,374	\$88,886	\$96,188

The Accompanying Notes are an Integral Part of These Statements.

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## CONDENSED CONSOLIDATED BALANCE SHEETS

Avista Corporation  
Dollars in thousands  
(Unaudited)

	September 30, 2017	December 31, 2016
Assets:		
Current Assets:		
Cash and cash equivalents	\$14,716	\$8,507
Accounts and notes receivable-less allowances of \$4,838 and \$5,026, respectively	125,595	180,265
Regulatory asset for energy commodity derivatives	22,005	11,365
Materials and supplies, fuel stock and stored natural gas	65,961	53,314
Income taxes receivable	42,111	48,265
Other current assets	46,246	49,625
Total current assets	316,634	351,341
Net Utility Property:		
Utility plant in service	5,686,633	5,506,499
Construction work in progress	194,679	150,474
Total	5,881,312	5,656,973
Less: Accumulated depreciation and amortization	1,578,148	1,509,473
Total net utility property	4,303,164	4,147,500
Other Non-current Assets:		
Investment in affiliated trusts	11,547	11,547
Goodwill	57,672	57,672
Other property and investments-net and other non-current assets	80,022	72,224
Total other non-current assets	149,241	141,443
Deferred Charges:		
Regulatory assets for deferred income tax	123,449	109,853
Regulatory assets for pensions and other postretirement benefits	230,988	240,114
Other regulatory assets	129,112	135,751
Regulatory asset for interest rate swaps	170,079	161,508
Non-current regulatory asset for energy commodity derivatives	16,371	16,919
Other deferred charges	13,194	5,326
Total deferred charges	683,193	669,471
Total assets	\$5,452,232	\$5,309,755

The Accompanying Notes are an Integral Part of These Statements.

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## CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

Avista Corporation  
Dollars in thousands  
(Unaudited)

	September 30, 2017	December 31, 2016
Liabilities and Equity:		
Current Liabilities:		
Accounts payable	\$72,777	\$115,545
Current portion of long-term debt and capital leases	277,626	3,287
Short-term borrowings	106,298	120,000
Energy commodity derivative liabilities	11,054	7,035
Accrued interest	29,077	15,869
Accrued taxes other than income taxes	34,520	33,374
Deferred natural gas costs	34,399	30,820
Current portion of pensions and other postretirement benefits	11,544	10,994
Current interest rate swap derivative liabilities	34,520	6,025
Other current liabilities	61,436	64,579
Total current liabilities	673,251	407,528
Long-term debt and capital leases	1,491,789	1,678,717
Long-term debt to affiliated trusts	51,547	51,547
Regulatory liability for utility plant retirement costs	284,263	273,983
Pensions and other postretirement benefits	216,464	226,552
Deferred income taxes	903,943	840,928
Non-current interest rate swap derivative liabilities	1,330	28,705
Other non-current liabilities, regulatory liabilities and deferred credits	158,699	153,319
Total liabilities	3,781,286	3,661,279
Commitments and Contingencies (See Notes to Condensed Consolidated Financial Statements)		
Equity:		
Avista Corporation Shareholders' Equity:		
Common stock, no par value; 200,000,000 shares authorized; 64,414,572 and 64,187,934 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	1,077,215	1,075,281
Accumulated other comprehensive loss	(7,020	) (7,568
Retained earnings	600,132	581,014
Total Avista Corporation shareholders' equity	1,670,327	1,648,727
Noncontrolling Interests	619	(251
Total equity	1,670,946	1,648,476
Total liabilities and equity	\$5,452,232	\$5,309,755
The Accompanying Notes are an Integral Part of These Statements.		



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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Avista Corporation

For the Nine Months Ended September 30

Dollars in thousands

(Unaudited)

	2017	2016
Operating Activities:		
Net income	\$88,317	\$97,213
Non-cash items included in net income:		
Depreciation and amortization	130,803	122,414
Deferred income tax provision and investment tax credits	58,242	87,246
Power and natural gas cost amortizations, net	8,416	11,422
Amortization of debt expense	2,440	2,595
Amortization of investment in exchange power	1,838	1,838
Stock-based compensation expense	5,809	6,261
Equity-related Allowance for Funds Used During Construction (AFUDC)	(5,012 )	(6,306 )
Pension and other postretirement benefit expense	27,816	29,076
Amortization of Spokane Energy contract	—	10,904
Other regulatory assets and liabilities and deferred debits and credits	(12,683 )	(20,215 )
Change in decoupling regulatory deferral	20,193	(24,693 )
Other	(190 )	5,052
Contributions to defined benefit pension plan	(22,000 )	(12,000 )
Cash paid for settlement of interest rate swap agreements	(11,302 )	(53,966 )
Cash received for settlement of interest rate swap agreements	2,479	—
Changes in certain current assets and liabilities:		
Accounts and notes receivable	52,534	53,726
Materials and supplies, fuel stock and stored natural gas	(12,653 )	(3,932 )
Collateral posted for derivative instruments	(1,896 )	(19,754 )
Income taxes receivable	(4,254 )	(25,222 )
Other current assets	(16 )	(8,486 )
Accounts payable	(29,992 )	(17,206 )
Other current liabilities	8,624	18,151
Net cash provided by operating activities	307,513	254,118
Investing Activities:		
Utility property capital expenditures (excluding equity-related AFUDC)	(287,853)	(288,072)
Issuance of notes receivable at subsidiaries	(2,800 )	(9,718 )
Equity and property investments made by subsidiaries	(10,899 )	(8,741 )
Distributions received from investments	1,915	—
Other	(2,714 )	(8,422 )
Net cash used in investing activities	(302,351)	(314,953)

The Accompanying Notes are an Integral Part of These Statements.

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Avista Corporation

For the Nine Months Ended September 30

Dollars in thousands

(Unaudited)

	2017	2016
Financing Activities:		
Net increase in short-term borrowings	\$75,000	\$82,000
Proceeds from issuance of long-term debt	—	70,000
Maturity of long-term debt and capital leases	(2,465 )	(92,375 )
Issuance of common stock, net of issuance costs	1,490	66,756
Cash dividends paid	(69,220 )	(65,172 )
Other	(3,758 )	(3,774 )
Net cash provided by financing activities	1,047	57,435
Net increase (decrease) in cash and cash equivalents	6,209	(3,400 )
Cash and cash equivalents at beginning of period	8,507	10,484
Cash and cash equivalents at end of period	\$14,716	\$7,084

The Accompanying Notes are an Integral Part of These Statements.

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## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

Avista Corporation

For the Nine Months Ended September 30

Dollars in thousands

(Unaudited)

	2017	2016
Common Stock, Shares:		
Shares outstanding at beginning of period	64,187,934	62,312,651
Shares issued	226,638	1,869,836
Shares outstanding at end of period	64,414,572	64,182,487
Common Stock, Amount:		
Balance at beginning of period	\$1,075,281	\$1,004,336
Equity compensation expense	5,055	5,462
Issuance of common stock, net of issuance costs	1,490	66,756
Payment of minimum tax withholdings for share-based payment awards	(3,420 )	(3,073 )
Purchase of subsidiary noncontrolling interests	(1,191 )	—
Balance at end of period	1,077,215	1,073,481
Accumulated Other Comprehensive Loss:		
Balance at beginning of period	(7,568 )	(6,650 )
Other comprehensive income (loss)	548	(949 )
Balance at end of period	(7,020 )	(7,599 )
Retained Earnings:		
Balance at beginning of period	581,014	530,940
Net income attributable to Avista Corporation shareholders	88,338	97,137
Cash dividends paid on common stock	(69,220 )	(65,172 )
Balance at end of period	600,132	562,905
Total Avista Corporation shareholders' equity	1,670,327	1,628,787
Noncontrolling Interests:		
Balance at beginning of period	(251 )	(339 )
Net income (loss) attributable to noncontrolling interests	(21 )	76
Purchase of subsidiary noncontrolling interests	891	—
Balance at end of period	619	(263 )
Total equity	\$1,670,946	\$1,628,524

The Accompanying Notes are an Integral Part of These Statements.

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## AVISTA CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The accompanying condensed consolidated financial statements of Avista Corporation (Avista Corp. or the Company) as of and for the interim periods ended September 30, 2017 and September 30, 2016 are unaudited; however, in the opinion of management, the statements reflect all adjustments necessary for a fair statement of the results for the interim periods. All such adjustments are of a normal recurring nature. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The Condensed Consolidated Statements of Income for the interim periods are not necessarily indicative of the results to be expected for the full year. These condensed consolidated financial statements do not contain the detail or footnote disclosure concerning accounting policies and other matters which would be included in full fiscal year consolidated financial statements; therefore, they should be read in conjunction with the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (2016 Form 10-K). Please refer to the section "Acronyms and Terms" in the 2016 Form 10-K for definitions of certain terms not defined herein. The acronyms and terms are an integral part of these condensed consolidated financial statements.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Nature of Business

Avista Corp. is primarily an electric and natural gas utility with certain other business ventures. Avista Utilities is an operating division of Avista Corp., comprising the regulated utility operations in the Pacific Northwest. Avista Utilities provides electric distribution and transmission, and natural gas distribution services in parts of eastern Washington and northern Idaho. Avista Utilities also provides natural gas distribution service in parts of northeastern and southwestern Oregon. Avista Utilities has electric generating facilities in Washington, Idaho, Oregon and Montana. Avista Utilities also supplies electricity to a small number of customers in Montana, most of whom are employees who operate Avista Utilities' Noxon Rapids generating facility.

Alaska Energy and Resources Company (AERC) is a wholly-owned subsidiary of Avista Corp. The primary subsidiary of AERC is Alaska Electric Light and Power Company (AEL&P), which comprises Avista Corp.'s regulated utility operations in Alaska. Avista Capital, Inc. (Avista Capital), a wholly owned non-regulated subsidiary of Avista Corp., is the parent company of all of the subsidiary companies in the non-utility businesses, with the exception of AJT Mining Properties, Inc., which is a subsidiary of AERC.

On July 19, 2017, Avista Corp. entered into an Agreement and Plan of Merger (Merger Agreement) to become a wholly-owned subsidiary of Hydro One Limited (Hydro One). Consummation of the pending acquisition is subject to a number of approvals and the satisfaction or waiver of other specified conditions. The transaction is expected to close in the second half of 2018. See Note 13 for additional information.

## Basis of Reporting

The condensed consolidated financial statements include the assets, liabilities, revenues and expenses of the Company and its subsidiaries and other majority owned subsidiaries and variable interest entities for which the Company or its subsidiaries are the primary beneficiaries. Intercompany balances were eliminated in consolidation. The accompanying condensed consolidated financial statements include the Company's proportionate share of utility plant and related operations resulting from its interests in jointly owned plants.

## Taxes Other Than Income Taxes

Taxes other than income taxes include state excise taxes, city occupational and franchise taxes, real and personal property taxes and certain other taxes not based on income. These taxes are generally based on revenues or the value of property. Utility-related taxes collected from customers (primarily state excise taxes and city utility taxes) are recorded as operating revenue and expense. Taxes other than income taxes consisted of the following items for the three and nine months ended September 30 (dollars in thousands):

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	Three months ended September 30, 2017		Nine months ended September 30, 2016	
Utility-related taxes	\$ 12,663	\$ 12,095	\$ 47,799	\$ 43,033
Property taxes	9,991	10,047	29,829	29,757
Other taxes	615	527	2,105	1,879
Total	\$ 23,269	\$ 22,669	\$ 79,733	\$ 74,669

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## Materials and Supplies, Fuel Stock and Stored Natural Gas

Inventories of materials and supplies, fuel stock and stored natural gas are recorded at average cost for our regulated operations and the lower of cost or net realizable value for our non-regulated operations and consisted of the following as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017	December 31, 2016
Materials and supplies	\$ 41,518	\$ 40,700
Fuel stock	5,064	4,585
Stored natural gas	19,379	8,029
Total	\$ 65,961	\$ 53,314

## Derivative Assets and Liabilities

Derivatives are recorded as either assets or liabilities on the Condensed Consolidated Balance Sheets measured at estimated fair value.

The Washington Utilities and Transportation Commission (UTC) and the Idaho Public Utilities Commission (IPUC) issued accounting orders authorizing Avista Corp. to offset energy commodity derivative assets or liabilities with a regulatory asset or liability. This accounting treatment is intended to defer the recognition of mark-to-market gains and losses on energy commodity transactions until the period of delivery. Realized benefits and costs result in adjustments to retail rates through purchased gas cost adjustments, the Energy Recovery Mechanism (ERM) in Washington, the Power Cost Adjustment (PCA) mechanism in Idaho, and periodic general rate cases. The resulting regulatory assets have been concluded to be probable of recovery through future rates.

Substantially all forward contracts to purchase or sell power and natural gas are recorded as derivative assets or liabilities at estimated fair value with an offsetting regulatory asset or liability. Contracts that are not considered derivatives are accounted for on the accrual basis until they are settled or realized unless there is a decline in the fair value of the contract that is determined to be other-than-temporary.

For interest rate swap derivatives, Avista Corp. records all mark-to-market gains and losses in each accounting period as assets and liabilities, as well as offsetting regulatory assets and liabilities, such that there is no income statement impact. The interest rate swap derivatives are risk management tools similar to energy commodity derivatives. Upon settlement of interest rate swap derivatives, the regulatory asset or liability is amortized as a component of interest expense over the term of the associated debt. The Company records an offset of interest rate swap derivative assets and liabilities with regulatory assets and liabilities, based on the prior practice of the commissions to provide recovery through the ratemaking process.

As of September 30, 2017, the Company has multiple master netting agreements with a variety of entities that allow for cross-commodity netting of derivative agreements with the same counterparty (i.e. power derivatives can be netted with natural gas derivatives). In addition, some master netting agreements allow for the netting of commodity derivatives and interest rate swap derivatives for the same counterparty. The Company does not have any agreements which allow for cross-affiliate netting among multiple affiliated legal entities. The Company nets all derivative instruments when allowed by the agreement for presentation in the Condensed Consolidated Balance Sheets.

## Fair Value Measurements

Fair value represents the price that would be received when selling an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Energy commodity derivative assets and liabilities, deferred compensation assets, as well as derivatives related to interest rate swaps and foreign currency exchange contracts, are reported at estimated fair value on the Condensed Consolidated Balance Sheets. See Note 8 for the Company's fair value disclosures.



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## AVISTA CORPORATION

## Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, net of tax, consisted of the following as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017	December 31, 2016
Unfunded benefit obligation for pensions and other postretirement benefit plans - net of taxes of \$3,780 and \$4,075, respectively	\$ 7,020	\$ 7,568

The following table details the reclassifications out of accumulated other comprehensive loss by component for the three and nine months ended September 30 (dollars in thousands).

Details about Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss				Affected Line Item in Statement of Income
	Three months ended September 30,		Nine months ended September 30,		
	2017	2016	2017	2016	
Amortization of defined benefit pension items					
Amortization of net prior service cost	\$(300)	\$(312)	\$(898 )	\$(934 )	(a)
Amortization of net loss	3,637	3,642	\$10,913	\$10,926	(a)
Adjustment due to effects of regulation	(3,057)	(3,115)	(9,172 )	(11,453 )	(a) (b)
	280	215	843	(1,461 )	Total before tax
	(98 )	(75 )	(295 )	512	Tax benefit (expense)
	\$182	\$140	\$548	\$(949 )	Net of tax

(a) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (see Note 4 for additional details).

The adjustment for the effects of regulation during the nine months ended September 30, 2016 includes (b) approximately \$2.1 million related to the reclassification of a pension regulatory asset associated with one of our jurisdictions into accumulated other comprehensive loss.

## Effective Income Tax Rate

For the three months ended September 30, 2017 and 2016, the Company's effective tax rate was 53.6 percent and 38.3 percent, respectively. For the nine months ended September 30, 2017 and 2016, the Company's effective tax rate was 36.9 percent and 36.0 percent, respectively. The effective tax rate increased during 2017 because the majority of acquisition costs, which reduce income before income taxes, are not deductible for tax purposes and thus do not reduce income tax expense.

## Contingencies

The Company has unresolved regulatory, legal and tax issues which have inherently uncertain outcomes. The Company accrues a loss contingency if it is probable that a liability has been incurred and the amount of the loss or impairment can be reasonably estimated. The Company also discloses loss contingencies that do not meet these conditions for accrual if there is a reasonable possibility that a material loss may be incurred. As of September 30, 2017, the Company has not recorded any significant amounts related to unresolved contingencies. See Note 11 for further discussion of the Company's commitments and contingencies.

## NOTE 2. NEW ACCOUNTING STANDARDS

ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)"



In May 2014, the FASB issued ASU No. 2014-09, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should identify the various performance obligations in a contract, allocate the transaction price among the performance obligations and recognize revenue when (or as) the entity satisfies each performance obligation. This ASU is effective for periods beginning after December 15, 2017.

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The Company has a revenue recognition standard implementation team that is working through the implementation process. The Company has evaluated this standard and is planning to adopt this standard in 2018 upon its effective date. The Company is expecting to use a modified retrospective method of adoption, which would require a cumulative adjustment to opening retained earnings, as opposed to a full retrospective application. Based on work performed to date, the Company has not identified any material cumulative adjustments necessary.

Since the majority of Avista Corp.'s revenue is from rate-regulated sales of electricity and natural gas to retail customers and revenue is recognized as energy is delivered to these customers, the Company does not expect a significant change in operating revenues or net income. The Company has reviewed and analyzed certain contracts with customers (most of which are related to wholesale sales of power and natural gas) and has not yet identified any significant differences in revenue recognition between current GAAP and ASU No. 2014-09.

During the implementation process, the Company has identified several issues, the most significant of which are as follows based on our current assessment:

**Contributions in Aid of Construction –** There was the potential that contributions in aid of construction (CIACs) could be recognized as revenue upon the adoption of ASU No. 2014-09. Under current GAAP, CIACs are accounted for as an offset to the cost of utility plant in service. Current implementation guidance indicates that CIACs will continue to be accounted for as an offset to utility plant in service.

**Utility-Related Taxes Collected from Customers –** There were questions on the presentation of utility-related taxes collected from customers (primarily state excise taxes and city utility taxes) on a gross basis. Under current GAAP, the Company is allowed to record these utility-related taxes on a gross basis in revenue when billed to customers with an offset included in taxes other than income taxes in operating expenses. The Company evaluated whether this gross presentation is appropriate under ASU 2014-09 and the Company's assessment indicates that there will be no material changes to current presentation.

**Renewable Energy Credits -** Current utility industry implementation guidance indicates that revenue associated with the sale of self-generated renewable energy credits (REC) will be recognized at the time of generation and sale of the credits as opposed to when the RECs are certified in the Western Renewable Energy Generation Information System (WREGIS), which generally occurs during a period subsequent to the sale. This represents a change from the Company's current practice, which is to defer revenue recognition until the time of certification. Revenue associated with the sale of RECs is not material to the financial statements; therefore, this change will not materially impact the amount of revenue recognized each period. Additionally, almost all of the Company's REC revenue is deferred for future rebate to retail customers. As such, any change in the timing of revenue recognition would not have any material impact on net income.

The Company is monitoring utility industry implementation guidance as it relates to the above issues to determine if there will be a final industry consensus regarding accounting and presentation of these items.

In addition to the issues described above, the Company also expects significant changes to its revenue-related footnote disclosures, including the bifurcation of wholesale revenue into derivative and non-derivative sales. The Company continues to evaluate what information would be most useful for users of the financial statements, including information already provided elsewhere in the document outside the footnote disclosures. These additional disclosures could include the disaggregation of revenues by type of service, source of revenue or customer class. Also, the Company expects enhanced disclosures regarding its revenue recognition policies and elections.

ASU No. 2016-02 "Leases (Topic 842)"

In February 2016, the FASB issued ASU No. 2016-02. This ASU introduces a new lessee model that requires most leases to be capitalized and shown on the balance sheet with corresponding lease assets and liabilities. The standard also aligns certain of the underlying principles of the new lessor model with those in Topic 606, the FASB's new revenue recognition standard. Furthermore, this ASU addresses other issues that arise under the current lease model; for example, eliminating the required use of bright-line tests in current GAAP for determining lease classification

(operating leases versus capital leases). This ASU also includes enhanced disclosures surrounding leases. This ASU is effective for periods beginning on or after December 15, 2018; however, early adoption is permitted. Upon adoption, this ASU must be applied using a modified retrospective approach to the earliest period presented, which will likely require restatements of previously issued financial statements. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. The Company evaluated this standard and determined that it will most likely not early adopt this standard before its effective date in 2019.

The Company has formed a lease standard implementation team that is working through the implementation process. Based on work to-date, the implementation team has identified a complete population of existing and potential leases under the new

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standard and has completed its review of the agreements associated with this population. However, the team has not yet quantified the impact of recording these leases. In addition, the team is developing a process to identify any new potential leases that may be entered into between now and the standard implementation date in 2019.

The Company is monitoring utility industry implementation guidance as it relates to several unresolved issues to determine if there will be an industry consensus, including whether right-of-ways are considered leases. The Company has not yet estimated the potential impact on its future financial condition, results of operations and cash flows.

ASU No. 2016-09 “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”

In March 2016, the FASB issued ASU No. 2016-09. This ASU simplified several aspects of the accounting for employee share-based payment transactions including:

- allowing excess tax benefits or tax deficiencies to be recognized as income tax benefits or expenses in the Condensed Consolidated Statements of Income rather than in Additional Paid in Capital (APIC),
- excess tax benefits no longer represent a financing cash inflow on the Condensed Consolidated Statements of Cash Flows and instead will be included as an operating activity,
- requiring excess tax benefits and tax deficiencies to be excluded from the calculation of diluted earnings per share, whereas under previous accounting guidance, these amounts had to be estimated and included in the calculation,
- allowing forfeitures to be accounted for as they occur, instead of estimating forfeitures, and
- changing the statutory tax withholding requirements for share-based payments.

The Company early adopted this standard during the second quarter of 2016, with a retrospective effective date of January 1, 2016. The adoption of this standard resulted in a recognized income tax benefit of \$1.6 million in 2016 associated with excess tax benefits on settled share-based employee payments.

ASU No. 2017-07 “Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”

In March 2017, the FASB issued ASU No. 2017-07, which amends the income statement presentation of the components of net period benefit cost for an entity’s defined benefit pension and other postretirement plans. Under current GAAP, net benefit cost consists of several components that reflect different aspects of an employer’s financial arrangements as well as the cost of benefits earned by employees. These components are aggregated and reported net in the financial statements. ASU No. 2017-07 requires entities to (1) disaggregate the current service-cost component from the other components of net benefit cost (other components) and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations.

In addition, only the service-cost component of net benefit cost is eligible for capitalization (e.g., as part of utility plant). This is a change from current practice, under which entities capitalize the aggregate net benefit cost to utility plant when applicable, in accordance with Federal Energy and Regulatory Commission (FERC) accounting guidance. Avista Corp. is a rate-regulated entity and all components of net benefit cost are currently recovered from rate payers as a component of utility plant and, under the new ASU, these costs will continue to be recovered from rate payers in the same manner over the depreciable lives of utility plant. As all such costs are expected to continue to be recoverable, the components that are no longer eligible to be recorded as a component of plant for GAAP will be recorded as regulatory assets.

This ASU is effective for periods beginning after December 15, 2017 and early adoption is permitted. Upon adoption, entities must use a retrospective transition method to adopt the requirement for separate presentation in the income statement and a prospective transition method to adopt the requirement to limit the capitalization of benefit costs to the service-cost component. The Company did not early adopt this standard and does not expect a material impact on its future financial condition, results of operations or cash flows upon adoption of this standard.

NOTE 3. DERIVATIVES AND RISK MANAGEMENT

The disclosures below in Note 3 apply only to Avista Corp. and its operating division Avista Utilities; AERC and its primary subsidiary AEL&P do not enter into derivative instruments.

Energy Commodity Derivatives

Avista Corp. is exposed to market risks relating to changes in electricity and natural gas commodity prices and certain other fuel prices. Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply and demand. Market risk includes the fluctuation in the market price of associated derivative commodity

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instruments. Avista Corp. utilizes derivative instruments, such as forwards, futures, swap derivatives and options in order to manage the various risks relating to these commodity price exposures. Avista Corp. has an energy resources risk policy and control procedures to manage these risks.

As part of Avista Corp.'s resource procurement and management operations in the electric business, Avista Corp. engages in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve Avista Corp.'s load obligations and the use of these resources to capture available economic value. Avista Corp. transacts in wholesale markets by selling and purchasing electric capacity and energy, fuel for electric generation, and derivative contracts related to capacity, energy and fuel. Such transactions are part of the process of matching resources with load obligations and hedging a portion of the related financial risks. These transactions range from terms of intra-hour up to multiple years.

As part of its resource procurement and management of its natural gas business, Avista Corp. makes continuing projections of its natural gas loads and assesses available natural gas resources including natural gas storage availability. Natural gas resource planning typically includes peak requirements, low and average monthly requirements and delivery constraints from natural gas supply locations to Avista Corp.'s distribution system. However, daily variations in natural gas demand can be significantly different than monthly demand projections. On the basis of these projections, Avista Corp. plans and executes a series of transactions to hedge a portion of its projected natural gas requirements through forward market transactions and derivative instruments. These transactions may extend as much as four natural gas operating years (November through October) into the future. Avista Corp. also leaves a significant portion of its natural gas supply requirements unhedged for purchase in short-term and spot markets.

Avista Corp. plans for sufficient natural gas delivery capacity to serve its retail customers for a theoretical peak day event. Avista Corp. generally has more pipeline and storage capacity than what is needed during periods other than a peak-day. Avista Corp. optimizes its natural gas resources by using market opportunities to generate economic value that helps mitigate fixed costs. Avista Corp. also optimizes its natural gas storage capacity by purchasing and storing natural gas when prices are traditionally lower, typically in the summer, and withdrawing during higher priced months, typically during the winter. However, if market conditions and prices indicate that Avista Corp. should buy or sell natural gas at other times during the year, Avista Corp. engages in optimization transactions to capture value in the marketplace. Natural gas optimization activities include, but are not limited to, wholesale market sales of surplus natural gas supplies, purchases and sales of natural gas to optimize use of pipeline and storage capacity, and participation in the transportation capacity release market.

The following table presents the underlying energy commodity derivative volumes as of September 30, 2017 that are expected to be delivered in each respective year (in thousands of MWhs and mmBTUs):

Year	Purchases				Sales			
	Electric Derivatives		Gas Derivatives		Electric Derivatives		Gas Derivatives	
	Physical	Financial	Physical	Financial	Physical	Financial	Physical	Financial
	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
	MWh	MWh	mmBTUs	mmBTUs	MWh	MWh	mmBTUs	mmBTUs
Remainder 2017	191	303	5,018	33,165	160	367	1,519	17,878
2018	418	763	3,040	90,750	223	1,275	2,177	63,625
2019	235	737	610	44,290	158	982	1,345	30,050
2020	—	—	910	7,750	—	246	1,430	—
2021	—	—	—	—	—	—	1,049	—
Thereafter	—	—	—	—	—	—	—	—



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The following table presents the underlying energy commodity derivative volumes as of December 31, 2016 that are expected to be delivered in each respective year (in thousands of MWhs and mmBTUs):

Year	Purchases				Sales			
	Electric Derivatives		Gas Derivatives		Electric Derivatives		Gas Derivatives	
	Physical	Financial	Physical	Financial	Physical	Financial	Physical	Financial
	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
	MWh	MWh	mmBTUs	mmBTUs	MWh	MWh	mmBTUs	mmBTUs
2017	510	907	15,475	110,380	316	1,552	4,165	73,110
2018	397	—	—	52,755	286	1,244	1,360	15,113
2019	235	—	610	29,475	158	982	1,345	4,020
2020	—	—	910	2,725	—	—	1,430	—
2021	—	—	—	—	—	—	1,060	—
Thereafter	—	—	—	—	—	—	—	—

Physical transactions represent commodity transactions in which Avista Corp. will take or make delivery of either electricity or natural gas; financial transactions represent derivative instruments with delivery of cash in the amount (1) of the benefit or cost but with no physical delivery of the commodity, such as futures, swap derivatives, options, or forward contracts.

The electric and natural gas derivative contracts above will be included in either power supply costs or natural gas supply costs during the period they are delivered and will be included in the various recovery mechanisms (ERM, PCA, and Purchased Gas Adjustments (PGA)), or in the general rate case process, and are expected to be collected through retail rates from customers.

**Foreign Currency Exchange Derivatives**

A significant portion of Avista Corp.'s natural gas supply (including fuel for power generation) is obtained from Canadian sources. Most of those transactions are executed in U.S. dollars, which avoids foreign currency risk. A portion of Avista Corp.'s short-term natural gas transactions and long-term Canadian transportation contracts are committed based on Canadian currency prices and settled within 60 days with U.S. dollars. Avista Corp. hedges a portion of the foreign currency risk by purchasing Canadian currency exchange derivatives when such commodity transactions are initiated. The foreign currency exchange derivatives and the unhedged foreign currency risk have not had a material effect on Avista Corp.'s financial condition, results of operations or cash flows and these differences in cost related to currency fluctuations are included with natural gas supply costs for ratemaking.

The following table summarizes the foreign currency exchange derivatives that Avista Corp. has outstanding as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017	December 31, 2016
Number of contracts	19	21
Notional amount (in United States dollars)	\$ 3,198	\$ 2,819
Notional amount (in Canadian dollars)	3,925	3,754

**Interest Rate Derivatives**

Avista Corp. is affected by fluctuating interest rates related to a portion of its existing debt, and future borrowing requirements. Avista Corp. hedges a portion of its interest rate risk with financial derivative instruments, which may include interest rate swap derivatives and U.S. Treasury lock agreements. These interest rate swap derivatives and U.S. Treasury lock agreements are considered economic hedges against fluctuations in future cash flows associated with anticipated debt issuances.





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The following table summarizes the unsettled interest rate swap derivatives that Avista Corp. has outstanding as of September 30, 2017 and December 31, 2016 (dollars in thousands):

Balance Sheet Date	Number of Contracts	Notional Amount	Mandatory Cash Settlement Date
September 30, 2017	14	\$275,000	2018
	6	70,000	2019
	3	30,000	2020
	1	15,000	2021
	5	60,000	2022
December 31, 2016	6	\$75,000	2017
	14	275,000	2018
	6	70,000	2019
	2	20,000	2020
	5	60,000	2022

During the third quarter 2017, in connection with the pricing of \$90.0 million of Avista Corp. first mortgage bonds that are expected to be issued in December 2017 (see Note 6), the Company cash-settled five interest rate swap derivatives (notional aggregate amount of \$60.0 million) and paid a net amount of \$8.8 million. Upon settlement of interest rate swap derivatives, the cash payments made or received are recorded as a regulatory asset or liability and are subsequently amortized as a component of interest expense over the life of the associated debt. The settled interest rate swap derivatives are also included as a part of the Company's cost of debt calculation for ratemaking purposes. The fair value of outstanding interest rate swap derivatives can vary significantly from period to period depending on the total notional amount of swap derivatives outstanding and fluctuations in market interest rates compared to the interest rates fixed by the swaps. Avista Corp. is required to make cash payments to settle the interest rate swap derivatives when the fixed rates are higher than prevailing market rates at the date of settlement. Conversely, Avista Corp. receives cash to settle its interest rate swap derivatives when prevailing market rates at the time of settlement exceed the fixed swap rates. Upon settlement of interest rate swaps, the cash payments made or received are recorded as a regulatory asset or liability and are amortized as a component of interest expense over the life of the associated debt. The settled interest rate swaps are also included as a part of the Company's cost of debt calculation for ratemaking purposes.

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## Summary of Outstanding Derivative Instruments

The amounts recorded on the Condensed Consolidated Balance Sheet as of September 30, 2017 and December 31, 2016 reflect the offsetting of derivative assets and liabilities where a legal right of offset exists.

The following table presents the fair values and locations of derivative instruments recorded on the Condensed Consolidated Balance Sheet as of September 30, 2017 (in thousands):

Derivative and Balance Sheet Location	Fair Value as of September 30, 2017			Net Asset (Liability) on Balance Sheet
	Gross Asset	Gross Liability	Collateral Netted	
Foreign currency exchange derivatives				
Other current liabilities	\$—	\$(51 )	\$—	\$(51 )
Interest rate swap derivatives				
Other current assets	2,637	(249 )	—	2,388
Other property and investments-net and other non-current assets	5,346	(1,896 )	—	3,450
Current interest rate swap derivative liabilities	—	(63,074 )	28,554	(34,520 )
Non-current interest rate swap derivative liabilities	—	(7,136 )	5,806	(1,330 )
Energy commodity derivatives				
Other current assets	197	(70 )	—	127
Current energy commodity derivative liabilities	23,904	(46,036 )	11,078	(11,054 )
Other non-current liabilities, regulatory liabilities and deferred credits	13,891	(30,262 )	4,569	(11,802 )
Total derivative instruments recorded on the balance sheet	\$45,975	\$(148,774)	\$ 50,007	\$(52,792)

The following table presents the fair values and locations of derivative instruments recorded on the Condensed Consolidated Balance Sheet as of December 31, 2016 (in thousands):

Derivative and Balance Sheet Location	Fair Value as of December 31, 2016			Net Asset (Liability) on Balance Sheet
	Gross Asset	Gross Liability	Collateral Netted	
Foreign currency exchange derivatives				
Other current liabilities	\$5	\$(28 )	\$—	\$(23 )
Interest rate swap derivatives				
Other current assets	3,393	—	—	3,393
Other property and investments-net and other non-current assets	5,754	(397 )	—	5,357
Current interest rate swap derivative liabilities	—	(15,756 )	9,731	(6,025 )
Non-current interest rate swap derivative liabilities	3,951	(57,825 )	25,169	(28,705 )
Energy commodity derivatives				
Other current assets	18,682	(16,787 )	—	1,895
Current energy commodity derivative liabilities	16,335	(29,598 )	6,228	(7,035 )
Other non-current liabilities, regulatory liabilities and deferred credits	13,071	(29,990 )	3,630	(13,289 )
Total derivative instruments recorded on the balance sheet	\$61,191	\$(150,381)	\$ 44,758	\$(44,432)
Exposure to Demands for Collateral				

Avista Corp.'s derivative contracts often require collateral (in the form of cash or letters of credit) or other credit enhancements, or reductions or terminations of a portion of the contract through cash settlement. In the event of a downgrade in Avista Corp.'s credit ratings or changes in market prices, additional collateral may be required. In periods of price volatility, the level of exposure can change significantly. As a result, sudden and significant demands may be made against Avista Corp.'s credit

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facilities and cash. Avista Corp. actively monitors the exposure to possible collateral calls and takes steps to mitigate capital requirements.

The following table presents Avista Corp.'s collateral outstanding related to its derivative instruments as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017	December 31, 2016
Energy commodity derivatives		
Cash collateral posted	\$ 19,570	\$ 17,134
Letters of credit outstanding	31,500	24,400
Balance sheet offsetting (cash collateral against net derivative positions)	15,647	9,858
Interest rate swap derivatives		
Cash collateral posted	34,360	34,900
Letters of credit outstanding	6,000	3,600
Balance sheet offsetting (cash collateral against net derivative positions)	34,360	34,900

Certain of Avista Corp.'s derivative instruments contain provisions that require Avista Corp. to maintain an "investment grade" credit rating from the major credit rating agencies. If Avista Corp.'s credit ratings were to fall below "investment grade," it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing collateralization on derivative instruments in net liability positions.

The following table presents the aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position and the amount of additional collateral Avista Corp. could be required to post as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017	December 31, 2016
Energy commodity derivatives		
Liabilities with credit-risk-related contingent features	\$ 670	\$ 1,124
Additional collateral to post	670	1,046
Interest rate swap derivatives		
Liabilities with credit-risk-related contingent features	72,355	73,978
Additional collateral to post	12,730	21,100

## NOTE 4. PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS

## Avista Utilities

Avista Utilities' pension and other postretirement plans have not changed during the nine months ended September 30, 2017. The Company's funding policy is to contribute at least the minimum amounts that are required to be funded under the Employee Retirement Income Security Act, but not more than the maximum amounts that are currently deductible for income tax purposes. The Company contributed \$22.0 million in cash to the pension plan for the nine months ended September 30, 2017 and does not expect any further contributions during 2017. The Company contributed \$12.0 million in cash to the pension plan in 2016.

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The Company uses a December 31 measurement date for its defined benefit pension and other postretirement benefit plans. The following table sets forth the components of net periodic benefit costs for the three and nine months ended September 30 (dollars in thousands):

	Pension Benefits		Other Post-retirement Benefits	
	2017	2016	2017	2016
Three months ended September 30:				
Service cost	\$5,092	\$4,567	\$ 799	\$ 806
Interest cost	6,976	6,895	1,374	1,530
Expected return on plan assets	(7,900 )	(6,887 )	(475 )	(465 )
Amortization of prior service cost	—	1	(274 )	(300 )
Net loss recognition	2,517	2,161	1,168	1,453
Net periodic benefit cost	\$6,685	\$6,737	\$ 2,592	\$ 3,024
Nine months ended September 30:				
Service cost	\$15,226	\$13,655	\$ 2,422	\$ 2,389
Interest cost	20,903	20,695	4,147	4,623
Expected return on plan assets	(23,700 )	(20,512 )	(1,425 )	(1,415 )
Amortization of prior service cost	—	1	(898 )	(924 )
Net loss recognition	7,380	6,252	3,761	4,312
Net periodic benefit cost	\$19,809	\$20,091	\$ 8,007	\$ 8,985

Total net periodic benefit costs in the table above are recorded to the same accounts as labor expense. Labor and benefits expense is recorded to various projects based on whether the work is a capital project or an operating expense. Approximately 40 percent of all labor and benefits is capitalized to utility property and 60 percent is expensed to other operating expenses.

**NOTE 5. COMMITTED LINES OF CREDIT**

Avista Corp.

Avista Corp. has a committed line of credit with various financial institutions in the total amount of \$400.0 million that expires in April 2021. The committed line of credit is secured by non-transferable first mortgage bonds of the Company issued to the agent bank that would only become due and payable in the event, and then only to the extent, that the Company defaults on its obligations under the committed line of credit.

Borrowings outstanding and interest rates of borrowings (excluding letters of credit) under the Company's revolving committed line of credit were as follows as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017	December 31, 2016
Borrowings outstanding at end of period (1)	\$195,000	\$120,000
Letters of credit outstanding at end of period	\$43,853	\$34,353
Average interest rates at end of period	1.99 %	1.50 %

(1) As of September 30, 2017, there was \$195.0 million outstanding under the committed line of credit; however, \$105.9 million was classified as short-term borrowings and the remaining \$89.1 million was classified as long-term debt on the Condensed Consolidated Balance Sheet due to the Company's intention to refinance such amount on a long-term basis through the issuance and sale of first mortgage bonds in December 2017 pursuant to a bond purchase agreement entered into in September 2017. See Note 7 for further discussion of the bond purchase agreement and the refinancing of short-term debt on a long-term basis. In addition, there were short-term borrowings outstanding as of September 30, 2017 on the Condensed Consolidated Balance Sheet related to a

short-term note payable by a subsidiary for the acquisition of land that is expected to be repaid in early 2018.  
AEL&P

AEL&P has a committed line of credit in the amount of \$25.0 million that expires in November 2019. As of September 30, 2017 and December 31, 2016, there were no borrowings or letters of credit outstanding under this committed line of credit. The committed line of credit is secured by non-transferable first mortgage bonds of AEL&P issued to the agent bank that would

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only become due and payable in the event, and then only to the extent, that AEL&P defaults on its obligations under the committed line of credit.

## NOTE 6. LONG-TERM DEBT AND CAPITAL LEASES

The following details long-term debt outstanding as of September 30, 2017 and December 31, 2016 (dollars in thousands):

Maturity Year	Description	Interest Rate	September 30, 2017	December 31, 2016
Avista Corp. Secured Long-Term Debt				
2018	First Mortgage Bonds	5.95%	\$ 250,000	\$ 250,000
2018	Secured Medium-Term Notes	7.39%-7.45%	22,500	22,500
2019	First Mortgage Bonds	5.45%	90,000	90,000
2020	First Mortgage Bonds	3.89%	52,000	52,000
2022	First Mortgage Bonds	5.13%	250,000	250,000
2023	Secured Medium-Term Notes	7.18%-7.54%	13,500	13,500
2028	Secured Medium-Term Notes	6.37%	25,000	25,000
2032	Secured Pollution Control Bonds (1)	(1)	66,700	66,700
2034	Secured Pollution Control Bonds (1)	(1)	17,000	17,000
2035	First Mortgage Bonds	6.25%	150,000	150,000
2037	First Mortgage Bonds	5.70%	150,000	150,000
2040	First Mortgage Bonds	5.55%	35,000	35,000
2041	First Mortgage Bonds	4.45%	85,000	85,000
2044	First Mortgage Bonds	4.11%	60,000	60,000
2045	First Mortgage Bonds	4.37%	100,000	100,000
2047	First Mortgage Bonds	4.23%	80,000	80,000
2051	First Mortgage Bonds	3.54%	175,000	175,000
	Total Avista Corp. secured long-term debt		1,621,700	