Avista Corp. Reports Financial Results for First Quarter 2019, and Confirms 2019 Earnings Guidance

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SPOKANE, Wash., May 02, 2019 (GLOBE NEWSWIRE) -- Avista Corp. (**NYSE: AVA**) today reported net income attributable to Avista Corp. shareholders of $115.8 million, or $1.76 per diluted share for the first quarter of 2019, compared to $54.9 million, or $0.83 per diluted share for the first quarter of 2018.

"Our consolidated earnings were below our expectations for the first quarter. However, we remain on track to meet our guidance for the full year. Our first quarter 2019 earnings were positively impacted by the receipt of the termination fee from Hydro One," said Scott Morris, chairman and chief executive officer of Avista Corp.

"Avista Utilities had lower earnings due to below normal hydroelectric generation and higher natural gas fuel prices, which caused an increase in net power supply costs. We still expect to be in a benefit position in our Energy Recovery Mechanism in Washington in 2019. In addition, we also had higher income taxes during the quarter.

"On April 30 we filed general rates cases in Washington that are two-year rate plans. We also filed a general rate case in Oregon in March and we expect to file general rate cases in Idaho in the second quarter. We expect these cases to provide rate relief in early 2020 and begin reducing the regulatory lag that we have been experiencing. The purpose of our general rate case requests is to recover the costs associated with our capital investments to replace infrastructure that has reached the end of its useful life, as well as respond to the need for reliability and technology investments required to build an integrated energy services grid.

"AEL&P and our other businesses each had a good start to the year.

"For the full year of 2019, we are confirming our earnings guidance with a consolidated range of $2.78 to $2.98 per diluted share, which includes $1.01 per diluted share for the termination fee received from Hydro One and the payment of remaining transaction costs," Morris said.

Summary Results: Avista Corp.'s results for the first quarter of 2019 as compared to the same period in 2018 are presented in the table below (dollars in thousands, except per-share data):

	First Quarter	
	2019	2018
Net Income (Loss) by Business Segment:		
Avista Utilities	$ 111,901	$ 55,540
AEL&P	3,552	3,772
Other	341	(4,422)
Total net income attributable to Avista Corp. shareholders	**$ 115,794**	**$ 54,890**
Earnings (Loss) per Diluted Share by Business Segment:		
Avista Utilities	$ 1.70	$ 0.84
AEL&P	0.05	0.06
Other	0.01	(0.07)
Total earnings per diluted share attributable to Avista Corp. shareholders	**$ 1.76**	**$ 0.83**

Analysis of 2019 Consolidated Earnings

The table below presents the change in net income attributable to Avista Corp. shareholders and diluted earnings per share for the first quarter of 2019 as compared to the same period in 2018, 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

	Net income	Diluted EPS
2018 consolidated earnings	$ 54,890	$ 0.83
Changes in net income and diluted earnings per share:		
Avista Utilities		
Electric utility margin (including intracompany) (b)	(770)	(0.01)
Natural gas utility margin (including intracompany) (c)	2,233	0.03
Other operating expenses (d)	(4,965)	(0.07)
Merger transaction costs (e)	(12,717)	(0.19)
Depreciation and amortization (f)	(2,493)	(0.04)
Interest expense (g)	(357)	(0.01)
Merger termination fee (h)	79,254	1.20
Other (i)	(974)	(0.01)
Effective income tax rate (j)	(2,850)	(0.04)
Total Avista Utilities	**56,361**	**0.86**
AEL&P earnings	(220)	(0.01)
Other businesses earnings (k)	4,763	0.08
2019 consolidated earnings	**$ 115,794**	**$ 1.76**

(a) The tax impact of each line item was calculated using Avista Corp.'s statutory tax rate (federal and state combined) of 23.05 percent.

(b) Electric utility margin (operating revenues less resource costs) decreased for the first quarter of 2019 and was impacted primarily by the following:

- An increase in net power supply costs due to lower hydroelectric generation, as well as higher purchased power prices and natural gas fuel prices. This caused the Energy Recovery Mechanism (ERM) in Washington to decrease from a $4.9 million pre-tax benefit for the first quarter of 2018 to a $2.5 million pre-tax expense for the first quarter of 2019. For the full year of 2019, we expect to be in a benefit position under the ERM within the 75 percent customer/25 percent Company sharing band.

- The above decreases were partially offset by general rate increases in Washington (effective May 1, 2018) and Idaho (effective January 1, 2019); and

- Customer growth, which contributed additional retail electric revenue in the first quarter of 2019.

(c) Natural gas utility margin (operating revenues less resource costs) increased for the first quarter of 2019 and was impacted primarily by the following:

- General rate increases in Washington (effective May 1, 2018) and Idaho (effective January 1, 2019); and

- Customer growth, which contributed additional retail natural gas revenue in the first quarter of 2019.

(d) Other operating expenses for the first quarter of 2019 increased as a result of an increase in generation and distribution operating and maintenance costs and employee incentive and benefit costs.

(e) Merger transaction costs were $19.7 million pre-tax for the first quarter of 2019, compared to $0.7 million pre-tax for the first quarter of 2018. The merger transaction costs increased for the first quarter because 2018 costs consisted primarily of employee time incurred directly related to the transaction, whereas 2019 costs included consulting, banking fees, and legal fees in addition to employee time. None of the acquisition costs are being passed through to customers. During 2017 and 2018, a portion of the merger transaction costs, which reduced income before income taxes, were not deductible for tax purposes. However, now that the transaction has been terminated, all the transaction costs are deductible. As a result, we recognized an additional tax benefit during 2019 of $1.8 million related to transaction costs from prior years, which has been reflected in this line item. The $19.7 million pre-tax transaction costs incurred in 2019 were taxed at our statutory rate of 23.05 percent.

(f) Depreciation and amortization increased for the first quarter of 2019 due to additions to utility plant.

(g) Interest expense increased for the first quarter of 2019 due to additional outstanding debt during 2019 as compared to 2018, as well as an increase in interest rates.

(h) As a result of the termination of the proposed merger, Hydro One paid Avista Corp. a $103 million termination fee in January 2019. The termination fee was used for reimbursing our transaction costs incurred from 2017 to 2019. These costs, including income taxes, totaled approximately $51 million. The balance of the termination fee was used for general corporate purposes and reduced our need for external financing.

(i) Other for the first quarter of 2019 were decreases to earnings primarily due to an increase in property taxes.

(j) Our effective tax rate was 20.6 percent for the first quarter of 2019, compared to 16.3 percent for the first quarter of 2018. We expect our full year 2019 effective tax rate to be approximately 16 percent to 17 percent.

(k) The increase in earnings at our other businesses was primarily because the first quarter of 2018 included expenses associated with a renovation project. Also, there were increased earnings from equity investments in the first quarter of 2019 as compared to the first quarter of 2018.

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

The tables above and below include electric utility margin and natural gas utility 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 GAAP, which for utility margin is utility operating revenues.

The presentation of electric utility margin and natural gas utility margin is intended to enhance the understanding of operating performance. We use these measures internally and believe they provide useful information to investors in their analysis of how changes in loads (due to weather, economic or other conditions), rates, supply costs and other factors impact our results of operations. Changes in loads, as well as power and natural gas supply costs, are generally deferred and recovered from customers through regulatory accounting mechanisms. Accordingly, the analysis of utility margin generally excludes most of the change in revenue resulting from these regulatory mechanisms. We present electric and natural gas utility margin separately below for Avista Utilities since each business has different cost sources, cost recovery mechanisms and jurisdictions, so we believe that separate analysis is beneficial. These measures are not intended to replace utility operating revenues as determined in accordance with GAAP as an indicator of operating performance. Reconciliations of operating revenues to utility margin are set forth below.

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

	Operating Revenues	Resource Costs	Utility Margin (Pre-Tax)	Income Taxes (a)	Utility Margin (Net of Tax)
For the three months ended March 31, 2019:					
Electric	$ 256,467	$ 93,881	$ 162,586	$ 37,476	$ 125,110
Natural Gas	164,677	88,273	76,404	17,611	58,793
Less: Intracompany	(43,442)	(43,442)	—	—	—
Total	$ 377,702	$ 138,712	$ 238,990	$ 55,087	$ 183,903
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

(a) Income taxes for 2018 and 2019 were calculated using Avista Corp.'s statutory tax rate (federal and state combined) of 23.05 percent.

Liquidity and Capital Resources

Liquidity

We have a $400.0 million committed line of credit that expires in April 2021. As of March 31, 2019, we had $220.9 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.

In 2019, we expect to issue approximately $165 million of long-term debt and up to $50 million of equity in order to refinance maturing long-term debt, fund planned capital expenditures and maintain an appropriate capital structure.

Capital Expenditures and Other Investments

Avista Utilities' capital expenditures were $92 million for the three months ended March 31, 2019, and we expect Avista Utilities' capital expenditures to total about $405 million in 2019. We expect AEL&P's capital expenditures to total about $9 million in 2019.

In addition, we expect to invest about $19 million at our other businesses in 2019. This is mainly related to economic development projects in our service territory intended to demonstrate the latest energy and environmental building innovations and house several local college degree programs.

2019 Earnings Guidance and Outlook

Avista Corp. is confirming its 2019 guidance for consolidated earnings to be in the range of $2.78 to $2.98 per diluted share, which includes $1.01 per diluted share for the termination fee received from Hydro One and the payment of remaining transaction costs.

We expect to experience regulatory lag during the period 2019 through 2021. On April 30, 2019 we filed general rates cases in Washington that are two-year rate plans. We also filed a general rate case in Oregon in March and we expect to file general rate cases in Idaho in the second quarter of 2019. We expect these cases to provide rate relief in early 2020 and begin reducing the regulatory lag that we have been experiencing. Going forward,

we will continue to strive to reduce the regulatory timing lag and more closely align our earned returns with those authorized by 2022. To achieve this, we anticipate an annual earnings growth rate of 9 percent to 10 percent from 2020 to 2022 with a return to our normal 4 percent to 5 percent growth rate following 2022. The earnings growth rates are based on the mid-point of our 2019 earnings guidance as the starting point and exclude the $1.01 per diluted share related to the Hydro One transaction. These growth rates also assume timely and appropriate rate relief in our jurisdictions.

Our 2019 earnings guidance range encompasses unrecovered structural costs estimated to reduce the return on equity by approximately 90 basis points. In addition, our 2019 guidance range includes regulatory timing lag estimated to reduce the return on equity by approximately 105 basis points. This results in an expected return on equity for Avista Utilities of approximately 7.5 percent in 2019.

We expect Avista Utilities to contribute in the range of $2.72 to $2.86 per diluted share for 2019. This includes $1.01 per diluted share for the termination fee received from Hydro One and the payment of remaining transaction 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 75 percent customer/25 percent Company sharing band, which is expected to add approximately $0.05 per diluted share. Our outlook for Avista Utilities assumes, among other variables, normal precipitation, temperatures and below normal hydroelectric generation for the remainder of the year.

For 2019, we expect AEL&P to contribute in the range of $0.09 to $0.13 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 $0.03 and a loss of $0.01 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, 2019, at 10:30 a.m. EDT to discuss this news release. The call will be available at (888) 771-4371, Confirmation number: 48551233#. 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, 2019. Call (888) 843-7419, confirmation number 48551233#, 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 395,000 customers and natural gas to 362,000 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 1.7 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.

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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 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; 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; 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; 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); changing river regulation or operations at hydroelectric facilities not owned by us, which could impact our hydroelectric facilities downstream; change in the use, availability or abundancy of water resources and/or rights needed for operation of our hydroelectric facilities; 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; 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; 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; 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; 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.

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, 2019. 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.

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