Avista Corp. Reports Financial Results for First Quarter 2018, and Initiates 2018 Earnings Guidance

05/02/18

SPOKANE, Wash., May 02, 2018 (GLOBE NEWSWIRE) -- Avista Corp. (NYSE:AVA) today reported net income attributable to Avista Corp. shareholders of $54.9 million, or $0.83 per diluted share for the first quarter of 2018, compared to $62.1 million, or $0.96 per diluted share for the first quarter of 2017.

"We had a good first quarter, with Avista Utilities' earnings that benefited from lower than expected resource costs, resulting from higher than normal hydroelectric generation and lower natural gas fuel prices. Also, customer growth contributed additional retail revenues and we had lower than expected operating expenses," said Scott Morris, chairman and chief executive officer of Avista Corp.

"The lower natural gas fuel prices were positive for the Company and our customers as the lower prices allowed us to file additional Purchased Gas Cost Adjustments to pass on the lower costs to our customers during the winter heating season.

"With regards to regulatory matters, last week we received an order from the Washington Commission that concluded our 2017 electric and natural gas general rate cases. The Commission's order allows us the opportunity to earn a fair return in 2018 and provides cost recovery for a portion of the capital projects in our request that are now serving our customers. We're also pleased to be able to return to our customers benefits resulting from the federal Tax Cuts and Jobs Act through their rates.

"As we look ahead, we will consider the appropriate approach for future cost recovery. Right now we will stay focused on the current matters before the Commission. As these are resolved, we will engage with the Commission, Staff and other parties in an effort to better align expectations regarding our ongoing capital investments prior to filing future general rate cases.

"We have made significant progress in the Hydro One transaction and we are continuing to work through the approval processes. During 2018, we have been able to reach settlement agreements in Washington, Idaho and Alaska, which are now pending before these state commissions. We also received antitrust clearance under the Hart-Scott Rodino Act and we received approval from the Federal Energy Regulatory Commission. Hydro One and Avista Corp. believe that we will be able to work with the commissions, their staff and other parties to receive the required approvals, and we anticipate the transaction closing during the second half of 2018.

"Alaska Electric Light and Power Company (AEL&P) had a good first quarter with earnings that were slightly above our expectations.

"We had net losses at our other businesses due to an impairment on an investment, unanticipated losses on our equity investments and increased expenses associated with a renovation.

“We are initiating our 2018 earnings guidance with a consolidated range of $1.90 to $2.10 per diluted share, excluding acquisition costs,” Morris said.

Summary Results: Avista Corp.’s results for the first quarter of 2018 as compared to the same period in 2017 are presented in the table below (dollars in thousands, except per-share data):

	First Quarter	
	2018	**2017**
Net Income (Loss) by Business Segment:		
Avista Utilities	$ 55,540	$ 58,439
AEL&P	3,772	3,853
Other	(4,422)	(176)
Total net income attributable to Avista Corp. shareholders	**$ 54,890**	**$ 62,116**
Earnings (Loss) per Diluted Share by Business Segment:		
Avista Utilities	$ 0.84	$ 0.90
AEL&P	0.06	0.06
Other	(0.07)	—
Total earnings per diluted share attributable to Avista Corp. shareholders	**$ 0.83**	**$ 0.96**

The table below presents the change in net income attributable to Avista Corp. shareholders and diluted earnings per share for the first quarter of 2018 as compared to the same period in 2017, as well as the various factors that caused such change (dollars in thousands, except per-share data):

	First Quarter	
	Net Income (a)	**Earnings per Share**
2017 consolidated earnings	$ 62,116	$ 0.96
Changes in net income and diluted earnings per share:		
Avista Utilities		
Electric gross margin (including intracompany) (b)	(7,123)	(0.10)
Natural gas gross margin (including intracompany) (c)	(4,942)	(0.08)
Other operating expenses (d)	(3,690)	(0.06)
Acquisition costs (e)	(567)	(0.01)
Depreciation and amortization (f)	(2,100)	(0.03)
Interest expense (g)	(986)	(0.01)
Other (h)	1,275	0.02
Effective income tax rate (i)	15,234	0.23
Dilution on earnings	n/a	(0.02)
Total Avista Utilities	**(2,899)**	**(0.06)**
AEL&P earnings	(81)	—
Other businesses earnings (j)	(4,246)	(0.07)
2018 consolidated earnings	**$ 54,890**	**$ 0.83**

Analysis of 2018 Consolidated Earnings

(a) The tax impact of each line item, except acquisition costs, was calculated using Avista Corp.'s statutory tax rate (federal and state combined) of 23.05 percent. See items (e) and (i) below for further discussion of the acquisition costs and our effective tax rate.

(b) Electric gross margin (operating revenues less resource costs) decreased for the first quarter, primarily due to the following:

- A decrease in electric revenue due to the accrual of refunds to customers related to the federal income tax law changes that lowered the corporate tax rate from 35 percent to 21 percent. As our customers' rates continue to have the 35 percent corporate tax rate built in from prior general rate cases, we have deferred the impact of the change beginning January 1, 2018. There is no impact to our net income as there was a corresponding decrease in income tax expense;
- The decrease above was partially offset by an increase in retail electric rates due to a general rate increase in Idaho;
- Customer growth, which contributed additional retail electric revenue in the first quarter of 2018; and
- An increase in gross margin from optimization activities during the quarter, which helped increase the pre-tax benefit under the Energy Recovery Mechanism (ERM) in Washington from a $4.1 million pre-tax benefit for the first quarter of 2017 to a $4.9 million pre-tax benefit for the first quarter of 2018.

(c) Natural gas gross margin (operating revenues less resource costs) decreased for the first quarter primarily due to the following:

- A decrease in natural gas revenue due to the accrual of refunds to customers related to the federal income tax law changes;
- The above decrease was partially offset by general rate increases in Idaho and Oregon; and
- Customer growth, which contributed additional retail natural gas revenue in the first quarter of 2018.

(d) Other operating expenses for the first quarter 2018 increased as a result of an increase in generation, transmission and distribution operating costs and compensation costs. The increases were partially offset by a decrease in pension and other postretirement benefit costs.

(e) Acquisition costs were $0.7 million for the first quarter of 2018 pre-tax, which are not being passed through to customers. However, a portion of the acquisition costs, which reduce income before income taxes, are not deductible for tax purposes and thus do not reduce income tax expense.

(f) Depreciation and amortization increased for the first quarter 2018 due to additions to utility plant.

(g) Interest expense increased for the first quarter 2018 due to additional outstanding debt during 2018 as compared to 2017 and partially due to an increase in the overall interest rate.

(h) Other for the first quarter 2018 decreased primarily due to a decrease in revenue-related taxes.

(i) Our effective tax rate was 16.3 percent for the first quarter of 2018, compared to 34.9 percent for the first quarter of 2017. The effective tax rate decreased during 2018 due to federal income tax law changes which were enacted during the fourth quarter of 2017, which lowered the federal income tax rate from 35 percent to 21 percent. In addition, there were reductions to the effective tax rate in 2018 due to plant excess deferred income taxes being amortized.

(j) Losses at our other businesses for the first quarter 2018 were due to increased expenses at one of our subsidiaries associated with the insolvency of the general contractor on a renovation project. The general contractor's insolvency resulted in the recording of a liability to various subcontractors. In addition, we recognized an impairment loss on one equity investment and our portion of net losses from our other equity investments, which were larger in the first quarter of 2018 as compared to the first quarter of 2017.

Non-Generally Accepted Accounting Principles (Non-GAAP) Financial Measures

The tables above and below include electric gross margin and natural gas gross margin, two financial measures that are considered “non-GAAP financial measures.” Generally, a non-GAAP financial measure is a numerical measure of a company's financial performance, financial position or cash flows that excludes (or includes) amounts that are included (or excluded) in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles (GAAP). The presentation of electric gross margin and natural gas gross margin for Avista Utilities is intended to supplement an investor's understanding of Avista Utilities' operating performance. We use these measures to determine whether the appropriate amount of revenue is being collected from customers to allow for the recovery of energy resource costs and operating costs, as well as to analyze how changes in loads (due to weather, economic or other conditions), rates, supply costs and other factors impact our results of operations. We present electric and natural gas gross margin separately since each business has different cost sources, cost recovery mechanisms and jurisdictions. These measures are not intended to replace income from operations as determined in accordance with GAAP as an indicator of operating performance. The calculations of electric and natural gas gross margins are presented below.

The following table presents Avista Utilities' operating revenues, resource costs and resulting gross margin (pre-tax and after-tax) for the three months ended March 31 (dollars in thousands):

	Operating Revenues	Resource Costs	Gross Margin (Pre-Tax)	Income Taxes (a)	Gross Margin (Net of Tax)
For the three months ended March 31, 2018:					
Electric	$ 262,477	$ 98,890	$ 163,587	$ 37,707	$ 125,880
Natural Gas	143,448	69,946	73,502	16,942	56,560
Less: Intracompany	(17,171)	(17,171)	—	—	—
Total	$ 388,754	$ 151,665	$ 237,089	$ 54,649	$ 182,440
For the three months ended March 31, 2017:					
Electric	$ 263,718	$ 90,875	$ 172,843	$ 39,840	$ 133,003
Natural Gas	170,212	90,287	79,925	18,423	61,502
Less: Intracompany	(18,549)	(18,549)	—	—	—
Total	$ 415,381	$ 162,613	$ 252,768	$ 58,263	$ 194,505

(a) Income taxes were calculated using Avista Corp.'s statutory tax rate (federal and state combined) of 23.05 percent.

Liquidity and Capital Resources

We have a $400.0 million committed line of credit that expires in April 2021. As of March 31, 2018, we had $314.6 million of available liquidity under this line of credit. We also had $25.0 million of available liquidity under AEL&P's committed line of credit that expires in November 2019.

Avista Utilities' capital expenditures were $81.2 million for the three months ended March 31, 2018, and we expect Avista Utilities' capital expenditures to total about $405.0 million in 2018. AEL&P's capital expenditures were $0.6 million for the three months ended March 31, 2018, and we expect AEL&P's capital expenditures to total about $7.0 million in 2018.

During 2018, we expect to issue approximately $375.0 million of long-term debt and up to $85.0 million of equity in order to refinance maturing long-term debt, fund planned capital expenditures, maintain an appropriate capital structure and for other general corporate purposes. The $85.0 million of equity in 2018 may come through the sale of shares through our sales agency agreements or from an equity contribution from Hydro One after consummation of the acquisition or from a combination of those sources.

2018 Earnings Guidance and Outlook

Avista Corp. is initiating its 2018 guidance for consolidated earnings to be in the range of $1.90 to $2.10 per diluted share, excluding acquisition costs. We expect acquisition costs to be in the range of $0.80 to $0.85 per diluted share in 2018.

We expect Avista Utilities to contribute in the range of $1.89 to $2.03 per diluted share for 2018, excluding acquisition costs. The midpoint of our Avista Utilities' guidance range does not include any expense or benefit under the ERM. Our current expectation for the ERM is a benefit position within the 90 percent customer/10 percent Company sharing band, which is expected to add approximately $0.07 per diluted share. Our outlook for Avista Utilities assumes, among other variables, normal precipitation, temperatures and above normal hydroelectric generation for the remainder of the year.

For 2018, we expect AEL&P to contribute in the range of $0.10 to $0.14 per diluted share. Our outlook for AEL&P assumes, among other variables, normal precipitation and hydroelectric generation for the remainder of the year.

We expect the other businesses to be between a loss of $0.09 and a loss of $0.07 per diluted share, which includes costs associated with exploring strategic opportunities.

Our guidance generally includes only normal operating conditions and does not include unusual items such as settlement transactions or acquisitions/dispositions until the effects are known and certain.

NOTE: We will host a conference call with financial analysts and investors on May 2, 2018, at 10:30 a.m. EDT to discuss this news release. The call will be available at (888) 771-4371, Confirmation number: 46762903. A simultaneous webcast of the call will be available on our website, www.avistacorp.com. A replay of the conference call will be available through May 9, 2018. Call (888) 843-7419, confirmation number 46762903#, to listen to the replay.

Avista Corp. is an energy company involved in the production, transmission and distribution of energy as well as other energy-related businesses. Avista Utilities is our operating division that provides electric service to 385,000 customers and natural gas to 350,000 customers. Our service territory covers 30,000 square miles in eastern Washington, northern Idaho and parts of southern and eastern Oregon, with a population of 1.6 million. AERC is an Avista subsidiary that, through its subsidiary AEL&P, provides retail electric service to 16,000 customers in the city and borough of Juneau, Alaska. Our stock is traded under the ticker symbol “AVA”. For more information about Avista, please visit www.avistacorp.com.

This news release contains forward-looking statements, including statements regarding our current expectations for future financial performance and cash flows, capital expenditures, financing plans, our current plans or objectives for future operations and other factors, which may affect the company in the future. Such statements are subject to a variety of risks, uncertainties and other factors, most of which are beyond our control and many of which could have significant impact on our operations, results of operations, financial condition or cash flows and could cause actual results to differ materially from those anticipated in such statements.

The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: weather conditions, 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, conservation measures and/or increased distributed generation; changes in long-term climates, both globally and within our utilities' service areas, which can affect, among other things, customer demand patterns and the volume and timing of streamflows to our hydroelectric resources; 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; 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 or lawsuits affecting our ability to utilize or resulting in the obsolescence of our power supply resources; 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; 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, 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 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 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 cost of replacement power (diesel); changing river regulation or operations at hydroelectric facilities not owned by us, which could impact our hydroelectric facilities downstream; 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; cyber attacks on us or our vendors or other potential lapses that result in unauthorized disclosure of private information, which could result in liabilities against us, costs to investigate, remediate and defend, and damage to our reputation; disruption to or breakdowns of information systems, automated controls and other technologies that we rely on for our operations, communications and customer service; changes in costs that impede our ability to effectively implement new information technology systems or to operate and maintain current production technology; changes in technologies, possibly making some of the current technology we utilize obsolete or introducing new cyber security risks; insufficient technology skills, which could lead to the inability to develop, modify or maintain our information systems; 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; failure to complete the proposed acquisition of the Company by Hydro One, which would negatively impact the market price of Avista Corp.'s common stock and could result in termination fees that would have a material adverse effect on our results of operations, financial condition, and cash flows; changes in environmental laws, regulations, decisions and policies, including present and potential environmental remediation costs and our compliance with these matters; the potential effects of initiatives, legislation or administrative rulemaking at the federal, state or local levels, including possible effects on our generating resources of restrictions on greenhouse gas emissions to mitigate concerns over global climate changes; political pressures or regulatory practices that could constrain or place additional cost burdens on our distribution systems through accelerated adoption of distributed generation or electric-powered transportation or on our energy supply sources, such as campaigns to halt coal-fired power generation and opposition to other thermal generation, wind turbines or hydroelectric facilities; wholesale and retail competition including alternative energy sources, growth in customer-owned power resource technologies that displace utility-supplied energy or that may be sold back to the utility, and alternative energy suppliers and delivery arrangements; failure to identify changes in legislation, taxation and regulatory issues which are detrimental or beneficial to our overall business; the Tax Cuts and Jobs Act and its intended and unintended consequences on financial results and future cash flows, including the potential impact to credit ratings, which may affect our ability to borrow funds or increase the cost of borrowing in the future; policy and/or legislative changes resulting from the current presidential administration 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.*

For a further discussion of these factors and other important factors, please refer to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018. The forward-looking statements contained in this news release speak only as of the date hereof. 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 management to predict all of such factors, nor can it assess the impact of each such factor on our business or the extent to which any such factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

Issued by: Avista Corporation

AVISTA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in Thousands except Per Share Amounts)

	First Quarter	
	2018	**2017**
Operating revenues	$ 409,361	$ 436,470
Operating expenses:		
Utility resource costs	154,618	165,586
Other operating expenses	84,122	78,622
Acquisition costs	672	—
Depreciation and amortization	44,914	42,173
Utility taxes other than income taxes	30,829	32,662
Total operating expenses	315,155	319,043
Income from operations	94,206	117,427
Interest expense, net of capitalized interest	24,061	23,006
Other income - net	4,479	(1,060)
Income before income taxes	65,666	95,481
Income tax expense	10,710	33,344
Net income	54,956	62,137
Net loss (income) attributable to noncontrolling interests	(66)	(21)

Net income attributable to Avista Corp. shareholders	$ 54,890	$ 62,116
Weighted-average common shares outstanding (thousands), basic	65,639	64,362
Weighted-average common shares outstanding (thousands), diluted	65,931	64,469
Earnings per common share attributable to Avista Corp. shareholders:		
Basic	$ 0.84	$ 0.97
Diluted	$ 0.83	$ 0.96
Dividends declared per common share	$ 0.3725	$ 0.3575

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AVISTA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in Thousands)

	March 31, 2018	**December 31, 2017**
Assets		
Cash and cash equivalents	$ 26,273	$ 16,172
Accounts and notes receivable	168,534	185,664
Other current assets	114,940	135,698
Total net utility property	4,418,237	4,398,810
Other non-current assets	160,755	153,131
Regulatory assets for deferred income taxes	90,519	90,315
Regulatory assets for pensions and other postretirement benefits	206,637	209,115
Regulatory asset for interest rate swaps	151,667	169,704
Other regulatory assets	137,907	146,295
Other deferred charges	9,714	9,828
Total Assets	**$ 5,485,183**	**$ 5,514,732**
Liabilities and Equity		
Accounts payable	$ 67,168	$ 107,289
Current portion of long-term debt and capital leases	275,066	277,438
Short-term borrowings	50,000	105,398
Other current liabilities	277,463	207,377
Long-term debt and capital leases	1,491,395	1,491,799
Long-term debt to affiliated trusts	51,547	51,547
Regulatory liability for utility plant retirement costs	288,019	285,786
Pensions and other postretirement benefits	200,162	203,566
Deferred income taxes	464,596	466,630
Regulatory liability for excess deferred income taxes	413,491	442,319
Other non-current liabilities, regulatory liabilities and deferred credits	147,705	145,099
Total Liabilities	3,726,612	3,784,248
Equity		
Avista Corporation Shareholders' Equity:		
Common stock (65,668,477 and 65,494,333 outstanding shares)	1,131,549	1,133,448
Retained earnings and accumulated other comprehensive loss	626,840	596,380
Total Avista Corporation Shareholders' Equity	1,758,389	1,729,828
Noncontrolling interests	182	656
Total Equity	1,758,571	1,730,484
Total Liabilities and Equity	**$ 5,485,183**	**$ 5,514,732**

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