



Avista Reaches All-Party Settlement Agreement in Washington Electric and Natural Gas Rate Requests

08/18/14

New Rates Would Take Effect Jan. 1, 2015

SPOKANE, WA -- (Marketwired) -- 08/18/14 -- Avista (NYSE: AVA) and all of the parties in the company's electric and natural gas general rate case filings have reached a settlement agreement that, if approved by the Washington Utilities and Transportation Commission (Commission or UTC), would conclude the general rate requests filed on Feb. 4, 2014. New rates would take effect on Jan. 1, 2015.

If approved, the settlement would increase annual electric base revenues by 1.4 percent or \$7.0 million and annual natural gas base revenues by 5.6 percent or \$8.5 million.

"We believe the proposed settlement agreement is fair and reasonable and represents positive outcomes for our customers, the company and our shareholders," said Dennis Vermillion, Avista Corp. senior vice president and president of Avista Utilities. "The agreement is the result of concessions and compromises by all parties on a number of issues to arrive at an outcome that is supported by all parties. It supports Avista's efforts to continue to make key capital investments in our utility infrastructure as well as recover the operating costs of serving our customers."

Expiring and New Rebates and ERM

The parties agree that a credit of \$3.0 million from the existing Energy Recovery Mechanism (ERM) deferral balance would be returned to electric customers to help offset the 2015 rate increase, which would reduce the overall electric billed rate increase from 1.4 percent to 0.8 percent. This ERM balance represents lower power supply costs in recent years than the costs embedded in base retail rates, which are being returned to customers in the form of a rebate.

In addition, Avista's electric customers are currently receiving benefits from two rebates that are reducing monthly energy bills by 2.8 percent during 2014. These rebates will expire at the end of 2014. The parties agree that Avista would provide a rebate to customers of \$8.6 million over an 18 month period related to its sale of renewable energy credits, which would partially replace the expiring rebates and reduce customers' monthly bills by 1.2 percent, beginning Jan. 1, 2015. The net effect of the expiring rebates and the new rebate would result in an increase of approximately 1.6 percent beginning Jan. 1, 2015. These rebates are passed through to customers on a dollar-for-dollar basis and do not increase or decrease the company's earnings.

The overall change in customer billing rates from the settlement agreement, including the expiring and new rebates, is 2.4 percent for electric customers and 5.5 percent for natural gas customers. The bill increase for each customer group (e.g. residential, commercial) may differ due to adjustments to better reflect the cost to serve each customer group.

Residential Customer Bill

If the settlement agreement is approved, a residential customer using an average 965 kilowatt hours per month would see a total billed increase of \$2.10 a month, or 2.6 percent, for a revised monthly bill of \$82.19, beginning Jan. 1, 2015. The revised monthly bill includes a proposed increase in the monthly basic charge from \$8.00 to \$8.50.

A natural gas customer using an average of 65 therms per month would see a \$3.62 a month, or 5.9 percent increase, for a revised monthly bill of \$64.81. This includes the proposed increase in the monthly basic charge from \$8.00 to \$9.00.

Power Supply and Project Compass Deferral

The proposed settlement agreement includes a provision that allows Avista to update power supply costs on Nov. 1, 2014. This update to power supply costs would be reflected in the overall electric revenue increase effective Jan. 1, 2015, and would reset the base power supply costs for the ERM tracker calculations effective Jan. 1, 2015. The current estimate for the update is a \$6.3 million increase in power supply costs. If the power supply update results in an increase in net power supply costs, this bill increase to customers would be offset with available ERM deferral balance dollars for the calendar year 2015.

The parties also agree that the natural gas revenue requirement associated with Avista's Customer Information System capital project (Project Compass) for 2015 would be deferred for recovery in a future case, based on the actual costs of the project at the time it goes into service. The net income to the company from this deferral would be recognized in the future recovery period.

Decoupling

The parties agree that Avista would implement electric and natural gas decoupling mechanisms for a five-year period beginning Jan. 1, 2015. Decoupling is a mechanism designed to break the link between a utility's revenues and a consumer's energy usage. The company's actual revenue, based on kilowatt hour and therm sales will vary, up or down, from the level set by the Commission. This could be due to changes in weather, conservation or the economy. Under the decoupling mechanisms, the company's electric and natural gas revenues will be based on the number of customers, rather than kilowatt hour and therm sales, which will provide more stability to the company's retail revenues. The difference between

revenues based on sales and revenues based on the number of customers will result in either surcharges or rebates to customers in the following year.

The decoupling mechanisms include an after-the-fact earnings test.

- At the end of each calendar year, an electric and natural gas "Commission Basis" earnings calculation will be made for the prior calendar year.
- These earnings tests will reflect actual decoupled revenues, normalized power supply costs, and other normalizing adjustments.
- If the company has a decoupling rebate related to the prior year, and earns more than a 7.32 percent rate of return (ROR), the rebate to customers would be increased by 50 percent of the earnings in excess of the 7.32 percent ROR.
- If the company earns less than 7.32 percent ROR, the full rebate to customers would be made.
- If the company has a decoupling surcharge for the prior year and earns in excess of 7.32 percent, the surcharge to customers would be reduced by 50 percent of the earnings in excess of 7.32 percent.
- If the company has a decoupling surcharge and earns less than the 7.32 percent, the full surcharge to customers would be made.

Avista's Original Request

Avista's original request filed with the Commission in February 2014 included a base electric rate increase of 3.8 percent or \$18.2 million in electric revenue. It also requested a \$12.1 million, or 8.1 percent, increase in natural gas revenues. The original request also included an increase in the common equity ratio and the return on equity. Specific capital structure ratios and the cost of capital components were not agreed to in the settlement agreement, and the revenue increases in the settlement were not tied to the 7.32 percent ROR referenced above. The electric and natural gas revenue increases were negotiated numbers, with each party using its own set of assumptions underlying its agreement to the revenue increases. The parties agreed that the 7.32 percent ROR will be used to calculate the "Allowance for Funds Used During Construction" (AFUDC), and other purposes.

Low Income Rate Assistance Program (LIRAP)

Recognizing the impact of rising prices on customers, especially limited income and senior customers, funding available for Avista's Low Income Rate Assistance Program (LIRAP) would increase by \$333,000 as a result of the settlement. In total, annual funding available for LIRAP would be approximately \$4.1 million for electric customers and approximately \$2.1 million for natural gas customers. LIRAP provides direct energy bill assistance for limited income and senior customers. LIRAP is funded through a separate tariff.

UTC Public Hearings

The UTC will hold public hearings on Avista's general rate request in the coming weeks. The schedule is as follows:

Aug. 26, 2014

6 - 7:30 p.m. Spokane Council Chambers

808 W. Spokane Falls Blvd.

Spokane, WA

Paid parking nearby (i.e., parking meters, parking lots, parking garage)

Aug. 27, 2014

12 - 1:30 p.m. Spokane Valley Council Chambers

11707 E. Sprague Avenue

Spokane, WA

Free Parking

In addition to Avista, the parties to the proposed settlement are the Staff of the UTC, the Public Counsel Section of the Washington Office of the Attorney General, Northwest Industrial Gas Users, Industrial Customers of Northwest Utilities and The Energy Project. The parties' recommendation to approve the settlement agreement is not binding on the Commission.

Avista serves more than 241,000 electric and nearly 152,000 natural gas customers in Washington.

Additional information about the rate requests, including a video, is available at www.avistautilities.com/warates.

To assist customers in managing their energy bills, Avista offers services for customers such as comfort level billing, payment arrangements and Customer Assistance Referral and Evaluation Services (CARES), which provide assistance to special-needs customers through referrals to area agencies and churches for help with housing, utilities, medical assistance and other needs. To learn more, visit www.avistautilities.com. There, customers can also find information on energy efficiency rebates and incentives, as well as online tools for managing energy use.

About Avista Corp.

Avista Corp. is an energy company involved in the production, transmission and distribution of energy as well as other energy-related businesses. [Avista Utilities](http://www.avistautilities.com) is our operating division that provides electric service to 365,000 customers and natural gas to 325,000 customers. Its service territory covers 30,000 square miles in eastern Washington, northern Idaho and parts of southern and eastern Oregon, with a population of 1.5 million. Alaska Energy and Resources Company is an Avista subsidiary that provides retail electric service in the city and borough of Juneau, Alaska, through its subsidiary [Alaska Electric Light and Power Company](http://www.alaskalightandpower.com). Avista 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 regarding the company's current expectations. Forward-looking statements are all statements other than historical facts. Such statements speak only as of the date of the news release and are subject to a variety of risks and uncertainties, many of which are beyond the company's control, which could cause actual results to differ materially from the expectations. These risks and uncertainties include, in addition to those discussed herein, all of the factors discussed in the company's Annual Report on Form 10-K for the year ended Dec. 31, 2013 and the Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.

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