

AVISTA CORP
Form 10-Q
May 01, 2019
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 March 31, 2019 OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission file number 1-3701

AVISTA CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

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

Web site: <http://www.myavista.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 every Interactive Data File required to be submitted 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 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 April 29, 2019, 65,750,156 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

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ACRONYMS AND TERMS

(The following acronyms and terms are found in multiple locations within the document)

Acronym/Term	Meaning
aMW	- Average Megawatt - a measure of the average rate at which a particular generating source produces energy over a period of time
AEL&P	- Alaska Electric Light and Power Company, the primary operating subsidiary of AERC, which provides electric services in Juneau, Alaska
AERC	- Alaska Energy and Resources Company, the Company's wholly-owned subsidiary based in Juneau, Alaska
AFUDC	- Allowance for Funds Used During Construction; represents the cost of both the debt and equity funds used to finance utility plant additions during the construction period
ASC	- Accounting Standards Codification
ASU	- Accounting Standards Update
Avista Capital	- Parent company to the Company's non-utility businesses
Avista Corp.	- Avista Corporation, the Company
Avista Utilities	- Operating division of Avista Corp. (not a subsidiary) comprising the regulated utility operations in the Pacific Northwest
Capacity	- The rate at which a particular generating source is capable of producing energy, measured in KW or MW
Cabinet Gorge	- The Cabinet Gorge Hydroelectric Generating Project, located on the Clark Fork River in Idaho
Colstrip	- The coal-fired Colstrip Generating Plant in southeastern Montana
Deadband or ERM deadband	- The first \$4.0 million in annual power supply costs above or below the amount included in base retail rates in Washington under the ERM in the state of Washington
EIM	- Energy Imbalance Market
Energy	- The amount of electricity produced or consumed over a period of time, measured in KWh or MWh. Also, refers to natural gas consumed and is measured in dekatherms
EPA	- Environmental Protection Agency
ERM	- The Energy Recovery Mechanism, a mechanism for accounting and rate recovery of certain power supply costs accepted by the utility commission in the state of Washington
FASB	- Financial Accounting Standards Board
FCA	- Fixed Cost Adjustment, the electric and natural gas decoupling mechanism in Idaho
FERC	- Federal Energy Regulatory Commission
GAAP	- Generally Accepted Accounting Principles
Hydro One	- Hydro One Limited, based in Toronto, Ontario, Canada
IPUC	- Idaho Public Utilities Commission
Juneau	- The City and Borough of Juneau, Alaska
KW, KWh	- Kilowatt (1000 watts): a measure of generating output or capability. Kilowatt-hour (1000 watt hours): a measure of energy produced
MPSC	- Public Service Commission of the State of Montana
MW, MWh	- Megawatt: 1000 KW. Megawatt-hour: 1000 KWh
Noxon Rapids	- The Noxon Rapids Hydroelectric Generating Project, located on the Clark Fork River in Montana
OPUC	- The Public Utility Commission of Oregon
PCA	- The Power Cost Adjustment mechanism, a procedure for accounting and rate recovery of certain power supply costs accepted by the utility commission in the state of Idaho

PGA	-Purchased Gas Adjustment
PPA	-Power Purchase Agreement
RCA	-The Regulatory Commission of Alaska
REC	-Renewable energy credit
ROE	-Return on equity

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ROR -Rate of return on rate base

SEC -U.S. Securities and Exchange Commission

TCJA -The "Tax Cuts and Jobs Act," signed into law on December 22, 2017

Therm - Unit of measurement for natural gas; a therm is equal to approximately one hundred cubic feet (volume) or 100,000 BTUs (energy)

Watt - Unit of measurement for electricity; a watt is equal to the rate of work represented by a current of one ampere under a pressure of one volt

WUTC -Washington Utilities and Transportation Commission

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Forward-Looking Statements

From time to time, we make forward-looking statements such as statements regarding projected or future:

financial performance;

cash flows;

capital expenditures;

dividends;

capital structure;

other financial items;

strategic goals and objectives;

business environment; and

plans for operations.

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

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

Financial Risk

- weather conditions, which affect both energy demand and electric generating capability, including the impact of precipitation and temperature on hydroelectric resources, the impact of wind patterns on wind-generated power, weather-sensitive customer demand, and similar impacts 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, other capital market conditions and global economic conditions; 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, conservation measures and/or increased distributed generation;
- changes in the long-term global climate and the long-term climate within our utilities' service areas, which can affect, among other things, customer demand patterns, the volume and timing of streamflows to our hydroelectric resources, as well as increased risk of severe weather or natural disasters, including wildfires;
- industry and geographic concentrations which may increase our exposure to credit risks due to counterparties, suppliers and customers being similarly affected by changing conditions;

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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, commodity costs, interest rate swap derivatives and discretion over allowed return on investment; the loss of regulatory accounting treatment, which could require the write-off of regulatory assets and the loss of regulatory deferral and recovery mechanisms;

Energy Commodity Risk

volatility and illiquidity in wholesale energy markets, including exchanges, 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 individual counterparties and/or exchanges 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 or lawsuits affecting our ability to utilize or resulting in the obsolescence of our power supply resources;

explosions, fires, accidents, pipeline ruptures or other incidents that may limit energy supply to our facilities or our surrounding territory, which could result in a shortage of commodities in the market that could increase the cost of replacement commodities from other sources;

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 fuel, 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;

explosions, fires, accidents or other incidents arising from or allegedly arising from our operations that may cause wildfires, injuries to the public or property damage;

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

terrorist attacks, cyberattacks 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, cyberattacks 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 containers 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 other disruptions to the supply chain;

adverse impacts to our Alaska electric utility 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 cost of replacement power (diesel);

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

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change in the use, availability or abundance of water resources and/or rights needed for operation of our hydroelectric facilities;

Compliance Risk

compliance with extensive federal, state and local legislation and regulation applicable to us, 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;

Cyber and Technology Risk

cyberattacks on the operating systems that are used in the operation of our electric generation, transmission and distribution facilities and our natural gas distribution facilities, and cyberattacks on such systems of other energy companies with which we are interconnected, which could damage or destroy facilities or systems or disrupt operations for extended periods of time and result in the incurrence of liabilities and costs;

cyberattacks on the administrative systems that are used in the administration of our business, including customer billing and customer service, accounting, communications, compliance and other administrative functions, and cyberattacks on such systems of our vendors and other companies with which we do business, which could result in the disruption of business operations, the release of private information and the incurrence of liabilities and costs;

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 introducing new cyber security risks;

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 our business practices, whether true or not, which could hurt our reputation and 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;

entering into or growth of non-regulated activities may increase earnings volatility;

potential legal proceedings arising from the termination of the proposed acquisition of the Company by Hydro One;

External Mandates Risk

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

the potential effects of initiatives, legislation or administrative rulemaking at the federal, state or local levels, including possible effects on our generating resources or 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;

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

policy and/or legislative changes in various regulated areas, including, but not limited to, environmental regulation, healthcare regulations and import/export 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 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.myavista.com. We make annual, quarterly and current reports available on our website as soon as practicable after electronically filing these reports with the SEC. The SEC maintains a website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. Except for SEC filings or portions thereof that are specifically referred to in this report, information contained on these websites is not part of this report.

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PART I. Financial Information

Item 1. Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Avista Corporation

For the Three Months Ended March 31

Dollars in thousands, except per share amounts

(Unaudited)

	2019	2018
Operating Revenues:		
Utility revenues:		
Utility revenues, exclusive of alternative revenue programs	\$393,241	\$408,356
Alternative revenue programs	(4,658)	(5,939)
Total utility revenues	388,583	402,417
Non-utility revenues	7,898	6,944
Total operating revenues	396,481	409,361
Operating Expenses:		
Utility operating expenses:		
Resource costs	137,347	154,618
Other operating expenses	83,978	77,298
Merger transaction costs	19,664	672
Depreciation and amortization	48,914	44,733
Taxes other than income taxes	31,943	30,829
Non-utility operating expenses:		
Other operating expenses	7,355	6,824
Depreciation and amortization	209	181
Total operating expenses	329,410	315,155
Income from operations	67,071	94,206
Interest expense	25,651	24,776
Interest expense to affiliated trusts	357	253
Capitalized interest	(928)	(968)
Merger termination fee	(103,000)	—
Other expense (income)-net	(907)	4,479
Income before income taxes	145,898	65,666
Income tax expense	30,017	10,710
Net income	115,881	54,956
Net income attributable to noncontrolling interests	(87)	(66)
Net income attributable to Avista Corp. shareholders	\$115,794	\$54,890
Weighted-average common shares outstanding (thousands), basic	65,733	65,639
Weighted-average common shares outstanding (thousands), diluted	65,941	65,931
Earnings per common share attributable to Avista Corp. shareholders:		
Basic	\$1.76	\$0.84
Diluted	\$1.76	\$0.83

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Avista Corporation

For the Three Months Ended March 31

Dollars in thousands

(Unaudited)

	2019	2018
Net income	\$115,881	\$54,956
Other Comprehensive Income:		
Change in unfunded benefit obligation for pension and other postretirement benefit plans - net of taxes of \$43 and \$55 respectively	160	204
Total other comprehensive income	160	204
Comprehensive income	116,041	55,160
Comprehensive income attributable to noncontrolling interests	(87)	(66)
Comprehensive income attributable to Avista Corporation shareholders	\$115,954	\$55,094

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

Avista Corporation
Dollars in thousands
(Unaudited)

	March 31, 2019	December 31, 2018
Assets:		
Current Assets:		
Cash and cash equivalents	\$14,861	\$14,656
Accounts and notes receivable-less allowances of \$6,395 and \$5,233, respectively	170,200	165,824
Materials and supplies, fuel stock and stored natural gas	61,354	63,881
Regulatory assets	41,566	48,552
Other current assets	60,948	54,010
Assets held for sale	15,874	—
Total current assets	364,803	346,923
Net utility property	4,626,054	4,648,930
Goodwill	52,426	57,672
Non-current regulatory assets	605,497	614,354
Other property and investments-net and other non-current assets	241,203	114,697
Total assets	\$5,889,983	\$5,782,576
Liabilities and Equity:		
Current Liabilities:		
Accounts payable	\$109,922	\$108,372
Current portion of long-term debt and capital leases	104,989	107,645
Short-term borrowings	119,000	190,000
Regulatory liabilities	55,464	113,209
Other current liabilities	175,454	120,358
Liabilities held for sale	1,813	—
Total current liabilities	566,642	639,584
Long-term debt and capital leases	1,701,207	1,755,529
Long-term debt to affiliated trusts	51,547	51,547
Pensions and other postretirement benefits	218,456	222,537
Deferred income taxes	501,928	487,602
Non-current regulatory liabilities	786,233	780,701
Other non-current liabilities and deferred credits	195,748	71,031
Total liabilities	4,021,761	4,008,531
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; 65,749,932 and 65,688,356 shares issued and outstanding, respectively	1,140,242	1,136,491
Accumulated other comprehensive loss	(7,706)	(7,866)
Retained earnings	734,774	644,595
Total Avista Corporation shareholders' equity	1,867,310	1,773,220
Noncontrolling Interests	912	825
Total equity	1,868,222	1,774,045
Total liabilities and equity	\$5,889,983	\$5,782,576

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Avista Corporation

For the Three Months Ended March 31

Dollars in thousands

(Unaudited)

	2019	2018
Operating Activities:		
Net income	\$ 115,881	\$ 54,956
Non-cash items included in net income:		
Depreciation and amortization	49,123	45,823
Deferred income tax provision and investment tax credits	8,883	(5,049)
Power and natural gas cost amortizations (deferrals), net	(48,084)	72
Amortization of debt expense	669	815
Amortization of investment in exchange power	613	613
Stock-based compensation expense	4,845	1,963
Equity-related AFUDC	(1,485)	(1,392)
Pension and other postretirement benefit expense	9,084	8,170
Other regulatory assets and liabilities and deferred debits and credits	1,016	2,127
Change in decoupling regulatory deferral	4,471	5,703
Other	(1,943)	3,778
Contributions to defined benefit pension plan	(7,300)	(7,300)
Changes in certain current assets and liabilities:		
Accounts and notes receivable	(9,787)	15,963
Materials and supplies, fuel stock and stored natural gas	(394)	8,815
Collateral posted for derivative instruments	3,432	18,382
Other current assets	1,705	(473)
Accounts payable	16,697	(21,997)
Income taxes payable	19,360	15,432
Other current liabilities	30,095	38,374
Net cash provided by operating activities	196,881	184,775
Investing Activities:		
Utility property capital expenditures (excluding equity-related AFUDC)	(93,615)	(81,817)
Issuance of notes receivable at subsidiaries	(200)	(1,000)
Repayments of notes receivable at subsidiaries	261	—
Equity and property investments made by subsidiaries	(3,504)	(3,671)
Distributions received from investments	149	—
Other	(755)	(866)
Net cash used in investing activities	(97,664)	(87,354)

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Avista Corporation

For the Three Months Ended March 31

Dollars in thousands

(Unaudited)

	2019	2018
Financing Activities:		
Net decrease in short-term borrowings	\$(71,000)	\$(55,398)
Maturity of long-term debt and capital leases	(665)	(3,037)
Issuance of common stock, net of issuance costs	190	232
Cash dividends paid	(25,615)	(24,634)
Other	(896)	(4,483)
Net cash used in financing activities	(97,986)	(87,320)
Net increase in cash and cash equivalents, including cash classified within current assets held for sale	1,231	10,101
Less: Net increase in cash and cash equivalents classified within current assets held for sale (see Note 18 of Notes to Condensed Consolidated Financial Statements)	1,026	—
Net increase in cash and cash equivalents	205	10,101
Cash and cash equivalents at beginning of period	14,656	16,172
Cash and cash equivalents at end of period	\$14,861	\$26,273

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

Avista Corporation

For the Three Months Ended March 31

Dollars in thousands

(Unaudited)

	2019	2018
Common Stock, Shares:		
Shares outstanding at beginning of period	65,688,356	65,494,333
Shares issued	61,576	174,144
Shares outstanding at end of period	65,749,932	65,668,477
Common Stock, Amount:		
Balance at beginning of period	\$1,136,491	\$1,133,448
Equity compensation expense	4,452	1,798
Issuance of common stock, net of issuance costs	190	232
Payment of minimum tax withholdings for share-based payment awards	(891) (3,929