AVISTA CORP
Form 10-Q
November 04, 2015

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

Form 10-Q
(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2015 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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of October 31, 2015, 62,306,897 shares of Registrant’s Common Stock, no par value (the only class of common stock), were outstanding.

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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:

- 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;
- state and federal regulatory 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 and operating costs and discretion over allowed return on investment;
- 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 on wholesale energy transactions and credit risk to us from such transactions, and the market value of derivative assets and liabilities;
- 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;
- 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;
- the potential effects of legislation or administrative rulemaking, including possible effects on our generating resources of restrictions on greenhouse gas emissions to mitigate concerns over global climate changes;
- political pressures, activism, challenges in court or regulatory practices that could constrain or place additional cost burdens 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;
- 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;
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the outcome of pending legal proceedings arising out of the “western energy crisis” of 2000 and 2001, specifically related to the Pacific Northwest refund proceedings;

- the outcome of legal proceedings and other contingencies;

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- changes in environmental and endangered species laws, regulations, decisions and policies, including present and potential environmental remediation costs and our compliance with these matters;
- 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;
- growth or decline of our customer base and the extent to which new uses for our services may materialize or existing uses may decline;
- the ability to comply with the terms of the licenses for our hydroelectric generating facilities at cost-effective levels;
- severe weather or natural disasters, including avalanches and wildfires, 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 distribution systems or other operations;
- public injuries or damage arising from or allegedly arising from our operations;
- blackouts or disruptions of interconnected transmission systems (the regional power grid);
- disruption to information systems, automated controls and other technologies that we rely on for our operations, communications and customer service;
- terrorist attacks, cyber attacks or other malicious acts that may disrupt or cause damage to our utility assets or to the national economy in general, including any effects of terrorism, cyber attacks or vandalism that damage or disrupt information technology systems;
- cyber attacks 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;
- delays or changes in construction costs, and/or our ability to obtain required permits and materials for present or prospective facilities;
- changes in the costs to implement new information technology systems and/or obstacles that impede our ability to complete such projects timely and effectively;
- 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;
- changes in industrial, commercial and residential growth and demographic patterns in our service territory or changes in demand by significant customers;
- the loss of key suppliers for materials or services or disruptions to the supply chain;
- default or nonperformance on the part of any parties from which we purchase and/or sell capacity or energy;
- deterioration in the creditworthiness of our customers;
- potential decline in our credit ratings, with effects including impeded access to capital markets, higher interest costs, and restrictive covenants in our financing arrangements and wholesale energy contracts;
- increasing health care costs and the resulting effect on employee injury costs and health insurance provided to our employees and retirees;
- increasing costs of insurance, more restrictive coverage terms and our ability to obtain insurance;
- 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;
- 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 technologies, possibly making some of the current technology obsolete;
- changes in tax rates and/or policies;

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- 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 that we recover interest costs through utility operations;
- potential difficulties in integrating acquired operations and in realizing expected opportunities, diversions of management resources and losses of key employees, challenges with respect to operating new businesses and other unanticipated risks and liabilities;
- 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;
- compliance with extensive federal, state and local legislation and regulation, including numerous environmental, health, safety and other laws and regulations that affect our operations and costs; and
- adverse impacts to our Alaska operations because a majority of the hydroelectric power generation for such operations is provided by a single facility that is subject to a long-term power purchase agreement; hence any issues that negatively affect this facility’s ability to generate or transmit power, the cost and ability to replace power in the event of an extended outage, any decrease in the demand for the power generated by this facility or any loss by our subsidiary of its contractual rights with respect thereto or other adverse effects thereon could negatively affect our Alaska operations' financial results.

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. However, there can be no assurance that our expectations, beliefs or projections will be achieved or accomplished. Furthermore, any forward-looking statement speaks only as of the date on which such statement is made. We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which such statement is made or to reflect the occurrence of unanticipated events. New 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. We make annual, quarterly and current reports available at our website as soon as practicable after electronically filing these reports with the Securities and Exchange Commission. Information contained on our website is not part of this report.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Avista Corporation
For the Three Months Ended September 30
Dollars in thousands, except per share amounts
(Unaudited)

	2015	2014
Operating Revenues:		
Utility revenues	$307,405	$291,262
Non-utility revenues	6,244	10,296
Total operating revenues	313,649	301,558
Operating Expenses:		
Utility operating expenses:		
Resource costs	138,210	131,588
Other operating expenses	74,315	72,509
Depreciation and amortization	36,303	33,294
Taxes other than income taxes	22,269	21,000
Non-utility operating expenses:		
Other operating expenses	6,462	10,251
Depreciation and amortization	178	154
Total operating expenses	277,737	268,796
Income from continuing operations	35,912	32,762
Interest expense	19,951	18,642
Interest expense to affiliated trusts	120	113
Capitalized interest	(905)	(1,212)
Other income-net	(2,123)	(2,608)
Income from continuing operations before income taxes	18,869	17,827
Income tax expense	6,115	7,301
Net income from continuing operations	12,754	10,526
Net income (loss) from discontinued operations (Note 4)	289	(55)
Net income	13,043	10,471
Net income attributable to noncontrolling interests	(32)	(20)
Net income attributable to Avista Corp. shareholders	$13,011	$10,451

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (continued)
Avista Corporation
For the Three Months Ended September 30
Dollars in thousands, except per share amounts
(Unaudited)

	2015	2014
Amounts attributable to Avista Corp. shareholders:		
Net income from continuing operations attributable to Avista Corp. shareholders	$12,722	$10,506
Net income (loss) from discontinued operations attributable to Avista Corp. shareholders	289	(55)
Net income attributable to Avista Corp. shareholders	$13,011	$10,451
Weighted-average common shares outstanding (thousands), basic	62,299	63,934
Weighted-average common shares outstanding (thousands), diluted	62,688	64,244
Earnings per common share attributable to Avista Corp. shareholders, basic:		
Earnings per common share from continuing operations	$0.21	$0.16
Earnings per common share from discontinued operations	—	—
Total earnings per common share attributable to Avista Corp. shareholders, basic	$0.21	$0.16
Earnings per common share attributable to Avista Corp. shareholders, diluted:		
Earnings per common share from continuing operations	$0.21	$0.16
Earnings per common share from discontinued operations	—	—
Total earnings per common share attributable to Avista Corp. shareholders, diluted	$0.21	$0.16
Dividends declared per common share	$0.33	$0.3175

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Avista Corporation
For the Nine Months Ended September 30
Dollars in thousands, except per share amounts
(Unaudited)

	2015	2014
Operating Revenues:		
Utility revenues	$1,074,642	$1,031,491
Non-utility revenues	22,829	29,225
Total operating revenues	1,097,471	1,060,716
Operating Expenses:		
Utility operating expenses:		
Resource costs	488,886	481,007
Other operating expenses	220,599	207,195
Depreciation and amortization	106,279	95,200
Taxes other than income taxes	75,424	70,513
Non-utility operating expenses:		
Other operating expenses	22,924	20,514
Depreciation and amortization	512	452
Total operating expenses	914,624	874,881
Income from continuing operations	182,847	185,835
Interest expense	59,719	55,933
Interest expense to affiliated trusts	347	336
Capitalized interest	(2,701)	(2,707)
Other income-net	(6,190)	(8,263)
Income from continuing operations before income taxes	131,672	140,536
Income tax expense	47,378	51,274
Net income from continuing operations	84,294	89,262
Net income from discontinued operations (Note 4)	485	70,772
Net income	84,779	160,034
Net income attributable to noncontrolling interests	(73)	(213)
Net income attributable to Avista Corp. shareholders	$84,706	$159,821

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME (continued)
Avista Corporation
For the Nine Months Ended September 30
Dollars in thousands, except per share amounts
(Unaudited)

	2015	2014
Amounts attributable to Avista Corp. shareholders:		
Net income from continuing operations attributable to Avista Corp. shareholders	$84,221	$89,236
Net income from discontinued operations attributable to Avista Corp. shareholders	485	70,585
Net income attributable to Avista Corp. shareholders	$84,706	$159,821
Weighted-average common shares outstanding (thousands), basic	62,299	61,413
Weighted-average common shares outstanding (thousands), diluted	62,691	61,625
Earnings per common share attributable to Avista Corp. shareholders, basic:		
Earnings per common share from continuing operations	$1.35	$1.45
Earnings per common share from discontinued operations	0.01	1.15
Total earnings per common share attributable to Avista Corp. shareholders, basic	$1.36	$2.60
Earnings per common share attributable to Avista Corp. shareholders, diluted:		
Earnings per common share from continuing operations	$1.34	$1.45
Earnings per common share from discontinued operations	0.01	1.14
Total earnings per common share attributable to Avista Corp. shareholders, diluted	$1.35	$2.59
Dividends declared per common share	$0.99	$0.9525

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Avista Corporation
For the Three Months Ended September 30
Dollars in thousands
(Unaudited)

	2015	2014
Net income	$13,043	$10,471
Other Comprehensive Income:		
Change in unfunded benefit obligation for pension and other postretirement benefit plans - net of taxes of $132 and $60, respectively	246	112
Total other comprehensive income	246	112
Comprehensive income	13,289	10,583
Comprehensive income attributable to noncontrolling interests	(32)	(20)
Comprehensive income attributable to Avista Corporation shareholders	$13,257	$10,563

For the Nine Months Ended September 30
Dollars in thousands
(Unaudited)

	2015	2014
Net income	$84,779	$160,034
Other Comprehensive Income (Loss):		
Unrealized investment gains - net of taxes of $0 and $664, respectively	—	1,126
Reclassification adjustment for realized gains on investment securities included in net income from discontinued operations - net of taxes of $0 and $(1), respectively	—	(2)
Reclassification adjustment for realized losses on investment securities included in net income from discontinued operations - net of taxes of $0 and $273, respectively	—	462
Change in unfunded benefit obligation for pension and other postretirement benefit plans - net of taxes of $396 and $181, respectively	737	335
Total other comprehensive income	737	1,921
Comprehensive income	85,516	161,955
Comprehensive income attributable to noncontrolling interests	(73)	(213)
Comprehensive income attributable to Avista Corporation shareholders	$85,443	$161,742

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, 2015	December 31, 2014
Assets:		
Current Assets:		
Cash and cash equivalents	$9,314	$22,143
Accounts and notes receivable-less allowances of $5,121 and $4,888, respectively	110,837	171,925
Utility energy commodity derivative assets	899	1,525
Regulatory asset for utility derivatives	16,841	29,640
Materials and supplies, fuel stock and stored natural gas	59,735	66,356
Deferred income taxes	20,646	14,794
Income taxes receivable	627	43,893
Other current assets	39,081	45,071
Total current assets	257,980	395,347
Net Utility Property:		
Utility plant in service	5,007,349	4,718,062
Construction work in progress	193,000	227,758
Total	5,200,349	4,945,820
Less: Accumulated depreciation and amortization	1,416,227	1,325,858
Total net utility property	3,784,122	3,619,962
Other Non-current Assets:		
Investment in exchange power-net	9,596	11,433
Investment in affiliated trusts	11,547	11,547
Goodwill	57,672	57,976
Long-term energy contract receivable	18,179	28,202
Other property and investments-net	43,591	42,016
Total other non-current assets	140,585	151,174
Deferred Charges:		
Regulatory assets for deferred income tax	95,535	100,412
Regulatory assets for pensions and other postretirement benefits	226,648	235,758
Other regulatory assets	94,124	91,920
Regulatory asset for unsettled interest rate swaps	87,973	77,063
Non-current regulatory asset for utility derivatives	34,018	24,483
Other deferred charges	18,221	16,212
Total deferred charges	556,519	545,848
Total assets	$4,739,206	$4,712,331

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, 2015	December 31, 2014
Liabilities and Equity:		
Current Liabilities:		
Accounts payable	$63,172	$112,974
Current portion of long-term debt and capital leases	93,105	6,424
Current portion of nonrecourse long-term debt of Spokane Energy	—	1,431
Short-term borrowings	130,000	105,000
Utility energy commodity derivative liabilities	15,092	18,045
Other current liabilities	146,368	141,395
Total current liabilities	447,737	385,269
Long-term debt and capital leases	1,391,611	1,492,062
Long-term debt to affiliated trusts	51,547	51,547
Regulatory liability for utility plant retirement costs	261,092	254,140
Pensions and other postretirement benefits	188,711	189,489
Deferred income taxes	724,473	710,342
Other non-current liabilities and deferred credits	165,838	146,240
Total liabilities	3,231,009	3,229,089
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; 62,303,857 and 62,243,374 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	1,002,716	999,960
Accumulated other comprehensive loss	(7,151)	(7,888)
Retained earnings	512,988	491,599
Total Avista Corporation shareholders' equity	1,508,553	1,483,671
Noncontrolling Interests	(356)	(429)
Total equity	1,508,197	1,483,242
Total liabilities and equity	$4,739,206	$4,712,331

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)

	2015	2014
Operating Activities:		
Net income	$84,779	$160,034
Non-cash items included in net income:		
Depreciation and amortization	109,522	102,899
Provision for deferred income taxes	12,381	111,335
Power and natural gas cost amortizations (deferrals), net	10,004	(17,956)
Amortization of debt expense	2,651	2,799
Amortization of investment in exchange power	1,838	1,838
Stock-based compensation expense	5,263	6,261
Equity-related AFUDC	(5,891)	(6,426)
Pension and other postretirement benefit expense	28,179	17,381
Amortization of Spokane Energy contract	10,023	9,214
Gain on sale of Ecova	(710)	(161,100)
Other	(717)	14,568
Contributions to defined benefit pension plan	(12,000)	(32,000)
Changes in certain current assets and liabilities:		
Accounts and notes receivable	49,524	64,761
Materials and supplies, fuel stock and stored natural gas	6,621	(22,979)
Decrease (increase) in collateral posted for derivative instruments	(9,917)	5,978
Income taxes receivable	43,266	(645)
Other current assets	3,408	(1,886)
Accounts payable	(32,378)	(22,450)
Income taxes payable	158	6,885
Other current liabilities	5,240	27,203
Net cash provided by operating activities	311,244	265,714
Investing Activities:		
Utility property capital expenditures (excluding equity-related AFUDC)	(272,801)	(229,764)
Other capital expenditures	(852)	(6,316)
Federal and state grant payments received	2,752	2,191
Cash received (paid) in acquisition, net	(95)	15,007
Increase in funds held for clients	—	(18,931)
Purchase of securities available for sale	—	(12,267)
Sale and maturity of securities available for sale	—	14,612
Proceeds from sale of Ecova, net of cash sold	—	229,903
Other	(106)	(1,194)
Net cash used in investing activities	(271,102)	(6,759)

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)

	2015	2014
Financing Activities:		
Net increase (decrease) in short-term borrowings	$25,000	$(136,000)
Repayment of borrowings from Ecova line of credit	—	(46,000)
Proceeds from issuance of long-term debt	—	75,000
Redemption and maturity of long-term debt	(2,174)	(39,367)
Maturity of nonrecourse long-term debt of Spokane Energy	(1,431)	(12,172)
Cash paid for settlement of interest rate swap agreements	(9,326)	—
Issuance of common stock, net of issuance costs	1,397	3,425
Repurchase of common stock	(2,920)	(60,963)
Cash dividends paid	(61,828)	(58,552)
Increase in client fund obligations	—	16,216
Payment to noncontrolling interests for sale of Ecova	—	(54,179)
Payment to option holders and redeemable noncontrolling interests for sale of Ecova	—	(20,871)
Other	(1,689)	2,325
Net cash used in financing activities	(52,971)	(331,138)
Net decrease in cash and cash equivalents	(12,829)	(72,183)
Cash and cash equivalents at beginning of period	22,143	82,574
Cash and cash equivalents at end of period	$9,314	$10,391

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND REDEEMABLE NONCONTROLLING INTERESTS
Avista Corporation
For the Nine Months Ended September 30
Dollars in thousands
(Unaudited)

	2015	2014
Common Stock, Shares:		
Shares outstanding at beginning of period	62,243,374	60,076,752
Shares issued	149,883	4,685,953
Shares repurchased	(89,400)	(1,924,077)
Shares outstanding at end of period	62,303,857	62,838,628
Common Stock, Amount:		
Balance at beginning of period	$999,960	$896,993
Equity compensation expense	4,579	6,061
Issuance of common stock, net of issuance costs and excess tax benefits	1,397	153,501
Payment of minimum tax withholdings for share-based payment awards	(1,832)	—
Repurchase of common stock	(1,431)	(30,794)
Equity transactions of consolidated subsidiaries	—	(1,062)
Payment to option holders and redeemable noncontrolling interests for sale of Ecova	—	(20,871)
Excess tax benefits	43	3,936
Balance at end of period	1,002,716	1,007,764
Accumulated Other Comprehensive Loss:		
Balance at beginning of period	(7,888)	(5,819)
Other comprehensive income	737	1,921
Balance at end of period	(7,151)	(3,898)
Retained Earnings:		
Balance at beginning of period	491,599	407,092
Net income attributable to Avista Corporation shareholders	84,706	159,821
Cash dividends paid (common stock)	(61,828)	(58,552)
Repurchase of common stock	(1,489)	(30,169)
Valuation adjustments and other noncontrolling interests activity	—	10,150
Balance at end of period	512,988	488,342
Total Avista Corporation shareholders' equity	1,508,553	1,492,208
Noncontrolling Interests:		
Balance at beginning of period	(429)	20,001
Net income attributable to noncontrolling interests	73	217
Deconsolidation of noncontrolling interests related to sale of Ecova	—	(23,612)
Other	—	2,943
Balance at end of period	(356)	(451)
Total equity	$1,508,197	$1,491,757
Redeemable Noncontrolling Interests:		
Balance at beginning of period	$—	$15,889
Net loss attributable to noncontrolling interests	—	(4)
Purchase of subsidiary noncontrolling interests	—	(12)
Valuation adjustments and other noncontrolling interests activity	—	(15,873)
Balance at end of period	$—	$—

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) for the interim periods ended September 30, 2015 and 2014 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. 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, 2014 (2014 Form 10-K). Please refer to the section “Acronyms and Terms” in the 2014 Form 10-K for definitions of terms. 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.

On July 1, 2014, Avista Corp. acquired Alaska Energy and Resources Company (AERC), and as of that date, AERC became a wholly-owned subsidiary of Avista Corp. The primary subsidiary of AERC is Alaska Electric Light and Power Company (AEL&P), comprising the regulated utility operations in Alaska. There are no AERC earnings included in the overall results of Avista Corp. prior to July 1, 2014. See Note 3 for information regarding the acquisition of AERC.

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. During the first half of 2014, Avista Capital’s subsidiaries included Ecova, Inc. (Ecova), which was an 80.2 percent owned subsidiary prior to its disposition on June 30, 2014. Ecova was a provider of energy efficiency and other facility information and cost management programs and services for multi-site customers and utilities throughout North America. See Note 4 for information regarding the disposition of Ecova and Note 14 for business segment 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. Ecova's revenues and expenses are included in the Condensed Consolidated Statements of Income in discontinued operations; however, as of June 30, 2014, and for all subsequent reporting periods, there are no balance sheet amounts included for Ecova. All tables throughout the Notes to Condensed Consolidated Financial Statements that present Condensed Consolidated Statements of Income information were revised to include only the amounts from continuing operations. 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 and totaled the following amounts for the three and nine months ended September 30 (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Utility taxes	$12,316	$11,716	$44,755	$43,923

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Other Income-Net

Other income-net consisted of the following items for the three and nine months ended September 30 (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Interest income	$118	$154	$478	$678
Interest income on regulatory deferrals	10	59	44	154
Equity-related AFUDC	2,017	2,189	5,891	6,426
Net gain (loss) on investments	240	(27)	(211)	118
Other income (loss)	(262)	233	(12)	887
Total	$2,123	$2,608	$6,190	$8,263

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 market for our non-regulated operations and consisted of the following as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015	December 31, 2014
Materials and supplies	$34,957	$32,483
Fuel stock	4,802	5,142
Stored natural gas	19,976	28,731
Total	$59,735	$66,356

Investments and Funds Held for Clients and Client Fund Obligations

In connection with its bill paying services, Ecova collected funds from its clients and remitted the funds to the appropriate utility or other service provider. Some of the funds collected were invested by Ecova and classified as investments and funds held for clients, and a related liability for client fund obligations was recorded. Investments and funds held for clients included cash and cash equivalent investments, money market funds and investment securities classified as available for sale. Ecova did not invest the funds directly for the clients' benefit; therefore, Ecova bore the risk of loss associated with the investments. As of June 30, 2014 and for all subsequent reporting periods there are no longer any investments and funds held for clients due to the disposition of Ecova.

The following is a summary of the disposition of available-for-sale securities for the nine months ended September 30, 2014 (dollars in thousands):

	Nine months ended September 30, 2014
Proceeds from sales, maturities and calls	$14,612
Gross realized gains	3
Gross realized losses (1)	(735)

(1) The gross realized losses for the nine months ended September 30, 2014 were included in the determination of the gain on the disposition of Ecova and were not the result of selling any individual securities.

Derivative Assets and Liabilities

Derivatives are recorded as either assets or liabilities on the Condensed Consolidated Balance Sheets measured at estimated fair value. In certain defined conditions, a derivative may be specifically designated as a hedge for a particular exposure. The accounting for a derivative depends on the intended use of such derivative and the resulting designation.

The Washington Utilities and Transportation Commission (UTC) and the Idaho Public Utilities Commission (IPUC) issued accounting orders authorizing Avista Utilities 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. The orders provide for Avista Utilities to not recognize the unrealized gain or loss on utility derivative commodity instruments in the Condensed Consolidated Statements of Income. Realized gains or

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losses are recognized in the periods of delivery, subject to approval for recovery through retail rates. Realized gains and losses, subject to regulatory approval, 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 rates cases. Regulatory assets are assessed regularly and are probable for 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 agreements, each period Avista Utilities records all mark-to-market gains and losses as assets and liabilities and records offsetting regulatory assets and liabilities, such that there is no income statement impact. Upon settlement of interest rate swaps, the regulatory asset or liability (included as part of long-term debt) is amortized as a component of interest expense over the term of the associated debt.

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 swap agreements and foreign currency exchange contracts, are reported at estimated fair value on the Condensed Consolidated Balance Sheets. See Note 11 for the Company’s fair value disclosures.

Regulatory Deferred Charges and Credits

The Company follows the accounting practices for regulated operations for its regulated utility businesses because:

- rates for regulated services are established by or subject to approval by independent third-party regulators,
- the regulated rates are designed to recover the cost of providing the regulated services, and
- in view of demand for the regulated services and the level of competition, it is reasonable to assume that rates can be charged to and collected from customers at levels that will recover costs.

Regulatory accounting practices require that certain costs and/or obligations (such as incurred power and natural gas costs not currently included in rates, but expected to be recovered or refunded in the future) are reflected as deferred charges or credits on the Condensed Consolidated Balance Sheets. These costs and/or obligations are not reflected in the Condensed Consolidated Statements of Income until the period during which matching revenues are recognized. The Company also has decoupling revenue deferrals. As opposed to cost deferrals which are not recognized in the Condensed Consolidated Statements of Income until they are included in rates, decoupling revenue is recognized in the Condensed Consolidated Statements of Income during the period it occurs (i.e. during the period of revenue shortfall or excess due to fluctuations in customer usage), subject to certain limitations, and a regulatory asset/liability is established which will be surcharged or rebated to customers in future periods. If at some point in the future the Company determines that it no longer meets the criteria for continued application of regulatory accounting practices for all or a portion of its regulated operations, the Company could be:

- required to write off its regulatory assets,
- precluded from the future deferral of costs or decoupled revenues not recovered through rates at the time such amounts are incurred, even if the Company expected to recover these amounts from customers in the future.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, net of tax, consisted of the following as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015	December 31, 2014
	$(7,151)	$(7,888)

Unfunded benefit obligation for pensions and other postretirement benefit plans - net of taxes of $(3,852) and $(4,247), respectively

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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). Items in parenthesis indicate reductions to net income.

Details about Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss Three months ended September 30, 2015	2014	Nine months ended September 30, 2015	2014	Affected Line Item in Statement of Income
Realized gains on investment securities	$—	$—	$—	$3	(a)
Realized losses on investment securities	—	—	—	(735)	(a)
	—	—	—	(732)	Total before tax
	—	—	—	272	Tax benefit (a)
	$—	$—	$—	$(460)	Net of tax
Amortization of defined benefit pension items					
Amortization of net prior service cost	$273	$37	$819	$113	(b)
Amortization of net loss	(3,688)	(1,988)	$(11,063)	$(5,968)	(b)
Adjustment due to effects of regulation	3,037	1,779	9,111	5,339	(b)
	(378)	(172)	(1,133)	(516)	Total before tax
	132	60	396	181	Tax benefit
	$(246)	$(112)	$(737)	$(335)	Net of tax

(a) These amounts were included as part of net income from discontinued operations (see Note 4 for additional details).

(b) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (see Note 7 for additional details).

Appropriated Retained Earnings

In accordance with the hydroelectric licensing requirements of section 10(d) of the Federal Power Act (FPA), the Company maintains an appropriated retained earnings account for any earnings in excess of the specified rate of return on the Company's investment in the licenses for its various hydroelectric projects. Per section 10(d) of the FPA, the Company must maintain these excess earnings in an appropriated retained earnings account until the termination of the licensing agreements or apply them to reduce the net investment in the licenses of the hydroelectric projects at the discretion of the FERC. The Company typically calculates the earnings in excess of the specified rate of return on an annual basis, usually during the second quarter.

In addition to the hydroelectric project licenses identified above for Avista Utilities, the requirements of section 10(d) of the FPA also apply to the AEL&P licenses for Lake Dorothy and Annex Creek/Salmon Creek (combined).

The appropriated retained earnings amounts included in retained earnings were as follows as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015	December 31, 2014
Appropriated retained earnings	$21,030	$14,270

Dividends

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

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- certain covenants applicable to preferred stock (when outstanding) contained in the Company’s Restated Articles of Incorporation, as amended (currently there are no preferred shares outstanding),
- certain covenants applicable to the Company's outstanding long-term debt and committed line of credit agreements,
- the hydroelectric licensing requirements of section 10(d) of the FPA, and
- certain requirements under the Public Utility Commission of Oregon (OPUC) approval of the AERC acquisition. As of July 1, 2015 (one year following the acquisition date), the OPUC does not permit one-time or special dividends from AERC to Avista Corp. and does not permit Avista Utilities' total equity to total capitalization to be

less than 40 percent, without approval from the OPUC. However, the OPUC approval does allow for regular distributions of AERC earnings to Avista Corp. as long as AERC remains sufficiently capitalized and insured.
Under the covenant applicable to the Company's committed line of credit agreement, which does not permit the ratio of “consolidated total debt” to “consolidated total capitalization” to be greater than 65 percent at any time, the amount of retained earnings available for dividends at September 30, 2015 was limited to approximately $397.4 million.
Under the requirements of the OPUC approval of the AERC acquisition as outlined above, the amount available for dividends at September 30, 2015 was limited to approximately $252.2 million.

Stock Repurchase Program

On December 16, 2014, the Company announced that Avista Corp.'s Board of Directors approved the repurchase of up to 800,000 shares of the Company’s outstanding common stock, commencing on January 2, 2015, and expiring on March 31, 2015 (first quarter 2015 program). Under the first quarter 2015 program, the Company repurchased 89,400 shares at a total cost of $2.9 million and an average cost of $32.66 per share. All repurchased shares reverted to the status of authorized but unissued shares.

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 losses that do not meet these conditions for accrual if there is a reasonable possibility that a loss may be incurred. As of September 30, 2015, the Company has not recorded any significant amounts related to unresolved contingencies.

Reclassifications

Certain prior year amounts on the Company's Condensed Consolidated Statements of Cash Flows were reclassified to conform to the current year presentation. In the current year Condensed Consolidated Statements of Cash Flows, "Decrease (increase) in collateral posted for derivative instruments" and "Income taxes receivable" were added as their own line items. These were previously included in "Other current assets" in the operating activities section.

NOTE 2. NEW ACCOUNTING STANDARDS

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This ASU amends the definition of a discontinued operation and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued-operations criteria. ASU 2014-08 makes it more difficult for a disposal transaction to qualify as a discontinued operation. In addition, the ASU requires entities to reclassify assets and liabilities of a discontinued operation for all comparative periods presented in the Balance Sheet rather than just the current period, and it requires additional disclosures on the face of the Statement of Cash Flows regarding discontinued operations. This ASU became effective for periods beginning on or after December 15, 2014; however, early adoption was permitted. The Company evaluated this standard and determined that it would not early adopt this standard. Since the disposition of Ecova occurred before the effective date of this standard, and the Company did not early adopt this standard, there is no impact on the Company's financial condition, results of operations and cash flows in the current year.
In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," 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 identifies the various performance obligations in a contract, allocates the transaction price among the performance obligations and recognizes revenue as the entity satisfies the performance obligations. This ASU was originally effective for periods beginning after December 15, 2016 and early adoption is not permitted. In August 2015, the FASB issued ASU 2015-14 Revenue from Contracts with Customers (Topic 606):

Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 for one year, with adoption as of the original date permitted. However, while this ASU is not effective until 2018, it will require retroactive application to all periods presented in the financial statements. As such, at adoption in 2018, amounts in 2016 and 2017 may have to be revised or a cumulative adjustment to opening retained earnings may have to be recorded. The Company is evaluating this standard and cannot, at this time, estimate the potential impact on its future financial condition, results of operations and cash flows.

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In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." This ASU significantly changes the consolidation analysis required under GAAP, including the identification of variable interest entities (VIE). The ASU also removes the deferral of the VIE analysis related to investments in certain investment funds, which will result in a different consolidation evaluation for these types of investments. This ASU is effective for periods beginning on or after December 15, 2015; however, early adoption is permitted. The Company evaluated this standard and determined that it will not early adopt this standard. The Company is evaluating this standard and cannot, at this time, estimate the potential impact on its future financial condition, results of operations and cash flows.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." This ASU amends the presentation of debt issuance costs in the financial statements such that an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as a deferred asset. Amortization of the costs will continue to be reported as interest expense. ASU No. 2015-03 is effective for periods beginning on or after December 15, 2015; however, early adoption is permitted. Upon adoption, entities will apply the new guidance retrospectively to all comparable prior periods presented in the financial statements. The Company is currently evaluating this standard and has not determined if it will early adopt this standard. Upon adoption, the Company will revise its current presentation of debt issuance costs for long-term debt in the Condensed Consolidated Balance Sheets; however, the Company does not expect a material impact on its future financial condition, results of operations or cash flows as a result of the adoption.

ASU No. 2015-03 did not address the presentation of debt issuance costs associated with line of credit arrangements. Accordingly, in August 2015, the FASB issued ASU No. 2015-15, "Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements." This ASU incorporates guidance from the Securities and Exchange Commission which states that it would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This ASU was effective upon issuance. The presentation outlined in ASU No. 2015-15 is consistent with the Company's current presentation of line of credit issuance costs; therefore, there is no impact to the Company's financial statements as a result of adopting this accounting standard in 2015.

In April 2015, the FASB issued ASU No. 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement." This ASU provides guidance on how organizations should account for fees paid in a cloud computing arrangement, including helping organizations understand whether their arrangement includes a software license. If the arrangement includes a software license, the software license would be accounted for in a manner consistent with internal-use software. If a cloud-computing arrangement does not include a software license, the customer is required to account for the arrangement as a service contract. This ASU is effective for periods beginning on or after December 15, 2015; however, early adoption is permitted. The Company evaluated this standard and determined that it will not early adopt this standard. Upon adoption, an entity can elect to apply this ASU prospectively or retroactively and disclose the method selected. The Company is evaluating this standard and cannot, at this time, estimate the potential impact on its future financial condition, results of operations and cash flows.

In May 2015, the FASB issued ASU No. 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." This ASU removes, from the fair value hierarchy,
investments for which the practical expedient is used to measure fair value at net asset value (NAV). Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. Further, entities must provide certain disclosures for

investments for which they elect to use the NAV practical expedient to determine fair value. This ASU is effective for periods beginning on or after December 15, 2015 and early adoption is permitted. The Company evaluated this standard and determined that it will not early adopt this standard. Upon adoption, this ASU should be applied retrospectively to all periods presented. The Company is evaluating this standard and cannot, at this time, estimate the potential impact on its future financial condition, results of operations and cash flows.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." This ASU simplifies the inventory measurement guidance by removing the requirement to measure inventory at the lower of cost or market and instead requires inventory to be measured at the lower of cost or net realizable value (estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation). This ASU applies to all inventory except that which is measured using last-in, first-out (LIFO) or the retail inventory method. Inventory measured using first-in, first-out (FIFO) or average cost is included in the new amendment. This ASU is effective for periods beginning on or after December 15, 2016. The new guidance shall be applied prospectively, and earlier application is permitted as of the beginning of an interim or annual reporting period. The Company is evaluating this standard and cannot, at this time, estimate

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the potential impact on its future financial condition, results of operations and cash flows. However, the Company does not expect to early adopt this standard.

NOTE 3. BUSINESS ACQUISITIONS

Alaska Energy and Resources Company

On July 1, 2014, the Company acquired AERC, based in Juneau, Alaska, and as of that date, AERC became a wholly-owned subsidiary of Avista Corp.

The primary subsidiary of AERC is AEL&P, a regulated utility which provides electric services to 16,676 customers in the City and Borough of Juneau (Juneau), Alaska. In addition to the regulated utility, AERC owns AJT Mining, which is an inactive mining company holding certain properties.

The purpose of the acquisition was to expand and diversify Avista Corp.'s energy assets and deliver long-term value to its customers, communities and investors.

In connection with the closing, on July 1, 2014 Avista Corp. issued 4,500,014 new shares of common stock to the shareholders of AERC based on a contractual formula that resulted in a price of $32.46 per share, reflecting a purchase price of $170.0 million, plus acquired cash, less outstanding debt and other closing adjustments.

The $32.46 price per share of Avista Corp. common stock was determined based on the average closing stock price of Avista Corp. common stock for the 10 consecutive trading days immediately preceding, but not including, the trading day prior to July 1, 2014. This value was used solely for determining the number of shares to issue based on the adjusted contract closing price (see reconciliation below). The fair value of the consideration transferred at the closing date was based on the closing stock price of Avista Corp. common stock on July 1, 2014, which was $33.35 per share.

On October 1, 2014, a working capital adjustment was made in accordance with the agreement and plan of merger which resulted in Avista Corp. issuing an additional 1,427 shares of common stock to the shareholders of AERC. The number of shares issued on October 1, 2014 was based on the same contractual formula described above. The fair value of the new shares issued in October was $30.71 per share, which was the closing stock price of Avista Corp. common stock on that date.

The contract acquisition price and the fair value of consideration transferred for AERC were as follows (in thousands, except "per share" and number of shares data):

Contract acquisition price (using the calculated $32.46 per share common stock price)	
Gross contract price	$