

AVISTA CORP
Form 10-Q
August 02, 2017

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

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 June 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

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 July 31, 2017, 64,411,244 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

Table of Contents

AVISTA CORPORATION

AVISTA CORPORATION

INDEX

Item No.	Page No.
<u>Forward-Looking Statements</u>	<u>1</u>
<u>Available Information</u>	<u>4</u>
<u>Part I. Financial Information</u>	
Item 1. <u>Condensed Consolidated Financial Statements</u>	<u>5</u>
<u>Condensed Consolidated Statements of Income -</u>	<u>5</u>
<u>Three and Six Months Ended June 30, 2017 and 2016</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income -</u>	<u>6</u>
<u>Three and Six Months Ended June 30, 2017 and 2016</u>	<u>6</u>
<u>Condensed Consolidated Balance Sheets -</u>	<u>7</u>
<u>June 30, 2017 and December 31, 2016</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows -</u>	<u>9</u>
<u>Six Months Ended June 30, 2017 and 2016</u>	<u>9</u>
<u>Condensed Consolidated Statements of Equity -</u>	<u>11</u>
<u>Six Months Ended June 30, 2017 and 2016</u>	<u>11</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>12</u>
<u>Note 1. Summary of Significant Accounting Policies</u>	<u>12</u>
<u>Note 2. New Accounting Standards</u>	<u>14</u>
<u>Note 3. Derivatives and Risk Management</u>	<u>16</u>
<u>Note 4. Pension Plans and Other Postretirement Benefit Plans</u>	<u>20</u>
<u>Note 5. Committed Lines of Credit</u>	<u>21</u>
<u>Note 6. Long-Term Debt and Capital Leases</u>	<u>22</u>
<u>Note 7. Long-Term Debt to Affiliated Trusts</u>	<u>23</u>
<u>Note 8. Fair Value</u>	<u>23</u>
<u>Note 9. Common Stock</u>	<u>27</u>
<u>Note 10. Earnings per Common Share Attributable to Avista Corporation Shareholders</u>	<u>28</u>
<u>Note 11. Commitments and Contingencies</u>	<u>28</u>
<u>Note 12. Information by Business Segments</u>	<u>29</u>
<u>Note 13. Subsequent Events</u>	<u>31</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>32</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
<u>Business Segments</u>	<u>33</u>
<u>Executive Level Summary</u>	<u>33</u>
<u>Regulatory Matters</u>	<u>34</u>
<u>Results of Operations - Overall</u>	<u>40</u>
<u>Non-GAAP Financial Measures</u>	<u>42</u>
<u>Results of Operations - Avista Utilities</u>	<u>42</u>
<u>Results of Operations - Alaska Electric Light and Power Company</u>	<u>54</u>
<u>Results of Operations - Other Businesses</u>	<u>54</u>
<u>Critical Accounting Policies and Estimates</u>	<u>54</u>

<u>Liquidity and Capital Resources</u>	<u>55</u>
<u>Overall Liquidity</u>	<u>55</u>
<u>Review of Cash Flow Statement</u>	<u>55</u>
<u>Capital Resources</u>	<u>56</u>
<u>Capital Expenditures</u>	<u>57</u>
<u>Off-Balance Sheet Arrangements</u>	<u>57</u>
<u>Pension Plan</u>	<u>57</u>
<u>Contractual Obligations</u>	<u>57</u>

Table of Contents

AVISTA CORPORATION

	<u>Environmental Issues and Other Contingencies</u>	<u>57</u>
	<u>Enterprise Risk Management</u>	<u>58</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>59</u>
Item 4.	<u>Controls and Procedures</u>	<u>59</u>
	<u>Part II. Other Information</u>	
Item 1.	<u>Legal Proceedings</u>	<u>59</u>
Item 1A.	<u>Risk Factors</u>	<u>59</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>60</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>60</u>
Item 6.	<u>Exhibits</u>	<u>61</u>
	<u>Signature</u>	<u>62</u>

Table of Contents

AVISTA CORPORATION

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,” “plans,” 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;

•

possibility that our integrated resource plans for electric and natural gas will not be acknowledged by the state commissions;

1

Table of Contents

AVISTA CORPORATION

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 public injuries or property damage;

public injuries 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;

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;

2

Table of Contents

AVISTA CORPORATION

- 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 merger transaction 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 announced merger transaction could result in shareholder class action lawsuits against the Company, its management team and board of directors;

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 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 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

3

Table of Contents

AVISTA CORPORATION

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 U.S. Securities and Exchange Commission.

Information contained on our website is not part of this report.

Table of Contents

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		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Operating Revenues:				
Utility revenues	\$308,729	\$312,888	\$739,266	\$725,681
Non-utility revenues	5,772	5,950	11,705	11,330
Total operating revenues	314,501	318,838	750,971	737,011
Operating Expenses:				
Utility operating expenses:				
Resource costs	102,751	109,815	268,337	271,534
Other operating expenses	81,965	78,666	156,449	154,445
Depreciation and amortization	42,643	39,678	84,628	78,870
Taxes other than income taxes	23,802	22,615	56,464	52,000
Non-utility operating expenses:				
Other operating expenses	7,086	6,281	13,265	12,106
Depreciation and amortization	157	192	345	380
Total operating expenses	258,404	257,247	579,488	569,335
Income from operations	56,097	61,591	171,483	167,676
Interest expense	23,670	21,318	47,215	42,591
Interest expense to affiliated trusts	200	154	385	292
Capitalized interest	(890)	(837)	(1,614)	(1,751)
Other income-net	(1,656)	(3,041)	(4,757)	(5,463)
Income before income taxes	34,773	43,997	130,254	132,007
Income tax expense	13,051	16,710	46,395	47,055
Net income	21,722	27,287	83,859	84,952
Net loss (income) attributable to noncontrolling interests	49	(33)	28	(49)
Net income attributable to Avista Corp. shareholders	\$21,771	\$27,254	\$83,887	\$84,903
Weighted-average common shares outstanding (thousands), basic	64,401	63,386	64,382	62,995
Weighted-average common shares outstanding (thousands), diluted	64,553	63,783	64,511	63,368
Earnings per common share attributable to Avista Corp. shareholders:				
Basic	\$0.34	\$0.43	\$1.30	\$1.35
Diluted	\$0.34	\$0.43	\$1.30	\$1.34
Dividends declared per common share	\$0.3575	\$0.3425	\$0.7150	\$0.6850

The Accompanying Notes are an Integral Part of These Statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Avista Corporation
Dollars in thousands
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net income	\$21,722	\$27,287	\$83,859	\$84,952
Other Comprehensive Income (Loss):				
Change in unfunded benefit obligation for pension and other postretirement benefit plans - net of taxes of \$99, \$76, \$197 and \$(587) respectively	183	140	366	(1,089)
Total other comprehensive income (loss)	183	140	366	(1,089)
Comprehensive income	21,905	27,427	84,225	83,863
Comprehensive loss (income) attributable to noncontrolling interests	49	(33)	28	(49)
Comprehensive income attributable to Avista Corporation shareholders	\$21,954	\$27,394	\$84,253	\$83,814

The Accompanying Notes are an Integral Part of These Statements.

Table of Contents

CONDENSED CONSOLIDATED BALANCE SHEETS

Avista Corporation
Dollars in thousands
(Unaudited)

	June 30, 2017	December 31, 2016
Assets:		
Current Assets:		
Cash and cash equivalents	\$13,410	\$8,507
Accounts and notes receivable-less allowances of \$5,607 and \$5,026, respectively	133,946	180,265
Regulatory asset for energy commodity derivatives	13,982	11,365
Materials and supplies, fuel stock and stored natural gas	61,187	53,314
Income taxes receivable	35,808	48,265
Other current assets	62,403	49,625
Total current assets	320,736	351,341
Net Utility Property:		
Utility plant in service	5,617,233	5,506,499
Construction work in progress	169,000	150,474
Total	5,786,233	5,656,973
Less: Accumulated depreciation and amortization	1,558,773	1,509,473
Total net utility property	4,227,460	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	79,487	72,224
Total other non-current assets	148,706	141,443
Deferred Charges:		
Regulatory assets for deferred income tax	118,984	109,853
Regulatory assets for pensions and other postretirement benefits	234,046	240,114
Other regulatory assets	134,533	135,751
Regulatory asset for interest rate swaps	168,084	161,508
Non-current regulatory asset for energy commodity derivatives	15,023	16,919
Other deferred charges	5,432	5,326
Total deferred charges	676,102	669,471
Total assets	\$5,373,004	\$5,309,755

The Accompanying Notes are an Integral Part of These Statements.

Table of Contents

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

Avista Corporation
Dollars in thousands
(Unaudited)

	June 30, 2017	December 31, 2016
Liabilities and Equity:		
Current Liabilities:		
Accounts payable	\$69,165	\$115,545
Current portion of long-term debt and capital leases	277,814	3,287
Short-term borrowings	136,398	120,000
Energy commodity derivative liabilities	8,308	7,035
Accrued interest	16,128	15,869
Accrued taxes other than income taxes	33,169	33,374
Deferred natural gas costs	28,973	30,820
Current portion of pensions and other postretirement benefits	11,235	10,994
Current interest rate swap derivative liabilities	36,507	6,025
Other current liabilities	64,417	64,579
Total current liabilities	682,114	407,528
Long-term debt and capital leases	1,403,064	1,678,717
Long-term debt to affiliated trusts	51,547	51,547
Regulatory liability for utility plant retirement costs	280,580	273,983
Pensions and other postretirement benefits	219,584	226,552
Deferred income taxes	886,727	840,928
Non-current interest rate swap derivative liabilities	336	28,705
Other non-current liabilities, regulatory liabilities and deferred credits	162,158	153,319
Total liabilities	3,686,110	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; 64,408,983 and 64,187,934 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	1,075,667	1,075,281
Accumulated other comprehensive loss	(7,202)	(7,568)
Retained earnings	618,708	581,014
Total Avista Corporation shareholders' equity	1,687,173	1,648,727
Noncontrolling Interests	(279)	(251)
Total equity	1,686,894	1,648,476
Total liabilities and equity	\$5,373,004	\$5,309,755

The Accompanying Notes are an Integral Part of These Statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Avista Corporation

For the Six Months Ended June 30

Dollars in thousands

(Unaudited)

	2017	2016
Operating Activities:		
Net income	\$83,859	\$84,952
Non-cash items included in net income:		
Depreciation and amortization	86,790	81,071
Deferred income tax provision and investment tax credits	36,169	56,652
Power and natural gas cost amortizations, net	6,366	9,958
Amortization of debt expense	1,627	1,742
Amortization of investment in exchange power	1,225	1,225
Stock-based compensation expense	2,643	4,236
Equity-related Allowance for Funds Used During Construction (AFUDC)	(3,292)	(4,368)
Pension and other postretirement benefit expense	18,539	19,315
Amortization of Spokane Energy contract	—	7,192
Other regulatory assets and liabilities and deferred debits and credits	(8,831)	(13,169)
Change in decoupling regulatory deferral	10,365	(24,787)
Other	420	5,032
Contributions to defined benefit pension plan	(14,800)	(8,000)
Changes in certain current assets and liabilities:		
Accounts and notes receivable	45,375	50,062
Materials and supplies, fuel stock and stored natural gas	(7,879)	2,510
Collateral posted for derivative instruments	(5,460)	(83,499)
Income taxes receivable	12,457	(1,450)
Other current assets	(3,825)	(4,436)
Accounts payable	(29,435)	(31,484)
Other current liabilities	(3,787)	3,197
Net cash provided by operating activities	228,526	155,951
Investing Activities:		
Utility property capital expenditures (excluding equity-related AFUDC)	(177,714)	(182,815)
Issuance of notes receivable at subsidiaries	(2,500)	(9,668)
Equity and property investments made by subsidiaries	(10,347)	(6,988)
Distributions received from investments	1,915	—
Other	(943)	(7,153)
Net cash used in investing activities	(189,589)	(206,624)

The Accompanying Notes are an Integral Part of These Statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Avista Corporation

For the Six Months Ended June 30

Dollars in thousands

(Unaudited)

	2017	2016
Financing Activities:		
Net increase in short-term borrowings	\$16,000	\$55,000
Maturity of long-term debt and capital leases	(1,643)	(1,583)
Issuance of common stock, net of issuance costs	1,247	47,173
Cash dividends paid	(46,193)	(43,267)
Other	(3,445)	(3,612)
Net cash provided by (used in) financing activities	(34,034)	53,711
Net increase in cash and cash equivalents	4,903	3,038
Cash and cash equivalents at beginning of period	8,507	10,484
Cash and cash equivalents at end of period	\$13,410	\$13,522

The Accompanying Notes are an Integral Part of These Statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

Avista Corporation

For the Six Months Ended June 30

Dollars in thousands

(Unaudited)

	2017	2016
Common Stock, Shares:		
Shares outstanding at beginning of period	64,187,934	62,312,651
Shares issued	221,049	1,391,644
Shares outstanding at end of period	64,408,983	63,704,295
Common Stock, Amount:		
Balance at beginning of period	\$1,075,281	\$1,004,336
Equity compensation expense	2,559	3,708
Issuance of common stock, net of issuance costs	1,247	47,173
Payment of minimum tax withholdings for share-based payment awards	(3,420)	(3,027)
Balance at end of period	1,075,667	1,052,190
Accumulated Other Comprehensive Loss:		
Balance at beginning of period	(7,568)	(6,650)
Other comprehensive income (loss)	366	(1,089)
Balance at end of period	(7,202)	(7,739)
Retained Earnings:		
Balance at beginning of period	581,014	530,940
Net income attributable to Avista Corporation shareholders	83,887	84,903
Cash dividends paid on common stock	(46,193)	(43,267)
Balance at end of period	618,708	572,576
Total Avista Corporation shareholders' equity	1,687,173	1,617,027
Noncontrolling Interests:		
Balance at beginning of period	(251)	(339)
Net income (loss) attributable to noncontrolling interests	(28)	49
Balance at end of period	(279)	(290)
Total equity	\$1,686,894	\$1,616,737

The Accompanying Notes are an Integral Part of These Statements.

Table of Contents

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 June 30, 2017 and June 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.

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 six months ended June 30 (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Utility related taxes	\$ 13,552	\$ 12,573	\$ 35,136	\$ 30,938
Property taxes	9,432	9,290	19,838	19,710

Edgar Filing: AVISTA CORP - Form 10-Q

Other taxes	818	752	1,490	1,352
Total	\$23,802	\$22,615	\$56,464	\$52,000

12

Table of Contents

AVISTA CORPORATION

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 June 30, 2017 and December 31, 2016 (dollars in thousands):

	June 30,	December
	2017	31,
	2017	2016
Materials and supplies	\$41,492	\$ 40,700
Fuel stock	5,921	4,585
Stored natural gas	13,774	8,029
Total	\$61,187	\$ 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 June 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.

Table of Contents

AVISTA CORPORATION

Accumulated Other Comprehensive Loss

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

	June 30, 2017	December 31, 2016
Unfunded benefit obligation for pensions and other postretirement benefit plans - net of taxes of \$3,878 and \$4,075, respectively	\$7,202	\$ 7,568

The following table details the reclassifications out of accumulated other comprehensive loss by component for the three and six months ended June 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 June 30,		Six months ended June 30,		
	2017	2016	2017	2016	
Amortization of defined benefit pension items					
Amortization of net prior service cost	\$(299)	\$(311)	\$(598)	\$(622)	(a)
Amortization of net loss	3,638	3,642	\$7,276	\$7,284	(a)
Adjustment due to effects of regulation	(3,057)	(3,115)	(6,115)	(8,338)	(a) (b)
	282	216	563	(1,676)	Total before tax
	(99)	(76)	(197)	587	Tax benefit (expense)
	\$183	\$140	\$366	\$(1,089)	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).

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

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 June 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.

The Company has a revenue recognition standard implementation team that is working through implementation issues. 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.

Table of Contents

AVISTA CORPORATION

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 is in the process of reviewing and analyzing 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 (CIAC) 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 preliminary 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 preliminary assessment indicates that there will be no material changes to current presentation.

Collectibility - There were questions regarding the requirement that collection of a sale be probable and how, or if, utilities should consider bad debt collection mechanisms (riders, base rate adjustments, etc.) in assessing probability of collection on sales to low income customers. Current preliminary implementation guidance indicates that bad debt collection mechanisms should be considered; therefore, the Company does not expect a change to its current presentation going forward.

The Company is monitoring utility industry implementation guidance as it relates to certain issues to determine if there will be an 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. 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 geographic location, 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. The most significant implementation challenge identified thus far relates to identifying a complete population of leases and potential leases under the new lease standard. Also, 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:

15

Table of Contents

AVISTA CORPORATION

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. Because this standard was adopted in the second quarter of 2016, but had a retrospective effective date of January 1, 2016, the effects from the adoption were reflected in the first quarter of 2016 and the Condensed Consolidated Financial Statements for that quarter were recast from those presented when the financial statements were originally issued.

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 does not expect to 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 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.

Table of Contents

AVISTA CORPORATION

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 June 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	185	999	7,418	63,423	154	1,129	3,378	43,940
2018	397	307	—	78,488	254	1,244	1,360	46,805
2019	235	737	610	42,775	158	982	1,345	26,590
2020	—	—	910	3,635	—	—	1,430	—
2021	—	—	—	—	—	—	1,049	—
Thereafter	—	—	—	—	—	—	—	—

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.

Table of Contents

AVISTA CORPORATION

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 June 30, 2017 and December 31, 2016 (dollars in thousands):

	June 30, 2017	December 31, 2016
Number of contracts	24	21
Notional amount (in United States dollars)	\$7,588	\$ 2,819
Notional amount (in Canadian dollars)	10,075	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.

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

Balance Sheet Date	Number of Contracts	Notional Amount	Mandatory Cash Settlement Date
June 30, 2017	6	\$75,000	2017
	14	275,000	2018
	6	70,000	2019
	3	30,000	2020
	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

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.

18

Table of Contents

AVISTA CORPORATION

Summary of Outstanding Derivative Instruments

The amounts recorded on the Condensed Consolidated Balance Sheet as of June 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 June 30, 2017 (in thousands):

Derivative and Balance Sheet Location	Fair Value as of June 30, 2017			Net Asset (Liability) on Balance Sheet
	Gross Asset	Gross Liability	Collateral Netted	
Foreign currency exchange derivatives				
Other current assets	\$187	\$—	\$—	\$187
Interest rate swap derivatives				
Other current assets	5,626	(208)	—	5,418
Other property and investments-net and other non-current assets	5,676	(1,645)	—	4,031
Current interest rate swap derivative liabilities	—	(78,077)	41,570	(36,507)
Non-current interest rate swap derivative liabilities	—	(336)	—	(336)
Energy commodity derivatives				
Other current assets	168	(11)	—	157
Current energy commodity derivative liabilities	22,577	(36,716)	5,831	(8,308)
Other non-current liabilities, regulatory liabilities and deferred credits	12,532	(27,555)	3,936	(11,087)
Total derivative instruments recorded on the balance sheet	\$46,766	\$(144,548)	\$51,337	\$(46,445)

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

Table of Contents

AVISTA CORPORATION

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 June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Energy commodity derivatives		
Cash collateral posted	\$ 15,924	\$ 17,134
Letters of credit outstanding	37,250	24,400
Balance sheet offsetting (cash collateral against net derivative positions)	9,767	9,858
Interest rate swap derivatives		
Cash collateral posted	41,570	34,900
Letters of credit outstanding	13,100	3,600
Balance sheet offsetting (cash collateral against net derivative positions)	41,570	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 June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Energy commodity derivatives		
Liabilities with credit-risk-related contingent features	\$ 648	\$ 1,124
Additional collateral to post	648	1,046
Interest rate swap derivatives		
Liabilities with credit-risk-related contingent features	80,266	73,978
Additional collateral to post	11,210	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 six months ended June 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 \$14.8 million in cash to the pension plan for the six months ended June 30, 2017 and expects to contribute a total of \$22.0 million in 2017. The Company contributed \$12.0 million in cash to the pension plan in 2016.

Table of Contents

AVISTA CORPORATION

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 six months ended June 30 (dollars in thousands):

	Pension Benefits		Other Post-retirement Benefits	
	2017	2016	2017	2016
Three months ended June 30:				
Service cost	\$5,092	\$4,569	\$ 799	\$ 804
Interest cost	6,976	6,900	1,374	1,534
Expected return on plan assets	(7,900)	(6,875)	(475)	(475)
Amortization of prior service cost	—	—	(312)	(312)
Net loss recognition	2,317	2,201	1,320	1,494
Net periodic benefit cost	\$6,485	\$6,795	\$ 2,706	\$ 3,045
Six months ended June 30:				
Service cost	\$10,134	\$9,088	\$ 1,623	\$ 1,583
Interest cost	13,927	13,800	2,773	3,093
Expected return on plan assets	(15,800)	(13,625)	(950)	(950)
Amortization of prior service cost	—	—	(624)	(624)
Net loss recognition	4,863	4,091	2,593	2,859
Net periodic benefit cost	\$13,124	\$13,354	\$ 5,415	\$ 5,961

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 June 30, 2017 and December 31, 2016 (dollars in thousands):

	June 30,	December
	2017	31,
		2016
Borrowings outstanding at end of period	\$136,000	\$120,000
Letters of credit outstanding at end of period	\$56,703	\$34,353
Average interest rates at end of period	1.99 %	1.50 %

As of June 30, 2017 and December 31, 2016, the borrowings outstanding under Avista Corp.'s committed line of credit were classified as short-term borrowings on the Condensed Consolidated Balance Sheet. The additional short-term borrowings outstanding as of June 30, 2017 on the Condensed Consolidated Balance Sheet relate to a short-term note payable by a subsidiary for the acquisition of land that will 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 June 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 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.

Table of Contents

AVISTA CORPORATION

NOTE 6. LONG-TERM DEBT AND CAPITAL LEASES

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

Maturity Year	Description	Interest Rate	June 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	1,621,700
Alaska Electric Light and Power Company Secured Long-Term Debt				
2044	First Mortgage Bonds	4.54%	75,000	75,000
	Total secured long-term debt		1,696,700	1,696,700
Alaska Energy and Resources Company Unsecured Long-Term Debt				
2019	Unsecured Term Loan	3.85%	15,000	15,000
	Total secured and unsecured long-term debt		1,711,700	1,711,700
Other Long-Term Debt Components				
	Capital lease obligations		63,791	65,435
	Unamortized debt discount		(709)	(792)
	Unamortized long-term debt issuance costs		(10,204)	(10,639)
	Total		1,764,578	1,765,704
	Secured Pollution Control Bonds held by Avista Corporation (1)		(83,700)	(83,700)
	Current portion of long-term debt and capital leases		(277,814)	(3,287)
	Total long-term debt and capital leases		\$1,403,064	\$1,678,717

(1) In December 2010, \$66.7 million and \$17.0 million of the City of Forsyth, Montana Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project) due in 2032 and 2034, respectively, which had been held by Avista Corp. since 2008 and 2009, respectively, were refunded by new variable rate bond issues (Series 2010A and Series 2010B). The new bonds were not offered to the public and were purchased by Avista Corp. due to market conditions. The Company expects that at a later date, subject to market conditions, these bonds may be remarketed to unaffiliated investors. So long as Avista Corp. is the holder of these bonds, the bonds will not be

reflected as an asset or a liability on Avista Corp.'s Consolidated Balance Sheets.

Table of Contents

AVISTA CORPORATION

NOTE 7. LONG-TERM DEBT TO AFFILIATED TRUSTS

In 1997, the Company issued Floating Rate Junior Subordinated Deferrable Interest Debentures, Series B, with a principal amount of \$51.5 million to Avista Capital II, an affiliated business trust formed by the Company. Avista Capital II issued \$50.0 million of Preferred Trust Securities with a floating distribution rate of LIBOR plus 0.875 percent, calculated and reset quarterly.

The distribution rates paid were as follows during the six months ended June 30, 2017 and the year ended December 31, 2016:

	June 30, 2017	December 31, 2016	
Low distribution rate	1.81 %	1.29 %	
High distribution rate	2.08 %	1.81 %	
Distribution rate at the end of the period	2.08 %	1.81 %	

Concurrent with the issuance of the Preferred Trust Securities, Avista Capital II issued \$1.5 million of Common Trust Securities to the Company. These debt securities may be redeemed at the option of Avista Capital II at any time and mature on June 1, 2037. In December 2000, the Company purchased \$10.0 million of these Preferred Trust Securities. The Company owns 100 percent of Avista Capital II and has solely and unconditionally guaranteed the payment of distributions on, and redemption price and liquidation amount for, the Preferred Trust Securities to the extent that Avista Capital II has funds available for such payments from the respective debt securities. Upon maturity or prior redemption of such debt securities, the Preferred Trust Securities will be mandatorily redeemed. The Company does not include these capital trusts in its consolidated financial statements as Avista Corp. is not the primary beneficiary. As such, the sole assets of the capital trusts are \$51.5 million of junior subordinated deferrable interest debentures of Avista Corp., which are reflected on the Condensed Consolidated Balance Sheets. Interest expense to affiliated trusts in the Condensed Consolidated Statements of Income represents interest expense on these debentures.

NOTE 8. FAIR VALUE

The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable, and short-term borrowings are reasonable estimates of their fair values. Long-term debt (including current portion and material capital leases) and long-term debt to affiliated trusts are reported at carrying value on the Condensed Consolidated Balance Sheets.

The fair value hierarchy prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to fair values derived from unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy are defined as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, but which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 – Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. The determination of the fair values incorporates various factors that not only include the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits and letters of credit), but also the impact of Avista Corp.'s nonperformance risk on its liabilities.

Table of Contents

AVISTA CORPORATION

The following table sets forth the carrying value and estimated fair value of the Company's financial instruments not reported at estimated fair value on the Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016 (dollars in thousands):

	June 30, 2017		December 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt (Level 2)	\$951,000	\$1,076,925	\$951,000	\$1,048,661
Long-term debt (Level 3)	677,000	701,924	677,000	675,251
Snettisham capital lease obligation (Level 3)	60,953	62,600	62,160	62,800
Long-term debt to affiliated trusts (Level 3)	51,547	43,042	51,547	38,660

These estimates of fair value of long-term debt and long-term debt to affiliated trusts were primarily based on available market information, which generally consists of estimated market prices from third party brokers for debt with similar risk and terms. The price ranges obtained from the third party brokers consisted of par values of 83.50 to 128.87, where a par value of 100.0 represents the carrying value recorded on the Condensed Consolidated Balance Sheets. Level 2 long-term debt represents publicly issued bonds with quoted market prices; however, due to their limited trading activity, they are classified as Level 2 because brokers must generate quotes and make estimates if there is no trading activity near a period end. Level 3 long-term debt consists of private placement bonds and debt to affiliated trusts, which typically have no secondary trading activity. Fair values in Level 3 are estimated based on market prices from third party brokers using secondary market quotes for debt with similar risk and terms to generate quotes for Avista Corp. bonds. Due to the unique nature of the Snettisham capital lease obligation, the estimated fair value of these items was determined based on a discounted cash flow model using available market information. The Snettisham capital lease obligation was discounted to present value using the Morgan Markets A Ex-Fin discount rate as published on June 30, 2017.

The following table discloses by level within the fair value hierarchy the Company's assets and liabilities measured and reported on the Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016 at fair value on a recurring basis (dollars in thousands):

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting (1)	Total
June 30, 2017					
Assets:					
Energy commodity derivatives	\$—	\$35,198	\$—	\$ (35,041)	\$157
Level 3 energy commodity derivatives:					
Natural gas exchange agreement	—	—	79	(79)	—
Foreign currency exchange derivatives	—	187	—	—	187
Interest rate swap derivatives	—	11,302	—	(1,853)	9,449
Deferred compensation assets:					
Fixed income securities (2)	1,716	—	—	—	1,716
Equity securities (2)	6,067	—	—	—	6,067
Total	\$7,783	\$46,687	\$79	\$ (36,973)	\$17,576
Liabilities:					
Energy commodity derivatives	\$—	\$46,203	\$—	\$ (44,808)	\$1,395
Level 3 energy commodity derivatives:					
Natural gas exchange agreement	—	—	4,252	(79)	4,173

Edgar Filing: AVISTA CORP - Form 10-Q

Power exchange agreement	—	—	13,784	—	13,784
Power option agreement	—	—	43	—	43
Interest rate swap derivatives	—	80,266	—	(43,423) 36,843
Total	\$—	\$126,469	\$18,079	\$ (88,310) \$56,238

24

Table of Contents

AVISTA CORPORATION

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting (1)	Total
December 31, 2016					
Assets:					
Energy commodity derivatives	\$—	\$47,994	\$—	\$ (46,099)	\$1,895
Level 3 energy commodity derivatives:					
Natural gas exchange agreement	—	—	69	(69)	—
Power exchange agreement	—	—	25	(25)	—
Foreign currency exchange derivatives	—	5	—	(5)	—
Interest rate swap derivatives	—	13,098	—	(4,348)	8,750
Deferred compensation assets:					
Fixed income securities (2)	1,789	—	—	—	1,789
Equity securities (2)	5,481	—	—	—	5,481
Total	\$7,270	\$61,097	\$94	\$ (50,546)	\$17,915
Liabilities:					
Energy commodity derivatives	\$—	\$56,871	\$—	\$ (55,957)	\$914
Level 3 energy commodity derivatives:					
Natural gas exchange agreement	—	—	5,954	(69)	5,885
Power exchange agreement	—	—	13,474	(25)	13,449
Power option agreement	—	—	76	—	76
Foreign currency exchange derivatives	—	28	—	(5)	23
Interest rate swap derivatives	—	73,978	—	(39,248)	34,730
Total	\$—	\$130,877	\$19,504	\$ (95,304)	\$55,077

The Company is permitted to net derivative assets and derivative liabilities with the same counterparty when a (1) legally enforceable master netting agreement exists. In addition, the Company nets derivative assets and derivative liabilities against any payables and receivables for cash collateral held or placed with these same counterparties.

(2) These assets are trading securities and are included in other property and investments-net and other non-current assets on the Condensed Consolidated Balance Sheets.

The difference between the amount of derivative assets and liabilities disclosed in respective levels in the table above and the amount of derivative assets and liabilities disclosed on the Condensed Consolidated Balance Sheets is due to netting arrangements with certain counterparties. See Note 3 for additional discussion of derivative netting.

To establish fair value for energy commodity derivatives, the Company uses quoted market prices and forward price curves to estimate the fair value of energy commodity derivative instruments included in Level 2. In particular, electric derivative valuations are performed using market quotes, adjusted for periods in between quotable periods. Natural gas derivative valuations are estimated using New York Mercantile Exchange (NYMEX) pricing for similar instruments, adjusted for basin differences, using market quotes. Where observable inputs are available for substantially the full term of the contract, the derivative asset or liability is included in Level 2.

To establish fair values for interest rate swap derivatives, the Company uses forward market curves for interest rates for the term of the swaps and discounts the cash flows back to present value using an appropriate discount rate. The discount rate is calculated by third party brokers according to the terms of the swap derivatives and evaluated by the Company for reasonableness, with consideration given to the potential non-performance risk by the Company. Future cash flows of the interest rate swap derivatives are equal to the fixed interest rate in the swap compared to the floating market interest rate multiplied by the notional amount for each period.

To establish fair value for foreign currency derivatives, the Company uses forward market curves for Canadian dollars against the US dollar and multiplies the difference between the locked-in price and the market price by the notional amount of the derivative. Forward foreign currency market curves are provided by third party brokers. The Company's credit spread is factored into the locked-in price of the foreign exchange contracts.

Table of Contents

AVISTA CORPORATION

Deferred compensation assets and liabilities represent funds held by the Company in a Rabbi Trust for an executive deferral plan. These funds consist of actively traded equity and bond funds with quoted prices in active markets. The balance disclosed in the table above excludes cash and cash equivalents of \$0.2 million as of June 30, 2017 and \$0.4 million as of December 31, 2016.

Level 3 Fair Value

Under the power exchange agreement the Company purchases power at a price that is based on the average operating and maintenance (O&M) charges from three surrogate nuclear power plants around the country. To estimate the fair value of this agreement the Company estimates the difference between the purchase price based on the future O&M charges and forward prices for energy. The Company compares the Level 2 brokered quotes and forward price curves described above to an internally developed forward price which is based on the average O&M charges from the three surrogate nuclear power plants for the current year. Because the nuclear power plant O&M charges are only known for one year, all forward years are estimated assuming an annual escalation. In addition to the forward price being estimated using unobservable inputs, the Company also estimates the volumes of the transactions that will take place in the future based on historical average transaction volumes per delivery year (November to April). Significant increases or decreases in any of these inputs in isolation would result in a significantly higher or lower fair value measurement. Generally, a change in the current year O&M charges for the surrogate plants is accompanied by a directionally similar change in O&M charges in future years. There is generally not a correlation between external market prices and the O&M charges used to develop the internal forward price.

For the power commodity option agreement, the Company uses the Black-Scholes-Merton valuation model to estimate the fair value, and this model includes significant inputs not observable or corroborated in the market. These inputs include: 1) the strike price (which is an internally derived price based on a combination of generation plant heat rate factors, natural gas market pricing, delivery and other O&M charges) and 2) estimated delivery volumes. Significant increases or decreases in these inputs in isolation would result in a significantly higher or lower fair value measurement. Generally, changes in overall commodity market prices are accompanied by directionally similar changes in the strike price assumptions used in the calculation.

For the natural gas commodity exchange agreement, the Company uses the same Level 2 brokered quotes described above; however, the Company also estimates the purchase and sales volumes (within contractual limits) as well as the timing of those transactions. Changing the timing of volume estimates changes the timing of purchases and sales, impacting which brokered quote is used. Because the brokered quotes can vary significantly from period to period, the unobservable estimates of the timing and volume of transactions can have a significant impact on the calculated fair value. The Company currently estimates volumes and timing of transactions based on a most likely scenario using historical data. Historically, the timing and volume of transactions have not been highly correlated with market prices and market volatility.

The following table presents the quantitative information which was used to estimate the fair values of the Level 3 assets and liabilities above as of June 30, 2017 (dollars in thousands):

	Fair Value (Net) at June 30, 2017	Valuation Technique	Unobservable Input	Range
Power exchange agreement	\$(13,784)	Surrogate facility pricing	O&M charges Escalation factor Transaction volumes	\$33.59-\$49.15/MWh (1) 3% - 2017 to 2019 396,984 MWhs
Power option agreement	\$(43)	Black-Scholes-Merton	Strike price	\$35.92/MWh - 2019 \$48.39/MWh - 2018

Edgar Filing: AVISTA CORP - Form 10-Q

		Delivery volumes	128,611 - 254,363 MWhs
	\$(4,173)	Forward purchase prices	\$1.66 - \$2.38/mmBTU
Natural gas exchange agreement	Internally derived weighted average cost of gas	Forward sales prices	\$1.67 - \$3.29/mmBTU
		Purchase volumes	115,000 - 310,000 mmBTUs
		Sales volumes	60,000 - 310,000 mmBTUs

(1) The average O&M charges for the delivery year beginning in November 2016 are \$39.22 per MWh. For ratemaking purposes the average O&M charges to be included for recovery in retail rates vary slightly between regulatory jurisdictions. The average O&M charges for the delivery year beginning in 2016 are \$44.33 for Washington and \$39.22 for Idaho.

Table of Contents

AVISTA CORPORATION

The valuation methods, significant inputs and resulting fair values described above were developed by the Company's management and are reviewed on at least a quarterly basis to ensure they provide a reasonable estimate of fair value each reporting period.

The following table presents activity for energy commodity derivative assets (liabilities) measured at fair value using significant unobservable inputs (Level 3) for the three and six months ended June 30 (dollars in thousands):

	Natural Gas Exchange Agreement	Power Exchange Agreement	Power Option Agreement	Total
Three months ended June 30, 2017:				
Balance as of April 1, 2017	\$ (4,278)	\$ (14,419)	\$ (266)	\$ (18,963)
Total gains or (losses) (realized/unrealized):				
Included in regulatory assets/liabilities (1)	(195)	(672)	223	(644)
Settlements	300	1,307	—	1,607
Ending balance as of June 30, 2017 (2)	\$ (4,173)	\$ (13,784)	\$ (43)	\$ (18,000)
Three months ended June 30, 2016:				
Balance as of April 1, 2016	\$ (6,006)	\$ (20,193)	\$ (97)	\$ (26,296)
Total gains or (losses) (realized/unrealized):				
Included in regulatory assets/liabilities (1)	(1,551)	4,400	(8)	2,841
Settlements	700	1,179	—	1,879
Ending balance as of June 30, 2016 (2)	\$ (6,857)	\$ (14,614)	\$ (105)	\$ (21,576)
Six months ended June 30, 2017:				
Balance as of January 1, 2017	\$ (5,885)	\$ (13,449)	\$ (76)	\$ (19,410)
Total gains or (losses) (realized/unrealized):				
Included in regulatory assets/liabilities (1)	1,817	(5,165)	33	(3,315)
Settlements	(105)	4,830	—	4,725
Ending balance as of June 30, 2017 (2)	\$ (4,173)	\$ (13,784)	\$ (43)	\$ (18,000)
Six months ended June 30, 2016:				
Balance as of January 1, 2016	\$ (5,039)	\$ (21,961)	\$ (124)	\$ (27,124)
Total gains or (losses) (realized/unrealized):				
Included in regulatory assets/liabilities (1)	(3,296)	1,968	19	(1,309)
Settlements	1,478	5,379	—	6,857
Ending balance as of June 30, 2016 (2)	\$ (6,857)	\$ (14,614)	\$ (105)	\$ (21,576)

(1) All gains and losses are included in other regulatory assets and liabilities. There were no gains and losses included in either net income or other comprehensive income during any of the periods presented in the table above.

(2) There were no purchases, issuances or transfers from other categories of any derivatives instruments during the periods presented in the table above.

NOTE 9. COMMON STOCK

In March 2016, the Company entered into four separate sales agency agreements under which Avista Corp.'s sales agents may offer and sell up to 3.8 million new shares of Avista Corp.'s common stock, no par value, from time to time. The sales agency agreements expire on February 29, 2020. As of June 30, 2017, 1.6 million shares have been issued under these agreements, leaving 2.2 million shares remaining to be issued. No shares were issued under these agreements in the six months ended June 30, 2017.

In the six months ended June 30, 2017, Avista Corp. issued 0.2 million shares of common stock, most of which were under employee incentive plans. The Company also issued a small number of shares under the 401(k) employee investment plan. Total net proceeds for all issuances were \$1.2 million.

Table of Contents

AVISTA CORPORATION

NOTE 10. EARNINGS PER COMMON SHARE ATTRIBUTABLE TO AVISTA CORP. SHAREHOLDERS

The following table presents the computation of basic and diluted earnings per common share attributable to Avista Corp. shareholders for the three and six months ended June 30 (in thousands, except per share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income attributable to Avista Corp. shareholders	\$21,771	\$27,254	\$83,887	\$84,903
Denominator:				
Weighted-average number of common shares outstanding-basic	64,401	63,386	64,382	62,995
Effect of dilutive securities:				
Performance and restricted stock awards	152	397	129	373
Weighted-average number of common shares outstanding-diluted	64,553	63,783	64,511	63,368
Earnings per common share attributable to Avista Corp. shareholders:				
Basic	\$0.34	\$0.43	\$1.30	\$1.35
Diluted	\$0.34	\$0.43	\$1.30	\$1.34

There were no shares excluded from the calculation because they were antidilutive.

NOTE 11. COMMITMENTS AND CONTINGENCIES

In the course of its business, the Company becomes involved in various claims, controversies, disputes and other contingent matters, including the items described in this Note. Some of these claims, controversies, disputes and other contingent matters involve litigation or other contested proceedings. For all such matters, the Company intends to vigorously protect and defend its interests and pursue its rights. However, no assurance can be given as to the ultimate outcome of any particular matter because litigation and other contested proceedings are inherently subject to numerous uncertainties. For matters that affect Avista Utilities' or AEL&P's operations, the Company intends to seek, to the extent appropriate, recovery of incurred costs through the ratemaking process.

California Refund Proceeding

In February 2016, APX, a market maker in the California Refund Proceedings in whose markets Avista Energy participated in the summer of 2000, asserted that Avista Energy and its other customer/participants may be responsible for a share of the disgorgement penalty APX may be found to owe to the California Parties (as defined in the 2016 Form 10-K). The penalty arises as a result of the Federal Energy and Regulatory Commission's (FERC) finding that APX committed violations in the California market in the summer of 2000. APX is making these assertions despite Avista Energy having been dismissed in FERC Opinion No. 536 from the on-going administrative proceeding at the FERC regarding potential wrongdoing in the California markets in the summer of 2000. APX has identified Avista Energy's share of APX's exposure to be as much as \$16.0 million even though no wrongdoing allegations are specifically attributable to Avista Energy. Avista Energy believes its 2014 settlement with the California Parties insulates it from any such liability and that as a dismissed party it cannot be drawn back into the litigation. Avista Energy intends to vigorously dispute APX's assertions of indirect liability, but cannot at this time predict the eventual outcome.

Cabinet Gorge Total Dissolved Gas Abatement Plan

Dissolved atmospheric gas levels (referred to as "Total Dissolved Gas" or "TDG") in the Clark Fork River exceed state of Idaho and federal water quality numeric standards downstream of Cabinet Gorge particularly during periods when excess river flows must be diverted over the spillway. Under the terms of the Clark Fork Settlement Agreement (CFSA) as incorporated in Avista Corp.'s FERC license for the Clark Fork Project, Avista Corp. has worked in consultation with agencies, tribes and other stakeholders to address this issue. Under the terms of a gas supersaturation mitigation plan, Avista is reducing TDG by constructing spill crest modifications on spill gates at the dam, and the

Company expects to continue spill crest modifications over the next several years, in ongoing consultation with key stakeholders. Avista Corp. cannot at this time predict the outcome or estimate a range of costs associated with this contingency; however, the Company will continue to seek recovery, through the ratemaking process, of all operating and capitalized costs related to this issue.

Table of Contents

AVISTA CORPORATION

Fish Passage at Cabinet Gorge and Noxon Rapids

In 1999, the United States Fish and Wildlife Service (USFWS) listed bull trout as threatened under the Endangered Species Act. In 2010, the USFWS issued a revised designation of critical habitat for bull trout, which includes the lower Clark Fork River. The USFWS issued a final recovery plan in October 2015.

The CFSA describes programs intended to help restore bull trout populations in the project area. Using the concept of adaptive management and working closely with the USFWS, the Company evaluated the feasibility of fish passage at Cabinet Gorge and Noxon Rapids. The results of these studies led, in part, to the decision to move forward with development of permanent facilities, among other bull trout enhancement efforts. Parties to the CFSA are working to resolve several issues. The Company believes its ongoing efforts through the CFSA continue to effectively address issues related to bull trout. Avista Corp. cannot at this time predict the outcome or estimate a range of costs associated with this contingency; however, the Company will continue to seek recovery, through the ratemaking process, of all operating and capitalized costs related to fish passage at Cabinet Gorge and Noxon Rapids.

Other Contingencies

In the normal course of business, the Company has various other legal claims and contingent matters outstanding. The Company believes that any ultimate liability arising from these actions will not have a material impact on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant. See "Note 19 of the Notes to Consolidated Financial Statements" in the 2016 Form 10-K for additional discussion regarding other contingencies.

NOTE 12. INFORMATION BY BUSINESS SEGMENTS

The business segment presentation reflects the basis used by the Company's management to analyze performance and determine the allocation of resources. The Company's management evaluates performance based on income (loss) from operations before income taxes as well as net income (loss) attributable to Avista Corp. shareholders. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Avista Utilities' business is managed based on the total regulated utility operation; therefore, it is considered one segment. AEL&P is a separate reportable business segment as it has separate financial reports that are reviewed in detail by the Chief Operating Decision Maker and its operations and risks are sufficiently different from Avista Utilities and the other businesses at AERC that it cannot be aggregated with any other operating segments. The Other category, which is not a reportable segment, includes other investments and operations of various subsidiaries, as well as certain other operations of Avista Capital.

The following table presents information for each of the Company's business segments (dollars in thousands):

	Avista Utilities	Alaska Electric Light and Power Company	Total Utility	Other	Intersegment Eliminations (1)	Total
For the three months ended June 30, 2017:						
Operating revenues	\$296,747	\$ 11,982	\$308,729	\$5,772	\$ —	\$314,501
Resource costs	99,461	3,290	102,751	—	—	102,751
Other operating expenses	78,970	2,995	81,965	7,086	—	89,051
Depreciation and amortization	41,195	1,448	42,643	157	—	42,800
Income (loss) from operations	53,971	3,597	57,568	(1,471)	—	56,097
Interest expense (2)	22,826	895	23,721	176	(27)	23,870
Income taxes	12,892					