

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 September 30, 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  
(State or other jurisdiction of  
incorporation or organization)

91-0462470  
(I.R.S. Employer  
Identification No.)

1411 East Mission Avenue, Spokane, Washington 99202-2600  
(Address of principal executive offices, including zip code)

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

None

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock	AVA	New York Stock Exchange

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 November 1, 2019, 66,709,945 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)

<u>Acronym/Term</u>	<u>Meaning</u>
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, with the exception of AJT Mining Properties, Inc., which is a subsidiary of AERC.
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
Cooling degree days	- The measure of the warmth of weather experienced, based on the extent to which the average of high and low temperatures for a day exceeds 65 degrees Fahrenheit (annual degree days above historic indicate warmer than average temperatures)
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
Heating degree days	- The measure of the coldness of weather experienced, based on the extent to which the average of high and low temperatures for a day falls below 65 degrees Fahrenheit (annual degree days below historic indicate warmer than average temperatures).
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 power or capability. Kilowatt-hour (1000 watt hours): a measure of energy produced over a period of time
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

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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
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 of electric power or capability; 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,” “projects,” “predicts,” 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 climate and weather may materially affect, among other things, customer demand, the volume and timing of streamflows required for hydroelectric generation, costs of generation, transmission and distribution. Increased or new risks may arise from 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;

***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

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costs, commodity costs, interest rate swap derivatives, the ordering of refunds to customers 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);
- 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 abundance of water resources and/or rights needed for operation of our hydroelectric facilities;

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***Compliance Risk***

- changes in laws, regulations, decisions and policies at the federal, state or local levels, which could materially impact both our electric and gas operations and costs of operations;
- 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, prohibitions or restrictions on new or existing services, 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



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- the risk of municipalization or other form of service territory reduction.

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**

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](http://www.sec.gov). Our website address is [www.myavista.com](http://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. 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.

**PART I. Financial Information**

**Item 1. Condensed Consolidated Financial Statements**

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

*Avista Corporation*

For the Three and Nine Months Ended September 30

Dollars in thousands, except per share amounts

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Operating Revenues:</b>				
Utility revenues:				
Utility revenues, exclusive of alternative revenue programs	\$ 276,683	\$ 288,513	\$ 958,750	\$ 1,006,003
Alternative revenue programs	6,038	606	11,105	(1,763)
Total utility revenues	282,721	289,119	969,855	1,004,240
Non-utility revenues	1,049	6,894	11,208	20,432
Total operating revenues	283,770	296,013	981,063	1,024,672
<b>Operating Expenses:</b>				
Utility operating expenses:				
Resource costs	98,324	101,519	324,110	362,106
Other operating expenses	80,112	78,395	251,810	236,771
Merger transaction costs	—	965	19,675	2,620
Depreciation and amortization	50,052	46,035	154,445	136,419
Taxes other than income taxes	23,455	25,101	78,306	81,526
Non-utility operating expenses:				
Other operating expenses	1,450	7,347	15,137	20,714
Depreciation and amortization	134	207	498	587
Total operating expenses	253,527	259,569	843,981	840,743
Income from operations	30,243	36,444	137,082	183,929
Interest expense	25,859	24,280	77,021	74,226
Interest expense to affiliated trusts	334	325	1,042	880
Capitalized interest	(1,089)	(1,217)	(3,118)	(3,324)
Merger termination fee	—	—	(103,000)	—
Other expense (income)-net	180	1,379	(8,995)	3,951
Income before income taxes	4,959	11,677	174,132	108,196
Income tax expense (benefit)	(131)	1,548	28,145	17,467
Net income	5,090	10,129	145,987	90,729
Net loss (income) attributable to noncontrolling interests	—	(10)	216	(143)
Net income attributable to Avista Corp. shareholders	\$ 5,090	\$ 10,119	\$ 146,203	\$ 90,586
Weighted-average common shares outstanding (thousands), basic	66,265	65,688	65,964	65,668
Weighted-average common shares outstanding (thousands), diluted	66,351	66,026	66,050	65,980
<b>Earnings per common share attributable to Avista Corp. shareholders:</b>				
Basic	\$ 0.08	\$ 0.15	\$ 2.22	\$ 1.38
Diluted	\$ 0.08	\$ 0.15	\$ 2.21	\$ 1.37

*The Accompanying Notes are an Integral Part of These Statements.*

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*Avista Corporation*

For the Three and Nine Months Ended September 30

Dollars in thousands

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net income	\$ 5,090	\$ 10,129	\$ 145,987	\$ 90,729
Other Comprehensive Income:				
Change in unfunded benefit obligation for pension and other postretirement benefit plans - net of taxes of \$43, \$54, \$128 and \$163 respectively	162	204	483	612
Total other comprehensive income	162	204	483	612
Comprehensive income	5,252	10,333	146,470	91,341
Comprehensive loss (income) attributable to noncontrolling interests	—	(10)	216	(143)
Comprehensive income attributable to Avista Corporation shareholders	\$ 5,252	\$ 10,323	\$ 146,686	\$ 91,198

*The Accompanying Notes are an Integral Part of These Statements.*

## CONDENSED CONSOLIDATED BALANCE SHEETS

## Avista Corporation

 Dollars in thousands  
 (Unaudited)

	September 30, 2019	December 31, 2018
<b>Assets:</b>		
Current Assets:		
Cash and cash equivalents	\$ 14,454	\$ 14,656
Accounts and notes receivable-less allowances of \$2,529 and \$5,233, respectively	108,577	165,824
Materials and supplies, fuel stock and stored natural gas	67,732	63,881
Regulatory assets	19,890	48,552
Other current assets	36,993	54,010
Total current assets	247,646	346,923
Net utility property	4,727,014	4,648,930
Goodwill	52,426	57,672
Non-current regulatory assets	688,814	614,354
Other property and investments-net and other non-current assets	248,883	114,697
Total assets	<u>\$ 5,964,783</u>	<u>\$ 5,782,576</u>
<b>Liabilities and Equity:</b>		
Current Liabilities:		
Accounts payable	\$ 91,358	\$ 108,372
Current portion of long-term debt and capital leases	14,996	107,645
Short-term borrowings	119,300	190,000
Regulatory liabilities	43,442	113,209
Other current liabilities	130,089	120,358
Total current liabilities	399,185	639,584
Long-term debt and capital leases	1,879,366	1,755,529
Long-term debt to affiliated trusts	51,547	51,547
Pensions and other postretirement benefits	210,292	222,537
Deferred income taxes	515,355	487,602
Non-current regulatory liabilities	786,131	780,701
Other non-current liabilities and deferred credits	229,339	71,031
Total liabilities	4,071,215	4,008,531
Commitments and Contingencies (See Notes to Condensed Consolidated Financial Statements)		
<b>Equity:</b>		
Avista Corporation Shareholders' Equity:		
Common stock, no par value; 200,000,000 shares authorized; 66,708,989 and 65,688,356 shares issued and outstanding, respectively	1,186,925	1,136,491
Accumulated other comprehensive loss	(7,383)	(7,866)
Retained earnings	714,026	644,595
Total Avista Corporation shareholders' equity	1,893,568	1,773,220
Noncontrolling Interests	—	825
Total equity	1,893,568	1,774,045
Total liabilities and equity	<u>\$ 5,964,783</u>	<u>\$ 5,782,576</u>

*The Accompanying Notes are an Integral Part of These Statements.*

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

*Avista Corporation*

For the Nine Months Ended September 30

Dollars in thousands

(Unaudited)

	2019	2018
<b>Operating Activities:</b>		
Net income	\$ 145,987	\$ 90,729
Non-cash items included in net income:		
Depreciation and amortization	154,943	139,738
Deferred income tax provision and investment tax credits	10,219	10,575
Power and natural gas cost amortizations (deferrals), net	(45,835)	6,315
Amortization of debt expense	2,008	2,327
Amortization of investment in exchange power	1,633	1,838
Stock-based compensation expense	8,951	5,215
Equity-related AFUDC	(5,021)	(4,406)
Pension and other postretirement benefit expense	27,139	23,980
Other regulatory assets and liabilities and deferred debits and credits	1,871	20,953
Change in decoupling regulatory deferral	(11,540)	5,436
Gain on sale of METALfx (before payment of transaction costs)	(6,477)	—
Other	(5,095)	3,962
Contributions to defined benefit pension plan	(22,000)	(22,000)
Cash paid for settlement of interest rate swap agreements	(13,325)	(32,174)
Cash received for settlement of interest rate swap agreements	—	5,594
Changes in certain current assets and liabilities:		
Accounts and notes receivable	54,554	75,878
Materials and supplies, fuel stock and stored natural gas	(7,298)	(4,691)
Collateral posted for derivative instruments	64,770	47,150
Other current assets	(11,423)	(3,871)
Accounts payable	(8,366)	(16,392)
Other current liabilities	4,796	9,639
Net cash provided by operating activities	340,491	365,795
<b>Investing Activities:</b>		
Utility property capital expenditures (excluding equity-related AFUDC)	(320,964)	(296,216)
Issuance of notes receivable by subsidiaries	(6,036)	(2,930)
Equity and property investments made by subsidiaries	(10,031)	(8,629)
Proceeds from sale of METALfx (net of cash sold)	16,407	—
Other	309	88
Net cash used in investing activities	(320,315)	(307,687)

*The Accompanying Notes are an Integral Part of These Statements.*

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

*Avista Corporation*

For the Nine Months Ended September 30

Dollars in thousands

(Unaudited)

	2019	2018
<b>Financing Activities:</b>		
Net increase (decrease) in short-term borrowings	\$ 17,000	\$ (70,398)
Proceeds from issuance of long-term debt	—	374,621
Maturity of long-term debt and capital leases	(1,995)	(276,804)
Issuance of common stock, net of issuance costs	42,899	1,224
Cash dividends paid	(76,772)	(73,569)
Other	(1,510)	(8,184)
Net cash used in financing activities	(20,378)	(53,110)
Net increase (decrease) in cash and cash equivalents	(202)	4,998
Cash and cash equivalents at beginning of period	14,656	16,172
Cash and cash equivalents at end of period	\$ 14,454	\$ 21,170

*The Accompanying Notes are an Integral Part of These Statements.*

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

Avista Corporation

For the Three and Nine Months Ended September 30

Dollars in thousands

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Common Stock, Shares:</b>				
Shares outstanding at beginning of period	66,111,317	65,687,492	65,688,356	65,494,333
Shares issued	597,672	508	1,020,633	193,667
Shares outstanding at end of period	66,708,989	65,688,000	66,708,989	65,688,000
<b>Common Stock, Amount:</b>				
Balance at beginning of period	\$ 1,157,024	\$ 1,134,304	\$ 1,136,491	\$ 1,133,448
Equity compensation expense	1,931	1,242	8,426	4,800
Issuance of common stock, net of issuance costs	27,970	(3)	42,899	1,224
Payment of minimum tax withholdings for share-based payment awards	—	—	(891)	(3,929)
Balance at end of period	1,186,925	1,135,543	1,186,925	1,135,543
<b>Accumulated Other Comprehensive Loss:</b>				
Balance at beginning of period	(7,545)	(9,424)	(7,866)	(8,090)
Other comprehensive income	162	204	483	612
Reclassification of excess income tax benefits	—	—	—	(1,742)
Balance at end of period	(7,383)	(9,220)	(7,383)	(9,220)
<b>Retained Earnings:</b>				
Balance at beginning of period	734,555	637,578	644,595	604,470
Net income attributable to Avista Corporation shareholders	5,090	10,119	146,203	90,586
Cash dividends paid on common stock	(25,619)	(24,468)	(76,772)	(73,569)
Reclassification of excess income tax benefits	—	—	—	1,742
Balance at end of period	714,026	623,229	714,026	623,229
Total Avista Corporation shareholders' equity	1,893,568	1,749,552	1,893,568	1,749,552
<b>Noncontrolling Interests:</b>				
Balance at beginning of period	—	249	825	656
Net income (loss) attributable to noncontrolling interests	—	10	(216)	143
Cash dividends paid to subsidiary noncontrolling interests	—	540	—	—
Deconsolidation of noncontrolling interests related to sale of METALfx	—	—	(609)	—
Balance at end of period	—	799	—	799
Total equity	\$ 1,893,568	\$ 1,750,351	\$ 1,893,568	\$ 1,750,351
Dividends declared per common share	\$ 0.3875	\$ 0.3725	\$ 1.1625	\$ 1.1175

*The Accompanying Notes are an Integral Part of These Statements.*

**AVISTA CORPORATION**

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

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The accompanying condensed consolidated financial statements of Avista Corp. as of and for the interim periods ended September 30, 2019 and September 30, 2018 are unaudited; however, in the opinion of management, the statements reflect all adjustments necessary for a fair statement of the results for the interim periods. All such adjustments are of a normal recurring nature. The condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The Condensed Consolidated Statements of Income for the interim periods are not necessarily indicative of the results to be expected for the full year. These condensed consolidated financial statements do not contain the detail or footnote disclosure concerning accounting policies and other matters which would be included in full fiscal year consolidated financial statements; therefore, they should be read in conjunction with the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (2018 Form 10-K).

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*****Nature of Business***

Avista Corp. is primarily an electric and natural gas utility with certain other business ventures. Avista Utilities is an operating division of Avista Corp., comprising its regulated utility operations in the Pacific Northwest. Avista Utilities provides electric distribution and transmission, and natural gas distribution services in parts of eastern Washington and northern Idaho. Avista Utilities also provides natural gas distribution service in parts of northeastern and southwestern Oregon. Avista Utilities has electric generating facilities in Washington, Idaho, Oregon and Montana. Avista Utilities also supplies electricity to a small number of customers in Montana, most of whom are employees who operate the Company's Noxon Rapids generating facility.

AERC is a wholly-owned subsidiary of Avista Corp. The primary subsidiary of AERC is AEL&P, which comprises Avista Corp.'s regulated utility operations in Alaska.

Avista Capital, a wholly owned non-regulated subsidiary of Avista Corp., is the parent company of all of the subsidiary companies in the non-utility businesses, with the exception of AJT Mining Properties, Inc., which is a subsidiary of AERC. See Note 17 for business segment information. See Note 19 for discussion of the sale of METALfx, an unregulated subsidiary of the Company.

***Basis of Reporting***

The condensed consolidated financial statements include the assets, liabilities, revenues and expenses of the Company and its subsidiaries and other majority owned subsidiaries and variable interest entities for which the Company or its subsidiaries are the primary beneficiaries. Intercompany balances were eliminated in consolidation. The accompanying condensed consolidated financial statements include the Company's proportionate share of utility plant and related operations resulting from its interests in jointly owned plants.

***Derivative Assets and Liabilities***

Derivatives are recorded as either assets or liabilities on the Condensed Consolidated Balance Sheets measured at estimated fair value.

The WUTC and the IPUC issued accounting orders authorizing Avista Corp. to offset energy commodity derivative assets or liabilities with a regulatory asset or liability. This accounting treatment is intended to defer the recognition of mark-to-market gains and losses on energy commodity transactions until the period of delivery. Realized benefits and costs result in adjustments to retail rates through PGAs, the ERM in Washington, the PCA mechanism in Idaho, and periodic general rate cases. The resulting regulatory assets associated with energy commodity derivative instruments have been concluded to be probable of recovery through future rates.

Substantially all forward contracts to purchase or sell power and natural gas are recorded as derivative assets or liabilities at estimated fair value with an offsetting regulatory asset or liability. Contracts that are not considered derivatives are accounted for on the accrual basis until they are settled or realized unless there is a decline in the fair value of the contract that is determined to be other-than-temporary.

For interest rate swap derivatives, Avista Corp. records all mark-to-market gains and losses in each accounting period as assets and liabilities, as well as offsetting regulatory assets and liabilities, such that there is no income statement impact. The interest rate swap derivatives are risk management tools similar to energy commodity derivatives. Upon settlement of interest rate swap derivatives, the cash payments made or received are recorded as a regulatory asset or liability and are subsequently amortized as a component of interest expense over the life of the associated debt. The settled interest rate swap derivatives are also included as a part of Avista Corp.'s cost of debt calculation for ratemaking purposes.



**AVISTA CORPORATION**

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The Company has multiple master netting agreements with a variety of entities that allow for cross-commodity netting of derivative agreements with the same counterparty (i.e. power derivatives can be netted with natural gas derivatives). In addition, some master netting agreements allow for the netting of commodity derivatives and interest rate swap derivatives for the same counterparty. The Company does not have any agreements which allow for cross-affiliate netting among multiple affiliated legal entities. The Company nets all derivative instruments when allowed by the agreement for presentation in the Condensed Consolidated Balance Sheets.

**Fair Value Measurements**

Fair value represents the price that would be received when selling an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Energy commodity derivative assets and liabilities, deferred compensation assets, as well as derivatives related to interest rate swaps and foreign currency exchange contracts, are reported at estimated fair value on the Condensed Consolidated Balance Sheets. See Note 12 for the Company's fair value disclosures.

**Contingencies**

The Company has unresolved regulatory, legal and tax issues which have inherently uncertain outcomes. The Company accrues a loss contingency if it is probable that a liability has been incurred and the amount of the loss or impairment can be reasonably estimated. The Company also discloses loss contingencies that do not meet these conditions for accrual if there is a reasonable possibility that a material loss may be incurred. See Note 16 for further discussion of the Company's commitments and contingencies.

**Reclassification to Comply with Required FERC Regulatory Reporting**

During the third quarter of 2019, the FERC completed an audit of Avista Corp. that covered the period January 1, 2015 through December 31, 2018. Avista Corp.'s AFUDC rate, which is prescribed by state regulatory authorities, is different than the FERC approved method for calculating AFUDC. The FERC indicated that the difference in rates should be recorded as a regulatory asset rather than utility plant. At the conclusion of the audit, the FERC required Avista Corp. to reclass the excess AFUDC from Net utility plant to Non-current regulatory assets for the period January 1, 2010 (the effective date of the Company's current fixed transmission rates) to the present. As a result of this finding, Avista Corp. reclassified approximately \$37 million from Net utility plant to Non-current regulatory assets as of September 30, 2019, which represents the cumulative adjustment for 2010 through 2017. The Company recorded the difference in AFUDC rates for 2018 and 2019 as a regulatory asset in the respective periods incurred. The Company did not adjust prior period Condensed Consolidated Balance Sheets as the FERC required the adjustment to be reflected on a cumulative basis at the end of the audit and required the AFUDC calculation to be modified on a prospective basis. The Company concluded that the differences were insignificant during each prior period and on a cumulative basis. The adjustment recorded during the third quarter 2019 had no effect on net income or earnings per share.

**NOTE 2. NEW ACCOUNTING STANDARDS**

*ASU No. 2016-02, "Leases (Topic 842)"*

*ASU No. 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842"*

*ASU No. 2018-11, "Leases (Topic 842): Targeted Improvements"*

On January 1, 2019, the Company adopted ASU No. 2016-02, which outlines a model for entities to use in accounting for leases and supersedes previous lease accounting guidance, as well as several practical expedients in ASU Nos. 2018-01 and 2018-11.

The Company adopted ASU No. 2016-02 utilizing a modified retrospective adoption method with the "package of three" and hindsight practical expedients offered by the standard. The "package of three" provides for an entity to not reassess at adoption whether any expired or existing contracts are deemed, for accounting purposes, to be or contain leases, the classification of any expired or existing leases, and any initial direct costs for any existing leases. As a result, the Company did not reassess existing or expired contracts under the new lease guidance and it did not reassess the classification of any existing leases. The Company used the benefit of hindsight in determining both term and impairments associated with any existing leases. Use of this practical expedient has resulted in lease terms that best represent management's expectations with respect to use of the underlying asset but did not result in recognition of any impairment.

The Company elected to adopt ASU No. 2018-01, which allows an entity to exclude from application of Topic 842 all easements executed prior to January 1, 2019. In addition, the Company elected to adopt the "comparatives under 840" practical expedient offered in ASU No. 2018-11, which allows an entity to apply the new lease standard at the adoption date, recognizing any necessary cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption and presenting comparative periods in the financial statements under ASC 840 (previous lease accounting guidance). Adoption of the standard did not result in a cumulative effect adjustment within the Company's financial statements.

As allowed by ASU No. 2016-02, the Company elected not to apply the requirements of the standard to short-term leases, those leases with an initial term of 12 months or less. These leases are not recorded on the balance sheet and are immaterial to the financial statements.

Adoption of the standard impacted the Company's Condensed Consolidated Balance Sheet through recognition of right-of-use (ROU) assets and lease liabilities for the Company's operating leases. Accounting for finance leases (formerly capital leases) remained substantially unchanged. See Note 5 for further information on the Company's leases.

*ASU No. 2018-02 "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"*

In February 2018, the FASB issued ASU No. 2018-02, which amended the guidance for reporting comprehensive income. This ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the enactment of the TCJA in December 2017. This ASU became effective for periods beginning after December 15, 2018 and early adoption was permitted. Upon adoption, the requirements of this ASU must be applied either in the period of

**AVISTA CORPORATION**

adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized. The Company early adopted this standard effective January 1, 2018 and elected to apply the guidance during the period of adoption rather than apply the standard retrospectively. As a result, the Company reclassified \$1.7 million in tax benefits from accumulated other comprehensive loss to retained earnings during the nine months ended September 30, 2018.

*ASU 2018-13 "Fair Value Measurement (Topic 820)"*

In August 2018, the FASB issued ASU No. 2018-13, which amends the fair value measurement disclosure requirements of ASC 820. The requirements of this ASU include additional disclosure regarding the range and weighted average used to develop significant unobservable inputs for Level 3 fair value estimates and the elimination of certain other previously required disclosures, such as the narrative description of the valuation process for Level 3 fair value measurements. This ASU is effective for periods beginning after December 15, 2019 and early adoption is permitted. Entities have the option to early adopt the eliminated or modified disclosure requirements and delay the adoption of all the new disclosure requirements until the effective date of the ASU. The Company is in the process of evaluating this standard; however, it has determined that it will not early adopt any portion of this standard as of September 30, 2019.

*ASU No. 2018-14 "Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20)"*

In August 2018, the FASB issued ASU No. 2018-14, which amends ASC 715 to add, remove and/or clarify certain disclosure requirements related to defined benefit pension and other postretirement plans. The additional disclosure requirements are primarily narrative discussion of significant changes in the benefit obligations and plan assets. The removed disclosures are primarily information about accumulated other comprehensive income expected to be recognized over the next year and the effects of changes associated with assumed health care costs. This ASU is effective for periods beginning after December 15, 2021 and early adoption is permitted. The Company is in the process of evaluating this standard; however, it has determined that it will not early adopt this standard as of September 30, 2019.

**NOTE 3. BALANCE SHEET COMPONENTS**

*Materials and Supplies, Fuel Stock and Stored Natural Gas*

Inventories of materials and supplies, fuel stock and stored natural gas are recorded at average cost for our regulated operations and the lower of cost or market for our non-regulated operations and consisted of the following as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Materials and supplies	\$ 46,721	\$ 47,403
Fuel stock	5,522	4,869
Stored natural gas	15,489	11,609
Total	<u>\$ 67,732</u>	<u>\$ 63,881</u>

*Other Current Assets*

Other current assets consisted of the following as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Collateral posted for derivative instruments after netting with outstanding derivative liabilities	\$ 1,400	\$ 26,809
Prepayments	19,377	17,536
Other	16,216	9,665
Total	<u>\$ 36,993</u>	<u>\$ 54,010</u>

**AVISTA CORPORATION****Net Utility Property**

Net utility property consisted of the following as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Utility plant in service	\$ 6,335,663	\$ 6,209,968
Construction work in progress	185,167	160,598
Total	6,520,830	6,370,566
Less: Accumulated depreciation and amortization	1,793,816	1,721,636
Total net utility property	\$ 4,727,014	\$ 4,648,930

**Other Property and Investments-Net and Other Non-Current Assets**

Other property and investments-net and other non-current assets consisted of the following as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Operating lease ROU assets	\$ 70,140	\$ —
Finance lease ROU assets	51,890	—
Non-utility property	27,151	31,355
Equity investments	41,609	29,257
Investment in affiliated trust	11,547	11,547
Notes receivable	15,751	11,073
Deferred compensation assets	8,852	8,400
Other	21,943	23,065
Total	\$ 248,883	\$ 114,697

**Other Current Liabilities**

Other current liabilities consisted of the following as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Accrued taxes other than income taxes	\$ 35,618	\$ 36,858
Employee paid time off accruals	21,693	20,992
Accrued interest	30,157	16,704
Current portion of pensions and other postretirement benefits	8,826	9,151
Derivative liabilities	3,109	3,908
Other current liabilities	30,686	32,745
Total other current liabilities	\$ 130,089	\$ 120,358

**Other Non-Current Liabilities and Deferred Credits**

Other non-current liabilities and deferred credits consisted of the following as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Operating lease liabilities	\$ 68,925	\$ —
Finance lease liabilities	52,450	—
Deferred investment tax credits	30,639	29,725
Asset retirement obligations	18,071	18,266
Derivative liabilities	46,050	10,300
Other	13,204	12,740
Total	\$ 229,339	\$ 71,031

**AVISTA CORPORATION**
**Regulatory Assets and Liabilities**

Regulatory assets and liabilities consisted of the following as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019		December 31, 2018	
	Current	Non-Current	Current	Non-Current
<b>Regulatory Assets</b>				
Energy commodity derivatives	\$ 6,374	\$ 1,018	\$ 41,428	\$ 16,866
Decoupling surcharge	10,266	18,395	3,408	17,501
Pension and other postretirement benefit plans	—	218,006	—	228,062
Interest rate swaps	—	189,872	—	133,854
Deferred income taxes	—	93,818	—	91,188
Settlement with Coeur d'Alene Tribe	—	41,660	—	42,643
AFUDC above FERC allowed rate (1)	—	37,239	—	1,814
Demand side management programs	—	11,701	—	19,674
Utility plant to be abandoned	—	25,849	—	24,334
Other regulatory assets	3,250	51,256	3,716	38,418
Total regulatory assets	<u>\$ 19,890</u>	<u>\$ 688,814</u>	<u>\$ 48,552</u>	<u>\$ 614,354</u>
<b>Regulatory Liabilities</b>				
Income tax related liabilities	\$ 23,409	\$ 414,857	\$ 27,997	\$ 425,613
Deferred natural gas costs	3,762	—	40,713	—
Deferral power costs	7,711	29,618	25,072	16,933
Decoupling rebate	99	3,098	6,782	204
Utility plant retirement costs	—	307,923	—	297,379
Interest rate swaps	—	16,863	—	28,078
Other regulatory liabilities	8,461	13,772	12,645	12,494
Total regulatory liabilities	<u>\$ 43,442</u>	<u>\$ 786,131</u>	<u>\$ 113,209</u>	<u>\$ 780,701</u>

(1) See Note 1 for a description of a reclassification associated with this regulatory asset.

**NOTE 4. REVENUE**

ASC 606 defines the core principle of the revenue recognition model is that an entity should identify the various performance obligations in a contract, allocate the transaction price among the performance obligations and recognize revenue when (or as) the entity satisfies each performance obligation.

**Utility Revenues**
**Revenue from Contracts with Customers**
*General*

The majority of Avista Corp.'s revenue is from rate-regulated sales of electricity and natural gas to retail customers, which has two performance obligations, (1) having service available for a specified period (typically a month at a time) and (2) the delivery of energy to customers. The total energy price generally has a fixed component (basic charge) related to having service available and a usage-based component, related to the delivery and consumption of energy. The commodity is sold and/or delivered to and consumed by the customer simultaneously, and the provisions of the relevant utility commission authorization determine the charges the Company may bill the customer. Given that all revenue recognition criteria are met upon the delivery of energy to customers, revenue is recognized immediately at that time.

Revenues from contracts with customers are presented in the Condensed Consolidated Statements of Income in the line item "Utility revenues, exclusive of alternative revenue programs."

**AVISTA CORPORATION****Non-Derivative Wholesale Contracts**

The Company has certain wholesale contracts which are not accounted for as derivatives and, accordingly, are within the scope of ASC 606 and considered revenue from contracts with customers. Revenue is recognized as energy is delivered to the customer or the service is available for a specified period of time, consistent with the discussion of rate-regulated sales above.

**Alternative Revenue Programs (Decoupling)**

ASC 606 retained existing GAAP associated with alternative revenue programs, which specified that alternative revenue programs are contracts between an entity and a regulator of utilities, not a contract between an entity and a customer. GAAP requires that an entity present revenue arising from alternative revenue programs separately from revenues arising from contracts with customers on the face of the Condensed Consolidated Statements of Income. The Company's decoupling mechanisms (also known as a FCA in Idaho) qualify as alternative revenue programs. Decoupling revenue deferrals are recognized in the Condensed Consolidated Statements of Income during the period they occur (i.e. during the period of revenue shortfall or excess due to fluctuations in customer usage), subject to certain limitations, and a regulatory asset or liability is established that will be surcharged or rebated to customers in future periods. GAAP requires that for any alternative revenue program, like decoupling, the revenue must be expected to be collected from customers within 24 months of the deferral to qualify for recognition in the current period Condensed Consolidated Statement of Income. Any amounts included in the Company's decoupling program that are not expected to be collected from customers within 24 months are not recorded in the financial statements until the period in which revenue recognition criteria are met. The amounts expected to be collected from customers within 24 months represents an estimate that must be made by the Company on an ongoing basis due to it being based on the volumes of electric and natural gas sold to customers on a go-forward basis.

**Derivative Revenue**

Most wholesale electric and natural gas transactions (including both physical and financial transactions), and the sale of fuel are considered derivatives, which are specifically scoped out of ASC 606. As such, these revenues are disclosed separately from revenue from contracts with customers. Revenue is recognized for these items upon the settlement/expiration of the derivative contract. Derivative revenue includes those transactions that are entered into and settled within the same month.

**Other Utility Revenue**

Other utility revenue includes rent, revenues from the lineman training school, sales of materials, late fees and other charges that do not represent contracts with customers. Other utility revenue also includes the provision for earnings sharing and the deferral and amortization of refunds to customers associated with the TCJA. This revenue is scoped out of ASC 606, as this revenue does not represent items where a customer is a party that has contracted with the Company to obtain goods or services that are an output of the Company's ordinary activities in exchange for consideration. As such, these revenues are presented separately from revenue from contracts with customers.

**Other Considerations for Utility Revenues****Gross Versus Net Presentation**

Revenues and resource costs from Avista Utilities' settled energy contracts that are "booked out" (not physically delivered) are reported on a net basis as part of derivative revenues.

Utility-related taxes collected from customers (primarily state excise taxes and city utility taxes) are taxes that are imposed on Avista Utilities as opposed to being imposed on its customers; therefore, Avista Utilities is the taxpayer and records these transactions on a gross basis in revenue from contracts with customers and operating expense (taxes other than income taxes). The utility-related taxes collected from customers at AEL&P are imposed on the customers rather than AEL&P; therefore, the customers are the taxpayers and AEL&P is acting as their agent. As such, these transactions at AEL&P are presented on a net basis within revenue from contracts with customers.

Utility-related taxes that were included in revenue from contracts with customers were as follows for the three and nine months ended September 30 (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Utility-related taxes	\$ 11,867	\$ 12,294	\$ 43,644	\$ 44,447

**AVISTA CORPORATION**
**Non-Utility Revenues**
**Revenue from Contracts with Customers**

Non-utility revenue from contracts with customers is derived from contracts with one performance obligation. Prior to its sale in April 2019 (See Note 19 for further discussion on the sale of METALfx), METALfx had one performance obligation, the delivery of a product, and revenues were recognized when the risk of loss transferred to the customer, which occurred when products were shipped. The Steam Plant Brew Pub serves food and beverages to customers, its one performance obligation, and recognizes revenues at the time of service to the customer.

**Significant Judgments and Unsatisfied Performance Obligations**

The only significant judgments involving revenue recognition are estimates surrounding unbilled revenue and receivables from contracts with customers and estimates surrounding the amount of decoupling revenues that will be collected from customers within 24 months (discussed above).

The Company has certain capacity arrangements, where the Company has a contractual obligation to provide either electric or natural gas capacity to its customers for a fixed fee. Most of these arrangements are paid for in arrears by the customers and do not result in deferred revenue and only result in receivables from the customers. The Company does have one capacity agreement where the customer makes payments throughout the year and depending on the timing of the customer payments, it can result in an immaterial amount of deferred revenue or a receivable from the customer. As of September 30, 2019, the Company estimates it had unsatisfied capacity performance obligations of \$7.0 million, which will be recognized as revenue in future periods as the capacity is provided to the customers. These performance obligations are not reflected in the financial statements, as the Company has not received payment for these services.

**Disaggregation of Total Operating Revenue**

The following table disaggregates total operating revenue by segment and source for the three and nine months ended September 30 (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Avista Utilities</b>				
Revenue from contracts with customers	\$ 234,534	\$ 242,098	\$ 820,438	\$ 835,373
Derivative revenues	33,372	32,718	99,628	147,467
Alternative revenue programs	6,038	606	11,105	(1,763)
Deferrals and amortizations for rate refunds to customers	(927)	2,922	3,720	(16,900)
Other utility revenues	1,914	1,205	7,550	6,348
<b>Total Avista Utilities</b>	<b>274,931</b>	<b>279,549</b>	<b>942,441</b>	<b>970,525</b>
<b>AEL&amp;P</b>				
Revenue from contracts with customers	7,687	9,599	27,043	35,008
Deferrals and amortizations for rate refunds to customers	(48)	(156)	(143)	(1,705)
Other utility revenues	151	127	514	412
<b>Total AEL&amp;P</b>	<b>7,790</b>	<b>9,570</b>	<b>27,414</b>	<b>33,715</b>
<b>Other</b>				
Revenue from contracts with customers	731	6,580	10,402	19,633
Other revenues	318	314	806	799
<b>Total other</b>	<b>1,049</b>	<b>6,894</b>	<b>11,208</b>	<b>20,432</b>
<b>Total operating revenues</b>	<b>\$ 283,770</b>	<b>\$ 296,013</b>	<b>\$ 981,063</b>	<b>\$ 1,024,672</b>

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**Utility Revenue from Contracts with Customers by Type and Service**

The following table disaggregates revenue from contracts with customers associated with the Company's utility operations for the three and nine months ended September 30 (dollars in thousands):

	2019			2018		
	Avista Utilities	AEL&P	Total Utility	Avista Utilities	AEL&P	Total Utility
<b>Three months ended September 30:</b>						
<b>ELECTRIC OPERATIONS</b>						
Revenue from contracts with customers						
Residential	\$ 78,548	\$ 2,764	\$ 81,312	\$ 82,470	\$ 2,987	\$ 85,457
Commercial and governmental	81,352	4,857	86,209	80,744	6,546	87,290
Industrial	28,453	—	28,453	30,806	—	30,806
Public street and highway lighting	1,849	66	1,915	1,860	66	1,926
Total retail revenue	190,202	7,687	197,889	195,880	9,599	205,479
Transmission	4,058	—	4,058	4,832	—	4,832
Other revenue from contracts with customers	5,860	—	5,860	8,564	—	8,564
Total revenue from contracts with customers	\$ 200,120	\$ 7,687	\$ 207,807	\$ 209,276	\$ 9,599	\$ 218,875
<b>NATURAL GAS OPERATIONS</b>						
Revenue from contracts with customers						
Residential	\$ 20,271	\$ —	\$ 20,271	\$ 19,248	\$ —	\$ 19,248
Commercial	10,093	—	10,093	9,436	—	9,436
Industrial and interruptible	1,000	—	1,000	1,006	—	1,006
Total retail revenue	31,364	—	31,364	29,690	—	29,690
Transportation	1,925	—	1,925	2,007	—	2,007
Other revenue from contracts with customers	1,125	—	1,125	1,125	—	1,125
Total revenue from contracts with customers	\$ 34,414	\$ —	\$ 34,414	\$ 32,822	\$ —	\$ 32,822
<b>Nine months ended September 30:</b>						
<b>ELECTRIC OPERATIONS</b>						
Revenue from contracts with customers						
Residential	\$ 266,826	\$ 12,340	\$ 279,166	\$ 272,041	\$ 13,680	\$ 285,721
Commercial and governmental	236,973	14,515	251,488	236,115	21,131	257,246
Industrial	79,946	—	79,946	83,910	—	83,910
Public street and highway lighting	5,648	188	5,836	5,618	197	5,815
Total retail revenue	589,393	27,043	616,436	597,684	35,008	632,692
Transmission	13,460	—	13,460	12,833	—	12,833
Other revenue from contracts with customers	18,433	—	18,433	18,774	—	18,774
Total electric revenue from contracts with customers	\$ 621,286	\$ 27,043	\$ 648,329	\$ 629,291	\$ 35,008	\$ 664,299

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	2019			2018		
	Avista Utilities	AEL&P	Total Utility	Avista Utilities	AEL&P	Total Utility
<b>NATURAL GAS OPERATIONS</b>						
Revenue from contracts with customers						
Residential	\$ 125,543	\$ —	\$ 125,543	\$ 130,668	\$ —	\$ 130,668
Commercial	60,056	—	60,056	61,477	—	61,477
Industrial and interruptible	3,730	—	3,730	3,767	—	3,767
Total retail revenue	189,329	—	189,329	195,912	—	195,912
Transportation	6,448	—	6,448	6,795	—	6,795
Other revenue from contracts with customers	3,375	—	3,375	3,375	—	3,375
Total natural gas revenue from contracts with customers	\$ 199,152	\$ —	\$ 199,152	\$ 206,082	\$ —	\$ 206,082

**NOTE 5. LEASES**

ASC 842, which outlines a model for entities to use in accounting for leases and supersedes previous lease accounting guidance, became effective on January 1, 2019. The core principle of the model is that an entity should recognize the ROU assets and liabilities that arise from leases on the balance sheet and depreciate or amortize the asset and liability over the term of the lease, as well as provide disclosure to enable users of the condensed consolidated financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

**Significant Judgments and Assumptions**

The Company determines if an arrangement is a lease, as well as its classification, at its inception.

ROU assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating and finance lease ROU assets and lease liabilities are recognized at the commencement date of the agreement based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments. The implicit rate is used when it is readily determinable. The operating and finance lease ROU assets also include any lease payments made and exclude lease incentives, if any, that accrue to the benefit of the lessee.

Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Any difference between lease expense and cash paid for leased assets is recognized as a regulatory asset or regulatory liability.

**Description of Leases**
**Operating Leases**

The Company's most significant operating lease is with the state of Montana associated with submerged land around the Company's hydroelectric facilities in the Clark Fork River basin, which expires in 2046. The terms of this lease are subject to renegotiation, depending on the outcome of ongoing litigation between Montana and NorthWestern Energy. In addition, the state of Montana and Avista Corp. are engaged in litigation regarding lease terms, including how much money, if any, the state of Montana will return to Avista Corp. Avista Corp. is currently paying all lease payments to the state of Montana into an escrow account until the litigation is resolved. As such, amounts recorded for this lease are uncertain and amounts may change in the future depending on the outcome of the ongoing litigation. Any reduction in future lease payments or the return of previously paid amounts to Avista Corp. will be including in the future ratemaking process.

In addition to the lease with the state of Montana, the Company also has other operating leases for land associated with its utility operations, as well as communication sites which support network and radio communications within its service territory. The Company's leases have remaining terms of 1 to 74 years. Most of the Company's leases include options to extend the lease term for periods of 5 to 50 years. Options are exercised at the Company's discretion.

Certain of the Company's lease agreements include rental payments which are periodically adjusted over the term of the agreement based on the consumer price index. The Company's lease agreements do not include any material residual value guarantees or material restrictive covenants.



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Avista Corp. does not record leases with a term of 12 months or less in the Condensed Consolidated Balance Sheet. Total short-term lease costs for the three and nine months ended September 30, 2019 are immaterial.

**Finance Lease**

Through its wholly-owned subsidiary, AEL&P, the Company has a PPA which is treated as a finance lease for accounting purposes related to the Snettisham Hydroelectric Project, which expires in 2034. For ratemaking purposes, this lease is treated as an operating lease with a constant level of annual rental expense (straight line rent expense). Because of this regulatory treatment, any difference between the operating lease expense for ratemaking purposes and the expenses recognized under finance lease treatment (interest and amortization of the finance lease ROU asset) is recorded as a regulatory asset and amortized during the later years of the lease when the finance lease expense is less than the operating lease expense included in base rates. In 2018 and prior years, the total cost associated with the Snettisham PPA was included in resource costs. Due to the adoption of the new lease standard, the amortization of the ROU asset is now included in depreciation and amortization and the interest associated with the lease liability is now included in interest expense on the Condensed Consolidated Statement of Income.

**Leases that Have Not Yet Commenced**

In June 2018, the Company finalized a lease agreement for office space in Spokane, Washington. The lease period is expected to commence in April 2020, once the Company takes possession of its portion of its portion of the building. The lease is an operating lease for a term of 12 years and will result in annual rent expense of approximately \$1.1 million, which will be reflected in other operating expenses. In addition to base rent expense, the Company is expected to share in a portion of the annual operating expenses of the building.

In March 2019, the Company signed a PPA with Clearway Energy Group (Clearway) to purchase all of the power generated from the Rattlesnake Flat Wind project in Adams County, Washington. The facility has a nameplate capacity of 144 MW and is expected to generate approximately 50 aMW. During negotiations with Clearway, Avista Corp. was involved in the selection of the preferred generation facility type. The PPA is a 20-year agreement with deliveries expected to begin in 2020. The PPA provides Avista Corp. with additional renewable energy, capacity and environmental attributes. Avista Corp. expects to recover the cost of the power purchased through its retail rates. This PPA is considered a lease under ASC 842; however, all of the payments are variable payments based on whether power is generated from the facility. Since all the payments are variable, the Company will not record a lease liability for the agreement, but the expense will be included in resource costs when it becomes operational in 2020.

The components of lease expense were as follows for the three and nine months ended September 30, 2019 (dollars in thousands):

	Three months ended September 30, 2019	Nine months ended September 30, 2019
<b>Operating lease cost:</b>		
Fixed lease cost (Other operating expenses)	\$ 1,109	\$ 3,318
Variable lease cost (Other operating expenses)	248	735
<b>Total operating lease cost</b>	<b>\$ 1,357</b>	<b>\$ 4,053</b>
<b>Finance lease cost:</b>		
Amortization of ROU asset (Depreciation and amortization)	\$ 911	\$ 2,731
Interest on lease liabilities (Interest expense)	698	2,096
<b>Total finance lease cost</b>	<b>\$ 1,609</b>	<b>\$ 4,827</b>

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Supplemental cash flow information related to leases was as follows for the nine months ended September 30 (dollars in thousands):

	2019
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Operating cash outflows:	
Operating lease payments	\$ 4,311
Interest on finance lease	2,096
<b>Total operating cash outflows</b>	<b>\$ 6,407</b>
Finance cash outflows:	
Principal payments on finance lease	\$ 1,995

Supplemental balance sheet information related to leases was as follows for September 30, 2019 (dollars in thousands):

	September 30, 2019
<b>Operating Leases</b>	
Operating lease ROU assets (Other property and investments-net and other non-current assets)	\$ 70,140
Other current liabilities	\$ 4,119
Other non-current liabilities and deferred credits	68,925
<b>Total operating lease liabilities</b>	<b>\$ 73,044</b>
<b>Finance Leases</b>	
Finance lease ROU assets (Other property and investments-net and other non-current assets) (a)	\$ 51,890
Other current liabilities (b)	\$ 2,765
Other non-current liabilities and deferred credits (b)	52,450
<b>Total finance lease liabilities</b>	<b>\$ 55,215</b>
<b>Weighted Average Remaining Lease Term</b>	
Operating leases	26.81 years
Finance leases	8.13 years
<b>Weighted Average Discount Rate</b>	
Operating leases	3.82%
Finance leases	4.71%

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- (a) At December 31, 2018, the finance lease ROU assets were included in "Net utility property" on the Condensed Consolidated Balance Sheet. Due to the adoption of ASC 842 on January 1, 2019, the Company has reclassified these amounts to "Other property and investments-net and other non-current assets" on the Condensed Consolidated Balance Sheet such that their presentation as of September 30, 2019 is consistent with operating leases.
- (b) At December 31, 2018, the finance lease liabilities were included in "Current portion of long-term debt" and "Long-term debt and capital leases" on the Condensed Consolidated Balance Sheet. Due to the adoption of ASC 842 on January 1, 2019, the Company has reclassified these amounts to "Other current liabilities" and "Other non-current liabilities and deferred credits" on the Condensed Consolidated Balance Sheet such that their presentation as of September 30, 2019 is consistent with operating leases.

Maturities of lease liabilities (including principal and interest) were as follows as of September 30, 2019 (dollars in thousands):

	Operating Leases	Finance Leases
Remainder 2019	\$ 4,063	\$ 1,363
2020	4,371	5,462
2021	4,374	5,457
2022	4,385	5,460
2023	4,398	5,456
Thereafter	96,056	54,574
Total lease payments	\$ 117,647	\$ 77,772
Less: imputed interest	(44,603)	(22,557)
Total	\$ 73,044	\$ 55,215

Future minimum lease payments (including principal and interest) under Topic 840 as of December 31, 2018 (dollars in thousands):

	Operating Leases	Finance Leases
2019	\$ 4,995	\$ 5,455
2020	4,876	5,462
2021	4,859	5,457
2022	4,782	5,460
2023	4,780	5,456
Thereafter	102,389	54,574
Total lease payments	\$ 126,681	\$ 81,864
Less: imputed interest	—	(24,654)
Total	\$ 126,681	\$ 57,210

**NOTE 6. DERIVATIVES AND RISK MANAGEMENT**
***Energy Commodity Derivatives***

Avista Corp. is exposed to market risks relating to changes in electricity and natural gas commodity prices and certain other fuel prices. Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply and demand. Market risk includes the fluctuation in the market price of associated derivative commodity instruments. Avista Corp. utilizes derivative instruments, such as forwards, futures, swap derivatives and options, in order to manage the various risks relating to these commodity price exposures. Avista Corp. has an energy resources risk policy and control procedures to manage these risks.

As part of Avista Corp.'s resource procurement and management operations in the electric business, Avista Corp. engages in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve Avista Corp.'s load obligations and the use of these resources to capture available economic value through wholesale market transactions. These include sales and purchases of electric capacity and energy, fuel for electric generation, and derivative contracts related to capacity, energy and fuel. Such transactions are part of the process of matching resources with load

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obligations and hedging a portion of the related financial risks. These transactions range from terms of intra-hour up to multiple years.

As part of its resource procurement and management of its natural gas business, Avista Corp. makes continuing projections of its natural gas loads and assesses available natural gas resources including natural gas storage availability. Natural gas resource planning typically includes peak requirements, low and average monthly requirements and delivery constraints from natural gas supply locations to Avista Corp.'s distribution system. However, daily variations in natural gas demand can be significantly different than monthly demand projections. On the basis of these projections, Avista Corp. plans and executes a series of transactions to hedge a portion of its projected natural gas requirements through forward market transactions and derivative instruments. These transactions may extend as much as four natural gas operating years (November through October) into the future. Avista Corp. also leaves a significant portion of its natural gas supply requirements unhedged for purchase in short-term and spot markets.

Avista Corp. plans for sufficient natural gas delivery capacity to serve its retail customers for a theoretical peak day event. Avista Corp. generally has more pipeline and storage capacity than what is needed during periods other than a peak-day. Avista Corp. optimizes its natural gas resources by using market opportunities to generate economic value that helps mitigate fixed costs. Avista Corp. also optimizes its natural gas storage capacity by purchasing and storing natural gas when prices are traditionally lower, typically in the summer, and withdrawing during higher priced months, typically during the winter. However, if market conditions and prices indicate that Avista Corp. should buy or sell natural gas at other times during the year, Avista Corp. engages in optimization transactions to capture value in the marketplace. Natural gas optimization activities include, but are not limited to, wholesale market sales of surplus natural gas supplies, purchases and sales of natural gas to optimize use of pipeline and storage capacity, and participation in the transportation capacity release market.

The following table presents the underlying energy commodity derivative volumes as of September 30, 2019 that are expected to be delivered in each respective year (in thousands of MWhs and mmBTUs):

Year	Purchases				Sales			
	Electric Derivatives		Gas Derivatives		Electric Derivatives		Gas Derivatives	
	Physical (1) MWh	Financial (1) MWh	Physical (1) mmBTUs	Financial (1) mmBTUs	Physical (1) MWh	Financial (1) MWh	Physical (1) mmBTUs	Financial (1) mmBTUs
Remainder 2019	2	420	4,208	33,788	37	696	1,166	15,878
2020	—	422	1,138	65,360	123	1,107	1,430	33,215
2021	—	—	153	21,280	—	246	1,040	9,475
2022	—	—	225	3,150	—	—	—	—
2023	—	—	—	—	—	—	—	—
Thereafter	—	—	—	—	—	—	—	—

The following table presents the underlying energy commodity derivative volumes as of December 31, 2018 that are expected to be delivered in each respective year (in thousands of MWhs and mmBTUs):

Year	Purchases				Sales			
	Electric Derivatives		Gas Derivatives		Electric Derivatives		Gas Derivatives	
	Physical (1) MWh	Financial (1) MWh	Physical (1) mmBTUs	Financial (1) mmBTUs	Physical (1) MWh	Financial (1) MWh	Physical (1) mmBTUs	Financial (1) mmBTUs
2019	206	941	10,732	101,293	197	2,790	2,909	54,418
2020	—	—	1,138	47,225	123	959	1,430	14,625
2021	—	—	—	9,670	—	—	1,049	4,100
2022	—	—	—	—	—	—	—	—
2023	—	—	—	—	—	—	—	—
Thereafter	—	—	—	—	—	—	—	—

- (1) Physical transactions represent commodity transactions in which Avista Corp. will take or make delivery of either electricity or natural gas; financial transactions represent derivative instruments with delivery of cash in the amount of the benefit or cost but with no physical delivery of the commodity, such as futures, swap derivatives, options, or forward contracts.

The electric and natural gas derivative contracts above will be included in either power supply costs or natural gas supply costs during the period they are scheduled to be delivered and will be included in the various deferral and recovery mechanisms

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(ERM, PCA and PGAs), or in the general rate case process, and are expected to be collected through retail rates from customers.

**Foreign Currency Exchange Derivatives**

A significant portion of Avista Corp.'s natural gas supply (including fuel for power generation) is obtained from Canadian sources. Most of those transactions are executed in U.S. dollars, which avoids foreign currency risk. A portion of Avista Corp.'s short-term natural gas transactions and long-term Canadian transportation contracts are committed based on Canadian currency prices and settled within 60 days with U.S. dollars. Avista Corp. hedges a portion of the foreign currency risk by purchasing Canadian currency exchange derivatives when such commodity transactions are initiated. The foreign currency exchange derivatives and the unhedged foreign currency risk have not had a material effect on Avista Corp.'s financial condition, results of operations or cash flows and these differences in cost related to currency fluctuations are included with natural gas supply costs for ratemaking.

The following table summarizes the foreign currency exchange derivatives that Avista Corp. has outstanding as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Number of contracts	27	31
Notional amount (in United States dollars)	\$ 3,366	\$ 4,018
Notional amount (in Canadian dollars)	4,460	5,386

**Interest Rate Swap Derivatives**

Avista Corp. is affected by fluctuating interest rates related to a portion of its existing debt, and future borrowing requirements. Avista Corp. hedges a portion of its interest rate risk with financial derivative instruments, which may include interest rate swap derivatives and U.S. Treasury lock agreements. These interest rate swap derivatives and U.S. Treasury lock agreements are considered economic hedges against fluctuations in future cash flows associated with anticipated debt issuances.

The following table summarizes the unsettled interest rate swap derivatives that Avista Corp. has outstanding as of September 30, 2019 and December 31, 2018 (dollars in thousands):

Balance Sheet Date	Number of Contracts	Notional Amount	Mandatory Cash Settlement Date
September 30, 2019	7	\$ 70,000	2020
	3	35,000	2021
	10	110,000	2022
December 31, 2018	6	\$ 70,000	2019
	6	60,000	2020
	2	25,000	2021
	7	80,000	2022

See Note 10 for further discussion of the bond purchase agreement and the related settlement of interest rate swaps in connection with the pricing of the bonds in September 2019.

The fair value of outstanding interest rate swap derivatives can vary significantly from period to period depending on the total notional amount of swap derivatives outstanding and fluctuations in market interest rates compared to the interest rates fixed by the swaps. Avista Corp. is required to make cash payments to settle the interest rate swap derivatives when the fixed rates are higher than prevailing market rates at the date of settlement. Conversely, Avista Corp. receives cash to settle its interest rate swap derivatives when prevailing market rates at the time of settlement exceed the fixed swap rates.

**Summary of Outstanding Derivative Instruments**

The amounts recorded on the Condensed Consolidated Balance Sheet as of September 30, 2019 and December 31, 2018 reflect the offsetting of derivative assets and liabilities where a legal right of offset exists.

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The following table presents the fair values and locations of derivative instruments recorded on the Condensed Consolidated Balance Sheet as of September 30, 2019 (in thousands):

Derivative and Balance Sheet Location	Fair Value			
	Gross Asset	Gross Liability	Collateral Netted	Net Asset (Liability) on Balance Sheet
<b>Foreign currency exchange derivatives</b>				
Other current liabilities	\$ —	\$ (21)	\$ —	\$ (21)
<b>Interest rate swap derivatives</b>				
Other non-current liabilities and deferred credits	—	(53,271)	8,880	(44,391)
<b>Energy commodity derivatives</b>				
Other current assets	677	(437)	—	240
Other property and investments-net and other non-current assets	4,127	(3,486)	—	641
Other current liabilities	27,506	(34,120)	3,505	(3,109)
Other non-current liabilities and deferred credits	3,285	(4,943)	—	(1,658)
Total derivative instruments recorded on the balance sheet	\$ 35,595	\$ (96,278)	\$ 12,385	\$ (48,298)

The following table presents the fair values and locations of derivative instruments recorded on the Condensed Consolidated Balance Sheet as of December 31, 2018 (in thousands):

Derivative and Balance Sheet Location	Fair Value			
	Gross Asset	Gross Liability	Collateral Netted	Net Asset (Liability) on Balance Sheet
<b>Foreign currency exchange derivatives</b>				
Other current liabilities	\$ —	\$ (45)	\$ —	\$ (45)
<b>Interest rate swap derivatives</b>				
Other current assets	5,283	—	—	5,283
Other property and investments-net and other non-current assets	5,283	(440)	—	4,843
Other non-current liabilities and deferred credits	—	(7,391)	530	(6,861)
<b>Energy commodity derivatives</b>				
Other current assets	400	(130)	—	270
Other current liabilities	31,457	(73,155)	37,790	(3,908)
Other non-current liabilities and deferred credits	4,426	(21,292)	13,427	(3,439)
Total derivative instruments recorded on the balance sheet	\$ 46,849	\$ (102,453)	\$ 51,747	\$ (3,857)

**Exposure to Demands for Collateral**

Avista Corp.'s derivative contracts often require collateral (in the form of cash or letters of credit) or other credit enhancements, or reductions or terminations of a portion of the contract through cash settlement. In the event of a downgrade in Avista Corp.'s credit ratings or changes in market prices, additional collateral may be required. In periods of price volatility, the level of exposure can change significantly. As a result, sudden and significant demands may be made against Avista Corp.'s credit facilities and cash. Avista Corp. actively monitors the exposure to possible collateral calls and takes steps to mitigate capital requirements.

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The following table presents Avista Corp.'s collateral outstanding related to its derivative instruments as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
<b>Energy commodity derivatives</b>		
Cash collateral posted	\$ 4,906	\$ 78,025
Letters of credit outstanding	9,500	6,500
Balance sheet offsetting (cash collateral against net derivative positions)	3,505	51,217
<b>Interest rate swap derivatives</b>		
Cash collateral posted	8,880	530
Balance sheet offsetting (cash collateral against net derivative positions)	8,880	530

Certain of Avista Corp.'s derivative instruments contain provisions that require Avista Corp. to maintain an "investment grade" credit rating from the major credit rating agencies. If Avista Corp.'s credit ratings were to fall below "investment grade," it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing collateralization on derivative instruments in net liability positions.

The following table presents the aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position and the amount of additional collateral Avista Corp. could be required to post as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
<b>Energy commodity derivatives</b>		
Liabilities with credit-risk-related contingent features	\$ 1,345	\$ 2,193
Additional collateral to post	1,339	2,193
<b>Interest rate swap derivatives</b>		
Liabilities with credit-risk-related contingent features	53,271	7,831
Additional collateral to post	44,391	6,579

**NOTE 7. PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS*****Avista Utilities***

Avista Utilities' maintained the same pension and other postretirement plans during the nine months ended September 30, 2019 as those described as of December 31, 2018. The Company's funding policy is to contribute at least the minimum amounts that are required to be funded under the Employee Retirement Income Security Act, but not more than the maximum amounts that are currently deductible for income tax purposes. The Company contributed \$22.0 million in cash to the pension plan for the nine months ended September 30, 2019 and does not expect any further contributions in 2019.

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The Company uses a December 31 measurement date for its defined benefit pension and other postretirement benefit plans. The following table sets forth the components of net periodic benefit costs for the three and nine months ended September 30 (dollars in thousands):

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
<b>Three months ended September 30:</b>				
Service cost	\$ 4,948	\$ 5,318	\$ 754	\$ 815
Interest cost	7,134	6,634	1,140	1,261
Expected return on plan assets	(7,913)	(8,101)	(616)	(550)
Amortization of prior service cost	75	71	(275)	(299)
Net loss recognition	2,553	1,761	1,299	1,044
Net periodic benefit cost	<u>\$ 6,797</u>	<u>\$ 5,683</u>	<u>\$ 2,302</u>	<u>\$ 2,271</u>
<b>Nine months ended September 30:</b>				
Service cost	\$ 14,770	\$ 16,218	\$ 2,279	\$ 2,423
Interest cost	21,372	19,566	3,676	3,655
Expected return on plan assets	(23,681)	(24,601)	(1,945)	(1,550)
Amortization of prior service cost	225	221	(825)	(905)
Net loss recognition	7,394	5,691	3,874	3,261
Net periodic benefit cost	<u>\$ 20,080</u>	<u>\$ 17,095</u>	<u>\$ 7,059</u>	<u>\$ 6,884</u>

Total service costs in the table above are recorded to the same accounts as labor expense. Labor and benefits expense is recorded to various projects based on whether the work is a capital project or an operating expense. Approximately 40 percent of all labor and benefits is capitalized to utility property and 60 percent is expensed to utility other operating expenses.

The non-service portion of costs in the table above are recorded to other expense below income from operations in the Condensed Consolidated Statements of Income or capitalized as a regulatory asset. Approximately 40 percent of the costs are capitalized to regulatory assets and 60 percent is expensed to the income statement.

**NOTE 8. INCOME TAXES**

The following table summarizes the significant factors impacting the difference between our effective tax rate and the federal statutory rate for the three and nine months ended September 30 (dollars in thousands):

	Three months ended September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
Federal income taxes at statutory rates	\$ 1,041	21.0 %	\$ 2,452	21.0 %	\$ 36,554	21.0 %	\$ 22,721	21.0 %
Increase (decrease) in tax resulting from:								
Tax effect of regulatory treatment of utility plant differences	(2,139)	(43.1)	(1,521)	(13.0)	(6,358)	(3.7)	(4,519)	(4.2)
State income tax expense	(800)	(16.1)	(319)	(2.7)	851	0.5	694	0.6
Settlement of prior year tax returns and adjustment of tax reserves	(604)	(12.2)	(136)	(1.1)	1,995	1.1	(136)	(0.1)
Acquisition costs	—	—	122	1.0	(1,712)	(1.0)	241	0.2
Non-plant excess deferred turnaround (1)	(20)	(0.4)	—	—	(5,621)	(3.2)	—	—
Tax loss on sale of METALfx	(13)	(0.2)	—	—	(1,272)	(0.7)	—	—
Valuation allowance	—	—	—	—	1,245	0.7	—	—
Settlement of equity awards	—	—	—	—	612	0.4	(990)	(0.9)
Other	2,404	48.4	950	8.1	1,851	1.1	(544)	(0.5)
Total income tax expense (benefit)	<u>\$ (131)</u>	<u>(2.6)%</u>	<u>\$ 1,548</u>	<u>13.3 %</u>	<u>\$ 28,145</u>	<u>16.2 %</u>	<u>\$ 17,467</u>	<u>16.1 %</u>

- (1) In March 2019, the IPUC approved an all-party settlement agreement related to electric tax benefits that were set aside for Colstrip in the 2017 general rate case order. In the approved settlement agreement, the parties agreed to utilize approximately \$6.4 million (\$5.1 million when tax-effected) of the electric tax benefits to offset costs associated with accelerating the depreciation of Colstrip Units 3 & 4, to reflect a remaining useful life of those units through December 31,



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2027. In the second quarter 2019, the Company recorded a one-time charge to depreciation expense with an offsetting amount included in income tax expense.

**NOTE 9. COMMITTED LINES OF CREDIT****Avista Corp.**

Avista Corp. has a committed line of credit with various financial institutions in the total amount of \$400.0 million that expires in April 2021. The committed line of credit is secured by non-transferable first mortgage bonds of the Company issued to the agent bank that would only become due and payable in the event, and then only to the extent, that the Company defaults on its obligations under the committed line of credit.

Balances outstanding and interest rates of borrowings (excluding letters of credit) under the Company's revolving committed line of credit were as follows as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Balance outstanding at end of period (1)	\$ 207,000	\$ 190,000
Letters of credit outstanding at end of period	\$ 13,503	\$ 10,503
Average interest rate at end of period	2.94%	3.18%

(1) As of September 30, 2019 there was \$207.0 million outstanding under the committed line of credit; however, \$119.3 million was classified as short-term borrowings and the remaining \$87.7 million was classified as long-term debt on the Condensed Consolidated Balance Sheet due to the Company's intention to refinance such amount on a long-term basis. The amount classified as long-term debt will be refinanced through the issuance and sale of first mortgage bonds in November 2019 pursuant to a bond purchase agreement entered into in September 2019. See Note 10 for further discussion of the bond purchase agreement and the refinancing of short-term debt on a long-term basis. The entire outstanding amount of the committed line of credit as of December 31, 2018 was classified as short-term borrowings.

**AEL&P**

AEL&P has a committed line of credit in the amount of \$25.0 million that expires in November 2019. As of September 30, 2019 and December 31, 2018, there were no borrowings or letters of credit outstanding under this committed line of credit. The committed line of credit is secured by non-transferable first mortgage bonds of AEL&P issued to the agent bank that would only become due and payable in the event, and then only to the extent, that AEL&P defaults on its obligations under the committed line of credit.

**NOTE 10. LONG-TERM DEBT**

In September 2019, the Company entered into a bond purchase agreement for \$180.0 million of 3.43 percent first mortgage bonds due in 2049 through a private offering. The bonds are scheduled to be issued in November 2019 pursuant to the bond purchase agreement. The total net proceeds from the sale of the bonds will be used to repay maturing long-term debt of \$90.0 million, repay a portion of the outstanding balance under Avista Corp.'s \$400.0 million committed line of credit and for other general corporate purposes. In connection with entering into the bond purchase agreement, the Company cash-settled six interest rate swap derivatives (notional aggregate amount of \$70.0 million) and paid a net amount of \$13.3 million. See Note 6 for a discussion of interest rate swap derivatives.

Because the Company is refinancing short-term debt on a long-term basis, the Company has classified the \$90.0 million maturing debt and \$87.7 million of the committed line of credit that is expected to be paid off with the net proceeds of the first mortgage bonds as long-term debt.

**NOTE 11. LONG-TERM DEBT TO AFFILIATED TRUSTS**

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

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The distribution rates paid were as follows during the nine months ended September 30, 2019 and the year ended December 31, 2018:

	September 30, 2019	December 31, 2018
Low distribution rate	3.01%	2.36%
High distribution rate	3.40%	3.61%
Distribution rate at the end of the period	3.01%	3.61%

Concurrent with the issuance of the Preferred Trust Securities, Avista Capital II issued \$1.5 million of Common Trust Securities to the Company. The Preferred Trust Securities may be redeemed at the option of Avista Capital II at any time and mature on June 1, 2037. In December 2000, the Company purchased \$10.0 million of these Preferred Trust Securities.

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

**NOTE 12. FAIR VALUE**

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

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

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

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

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

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

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

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The following table sets forth the carrying value and estimated fair value of the Company's financial instruments not reported at estimated fair value on the Condensed Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019		December 31, 2018	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt (Level 2)	\$ 1,053,500	\$ 1,244,252	\$ 1,053,500	\$ 1,142,292
Long-term debt (Level 3)	767,000	855,530	767,000	734,742
Snettisham finance lease obligation (Level 3)	55,215	58,900	57,210	55,600
Long-term debt to affiliated trusts (Level 3)	51,547	40,207	51,547	38,145

These estimates of fair value of long-term debt and long-term debt to affiliated trusts were primarily based on available market information, which generally consists of estimated market prices from third party brokers for debt with similar risk and terms. The price ranges obtained from the third party brokers consisted of par values of 78.00 to 135.60, where a par value of 100.0 represents the carrying value recorded on the Condensed Consolidated Balance Sheets. Level 2 long-term debt represents publicly issued bonds with quoted market prices; however, due to their limited trading activity, they are classified as Level 2 because brokers must generate quotes and make estimates if there is no trading activity near a period end. Level 3 long-term debt consists of private placement bonds and debt to affiliated trusts, which typically have no secondary trading activity. Fair values in Level 3 are estimated based on market prices from third party brokers using secondary market quotes for debt with similar risk and terms to generate quotes for Avista Corp. bonds. Due to the unique nature of the Snettisham capital lease obligation, the estimated fair value of these items was determined based on a discounted cash flow model using available market information. The Snettisham capital lease obligation was discounted to present value using the Morgan Markets A Ex-Fin discount rate as published on September 30, 2019.

The following table discloses by level within the fair value hierarchy the Company's assets and liabilities measured and reported on the Condensed Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018 at fair value on a recurring basis (dollars in thousands):

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting (1)	Total
<b>September 30, 2019</b>					
<b>Assets:</b>					
Energy commodity derivatives	\$ —	\$ 35,552	\$ —	\$ (34,671)	\$ 881
Level 3 energy commodity derivatives:					
Natural gas exchange agreement	—	—	43	(43)	—
Deferred compensation assets:					
Mutual Funds:					
Fixed income securities (2)	1,818	—	—	—	1,818
Equity securities (2)	6,591	—	—	—	6,591
<b>Total</b>	<b>\$ 8,409</b>	<b>\$ 35,552</b>	<b>\$ 43</b>	<b>\$ (34,714)</b>	<b>\$ 9,290</b>
<b>Liabilities:</b>					
Energy commodity derivatives	\$ —	\$ 39,809	\$ —	\$ (38,176)	\$ 1,633
Level 3 energy commodity derivatives:					
Natural gas exchange agreement	—	—	3,177	(43)	3,134
Foreign currency exchange derivatives	—	21	—	—	21
Interest rate swap derivatives	—	53,271	—	(8,880)	44,391
<b>Total</b>	<b>\$ —</b>	<b>\$ 93,101</b>	<b>\$ 3,177</b>	<b>\$ (47,099)</b>	<b>\$ 49,179</b>

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	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting (1)	Total
<b>December 31, 2018</b>					
<b>Assets:</b>					
Energy commodity derivatives	\$ —	\$ 36,252	\$ —	\$ (35,982)	\$ 270
Level 3 energy commodity derivatives:					
Natural gas exchange agreement	—	—	31	(31)	—
Interest rate swap derivatives	—	10,566	—	(440)	10,126
Deferred compensation assets:					
Mutual Funds:					
Fixed income securities (2)	1,745	—	—	—	1,745
Equity securities (2)	6,157	—	—	—	6,157
<b>Total</b>	<b>\$ 7,902</b>	<b>\$ 46,818</b>	<b>\$ 31</b>	<b>\$ (36,453)</b>	<b>\$ 18,298</b>
<b>Liabilities:</b>					
Energy commodity derivatives	\$ —	\$ 89,283	\$ —	\$ (87,199)	\$ 2,084
Level 3 energy commodity derivatives:					
Natural gas exchange agreement	—	—	2,805	(31)	2,774
Power exchange agreement	—	—	2,488	—	2,488
Power option agreement	—	—	1	—	1
Foreign currency exchange derivatives	—	45	—	—	45
Interest rate swap derivatives	—	7,831	—	(970)	6,861
<b>Total</b>	<b>\$ —</b>	<b>\$ 97,159</b>	<b>\$ 5,294</b>	<b>\$ (88,200)</b>	<b>\$ 14,253</b>

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

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

The difference between the amount of derivative assets and liabilities disclosed in respective levels in the table above and the amount of derivative assets and liabilities disclosed on the Condensed Consolidated Balance Sheets is due to netting arrangements with certain counterparties. See Note 6 for additional discussion of derivative netting.

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

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

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

Deferred compensation assets and liabilities represent funds held by the Company in a Rabbi Trust for an executive deferral plan. These funds consist of actively traded equity and bond funds with quoted prices in active markets. The balance disclosed

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in the table above excludes cash and cash equivalents of \$0.4 million as of September 30, 2019 and \$0.5 million as of December 31, 2018.

**Level 3 Fair Value**

Under the power exchange agreement, which expired on June 30, 2019, the Company purchased power at a price that was based on the average operating and maintenance (O&M) charges from three surrogate nuclear power plants around the country. To estimate the fair value of this agreement, the Company estimated the difference between the purchase price based on the future O&M charges and forward prices for energy. The Company compared the Level 2 brokered quotes and forward price curves described above to an internally developed forward price which was based on the average O&M charges from the three surrogate nuclear power plants for the current year. The Company estimated the volumes of the transactions that would take place in the future based on historical average transaction volumes per delivery year (November to April). Significant increases or decreases in any of these inputs in isolation would result in a significantly higher or lower fair value measurement.

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

The following table presents the quantitative information which was used to estimate the fair values of the Level 3 assets and liabilities above as of September 30, 2019 (dollars in thousands):

	Fair Value (Net) at		Unobservable Input	Range
	September 30, 2019	Valuation Technique		
Natural gas exchange agreement	\$ (3,134)	Internally derived weighted average cost of gas	Forward purchase prices Forward sales prices Purchase volumes Sales volumes	\$1.29 - \$1.92/mmBTU \$1.44 - \$3.65/mmBTU 125,000 - 310,000 mmBTUs 60,000 - 310,000 mmBTUs

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

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

	Natural Gas Exchange Agreement	Power Exchange Agreement	Total
<b>Three months ended September 30, 2019:</b>			
Balance as of July 1, 2019	\$ (2,992)	\$ —	\$ (2,992)
Total gains or (losses) (realized/unrealized):			
Included in regulatory assets/liabilities (1)	(133)	—	(133)
Settlements	(9)	—	(9)
Ending balance as of September 30, 2019 (2)	\$ (3,134)	\$ —	\$ (3,134)

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	Natural Gas Exchange Agreement	Power Exchange Agreement	Total
<b>Three months ended September 30, 2018:</b>			
Balance as of July 1, 2018	\$ (3,480)	\$ (6,345)	\$ (9,825)
Total gains or (losses) (realized/unrealized):			
Included in regulatory assets/liabilities (1)	476	436	912
Settlements	—	—	—
Ending balance as of September 30, 2018 (2)	<u>\$ (3,004)</u>	<u>\$ (5,909)</u>	<u>\$ (8,913)</u>
<b>Nine months ended September 30, 2019:</b>			
Balance as of January 1, 2019	\$ (2,774)	\$ (2,488)	\$ (5,262)
Total gains or (losses) (realized/unrealized):			
Included in regulatory assets/liabilities (1)	8,015	436	8,451
Settlements	(8,375)	2,052	(6,323)
Ending balance as of September 30, 2019 (2)	<u>\$ (3,134)</u>	<u>\$ —</u>	<u>\$ (3,134)</u>
<b>Nine months ended September 30, 2018:</b>			
Balance as of January 1, 2018	\$ (3,164)	\$ (13,245)	\$ (16,409)
Total gains or (losses) (realized/unrealized):			
Included in regulatory assets/liabilities (1)	(89)	1,156	1,067
Settlements	249	6,180	6,429
Ending balance as of September 30, 2018 (2)	<u>\$ (3,004)</u>	<u>\$ (5,909)</u>	<u>\$ (8,913)</u>

- (1) All gains and losses are included in other regulatory assets and liabilities. There were no gains and losses included in either net income or other comprehensive income during any of the periods presented in the table above.
- (2) There were no purchases, issuances or transfers from other categories of any derivatives instruments during the periods presented in the table above.

**NOTE 13. COMMON STOCK**

The Company has entered into four separate sales agency agreements under which the sales agents may offer and sell new shares of the Company's common stock from time to time. During the three and nine months ended September 30, 2019 the Company issued 0.6 million shares and 1.0 million shares under the sales agency agreements, respectively. These agreements provide for the offering of a maximum of approximately 4.6 million shares, of which approximately 3.6 million remain unissued as of September 30, 2019. Subject to the satisfaction of customary conditions, the Company has the right to increase the maximum number of shares that may be offered under these agreements subject to regulatory approval.

**NOTE 14. ACCUMULATED OTHER COMPREHENSIVE LOSS**

Accumulated other comprehensive loss, net of tax, consisted of the following as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019	December 31, 2018
Unfunded benefit obligation for pensions and other postretirement benefit plans - net of taxes of \$1,963 and \$2,091, respectively	\$ 7,383	\$ 7,866

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The following table details the reclassifications out of accumulated other comprehensive loss to net income by component for the three and nine months ended September 30 (dollars in thousands).

Details about Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss				Affected Line Item in Statement of Income
	Three months ended September 30,		Nine months ended September 30,		
	2019	2018	2019	2018	
<b>Amortization of defined benefit pension items</b>					
Amortization of net prior service cost	\$ (200)	\$ (228)	\$ (600)	\$ (684)	(a)
Amortization of net loss	3,852	2,962	11,268	8,952	(a)
Adjustment due to effects of regulation	(3,447)	(2,476)	(10,057)	(7,493)	(a)
	205	258	611	775	Total before tax
	(43)	(54)	(128)	(163)	Tax expense
	<u>\$ 162</u>	<u>\$ 204</u>	<u>\$ 483</u>	<u>\$ 612</u>	Net of tax

(a) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (see Note 7 for additional details).

**NOTE 15. EARNINGS PER COMMON SHARE ATTRIBUTABLE TO AVISTA CORP. SHAREHOLDERS**

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Numerator:</b>				
Net income attributable to Avista Corp. shareholders	\$ 5,090	\$ 10,119	\$ 146,203	\$ 90,586
<b>Denominator:</b>				
Weighted-average number of common shares outstanding-basic	66,265	65,688	65,964	65,668
Effect of dilutive securities:				
Performance and restricted stock awards	86	338	86	312
Weighted-average number of common shares outstanding-diluted	<u>66,351</u>	<u>66,026</u>	<u>66,050</u>	<u>65,980</u>
<b>Earnings per common share attributable to Avista Corp. shareholders:</b>				
Basic	\$ 0.08	\$ 0.15	\$ 2.22	\$ 1.38
Diluted	<u>\$ 0.08</u>	<u>\$ 0.15</u>	<u>\$ 2.21</u>	<u>\$ 1.37</u>

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

**NOTE 16. COMMITMENTS AND CONTINGENCIES**

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

**Cabinet Gorge Total Dissolved Gas Abatement Plan**

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

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constructing spill crest modifications on spill gates at the dam. These modifications have been shown to be effective in reducing TDG downstream. TDG monitoring and analysis is ongoing. Under the terms of the mitigation plan, Avista Corp. will continue to work with stakeholders to determine the degree to which TDG abatement reduces future mitigation obligations. The Company has sought, and will continue to seek recovery, through the ratemaking process, of all operating and capitalized costs related to this issue.

***Legal Proceedings Related to the Terminated Acquisition by Hydro One***

See Note 18 for information regarding the termination of the proposed acquisition of the Company by Hydro One.

In connection with the now terminated acquisition, three lawsuits were filed in the United States District Court for the Eastern District of Washington and were subsequently voluntarily dismissed by the plaintiffs.

One lawsuit was filed in the Superior Court for the State of Washington in and for Spokane County, captioned as follows:

- *Fink v. Morris, et al.*, No. 17203616-6 (filed September 15, 2017, amended complaint filed October 25, 2017).

The complaint generally alleged that the members of the Board of Directors of Avista Corp. breached their fiduciary duties by, among other things, conducting an allegedly inadequate sale process and agreeing to the acquisition at a price that allegedly undervalued Avista Corporation, and that Hydro One Limited, Olympus Holding Corp., and Olympus Corp. aided and abetted those purported breaches of duty. The complaint sought various remedies, including monetary damages, attorneys' fees and expenses. Subsequent to the termination of the proposed acquisition in January 2019, the complaint was voluntarily dismissed by the plaintiffs.

***2015 Washington General Rate Cases***

In January 2016, the Company received an order (Order 05) that concluded its electric and natural gas general rate cases that were originally filed with the WUTC in February 2015. New electric and natural gas rates were effective on January 11, 2016.

*WUTC Order Denying Industrial Customers of Northwest Utilities / Public Counsel Joint Motion for Clarification, WUTC Staff Motion to Reconsider and WUTC Staff Motion to Reopen Record*

In January 2016, the Industrial Customers of Northwest Utilities, the Public Counsel Unit of the Washington State Office of the Attorney General (PC) and the WUTC Staff, which is a separate party in the general rate case proceedings from the WUTC Advisory Staff, filed Motions for Clarification requesting the WUTC to clarify their attrition adjustment and the end result electric revenue amounts. The Motions for Clarification suggested that the electric revenue decrease should have been significantly larger than what was included in Order 05.

In February 2016, the WUTC issued an order (Order 06) denying the Motions summarized above and affirming Order 05, including an \$8.1 million decrease in electric base revenue.

***PC Petition for Judicial Review***

In March 2016, PC filed in Thurston County Superior Court a Petition for Judicial Review of the WUTC's Order 05 and Order 06 described above. In April 2016, this matter was certified for review directly by the Court of Appeals, an intermediate appellate court in the State of Washington.

On August 7, 2018, the Court of Appeals issued a "Published Opinion" (Opinion) which concluded that the WUTC's use of an attrition allowance to calculate Avista Corp.'s rate base violated Washington law. In the Opinion, the Court stated that because the projected additions to rate base in the future were not "used and useful" for service at the time the request for the rate increase was made, they may not lawfully be included in the Company's rate base to justify a rate increase. Accordingly, the Court concluded that the WUTC erred in including an attrition allowance in the calculation of Avista Corp.'s electric and natural gas rate base. The Court noted, however, that the law does not prohibit an attrition allowance in the calculation, for ratemaking purposes, of recoverable operating and maintenance expense. Since the WUTC order provided one lump sum attrition allowance without distinguishing what portion was for rate base and which was for operating and maintenance expenses or other considerations, the Court struck all portions of the attrition allowance attributable to Avista Corp.'s rate base and reversed and remanded the case for the WUTC to recalculate Avista Corp.'s rates without including an attrition allowance in the calculation of rate base. On October 1, 2018, the Court of Appeals terminated its review of this case, remanding it back to the Thurston County Superior Court. On April 17, 2019, the Thurston County Superior Court issued a Remand Order, granting a Joint Motion of Avista Corp., PC and the WUTC to remand the case back to the WUTC.



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On June 20, 2019, Avista Corp. filed testimony with the WUTC in the remand case. In Avista Corp.'s testimony, it asserted that the potential amount to return to customers is limited to revenues collected during the 11 month period between the effective date of the 2015 general rate case and the resolution of the subsequent 2016 general rate case, which resolved in December 2016. In the remand testimony the Company also asserted that no refund is due to customers for the 2015 general rate cases because actual 2016 electric rate base was greater than the 2016 electric rate base allowed in the general rate case, which included the prohibited attrition allowance. In addition, while 2016 actual natural gas rate base was slightly lower than the rate base allowed in the general rate case including the attrition allowance, the Company had already provided a refund to customers as a part of its earnings sharing mechanism.

Subsequent to the Company's filing, other parties in the case filed testimony and asserted that Avista Corp. should refund to customers amounts ranging from approximately \$3 million to approximately \$77 million. These parties justified the proposed refund by claiming that the rates in question were in effect from 2016 to April 2018 as opposed to the 11 months argued by Avista Corp. Further, the parties asserted that the WUTC should, directly or indirectly, correct what they believe is a power supply calculation error (approximately \$20 million), an issue that the WUTC already addressed and which the Company believes the Courts did not remand back to the WUTC for further process. While not its primary recommendation for a refund, the WUTC Staff included an alternative refund methodology in its testimony, which Avista Corp. calculates as calling for a refund of approximately \$3 million, if limited to the 11 month period. While the Company does not agree as a legal matter with the positions of the other parties to the case, as a practical matter the Company believes that it is probable that it will refund some amount to customers. As such, as of September 30, 2019 the Company recorded a refund liability of approximately \$3 million. Since the Company cannot predict the ultimate outcome of this matter at this time, the amount so recorded represents the Company's best current estimate of a potential loss.

***Boys Fire (State of Washington Department of Natural Resources v. Avista)***

On August 19, 2019, the Company was served with a complaint filed by the State of Washington Department of Natural Resources, seeking recovery of fire suppression costs and related expenses incurred in connection with a wildfire that occurred in Ferry County, Washington in August 2018. Specifically, the complaint alleges that the fire, which became known as the "Boys Fire," was caused by a dead ponderosa pine tree falling into an overhead distribution line, and that, Avista was negligent in failing to identify and remove it before the tree came into contact with the line. Avista Corp. disputes that the tree in question was the cause of the fire, and that it was negligent in failing to identify and remove it. The case is in the early stages of discovery and the plaintiff has not yet provided a statement specifying damages. Because the resolution of this claim remains uncertain, legal counsel cannot express an opinion on the extent, if any, of the Company's liability, nor is it possible for the Company to estimate the impact of any outcome at this time. The Company intends to vigorously defend itself in the litigation.

***Other Contingencies***

In the normal course of business, the Company has various other legal claims and contingent matters outstanding. The Company believes that any ultimate liability arising from these actions will not have a material impact on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant. See "Note 20 of the Notes to Consolidated Financial Statements" in the 2018 Form 10-K for additional discussion regarding other contingencies.

**NOTE 17. INFORMATION BY BUSINESS SEGMENTS**

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

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

	Avista Utilities	Alaska Electric Light and Power Company	Total Utility	Other	Intersegment Eliminations (1)	Total
<b>For the three months ended September 30, 2019:</b>						
Operating revenues	\$ 274,931	\$ 7,790	\$ 282,721	\$ 1,049	\$ —	\$ 283,770
Resource costs	98,397	(73)	98,324	—	—	98,324
Other operating expenses (2)	76,749	3,363	80,112	1,450	—	81,562
Depreciation and amortization	47,631	2,421	50,052	134	—	50,186
Income (loss) from operations	28,998	1,780	30,778	(535)	—	30,243
Interest expense (3)	24,634	1,596	26,230	149	(186)	26,193
Income taxes	125	82	207	(338)	—	(131)
Net income (loss) attributable to Avista Corp. shareholders	5,966	197	6,163	(1,073)	—	5,090
Capital expenditures (4)	118,141	2,836	120,977	920	—	121,897
<b>For the three months ended September 30, 2018:</b>						
Operating revenues	\$ 279,549	\$ 9,570	\$ 289,119	\$ 6,894	\$ —	\$ 296,013
Resource costs	98,461	3,058	101,519	—	—	101,519
Other operating expenses (2) (5)	76,355	3,005	79,360	7,347	—	86,707
Depreciation and amortization	44,569	1,466	46,035	207	—	46,242
Income (loss) from operations (5)	35,317	1,787	37,104	(660)	—	36,444
Interest expense (3)	23,560	896	24,456	462	(313)	24,605
Income taxes	2,564	188	2,752	(1,204)	—	1,548
Net income (loss) attributable to Avista Corp. shareholders	11,935	824	12,759	(2,640)	—	10,119
Capital expenditures (4)	108,907	4,176	113,083	257	—	113,340
<b>For the nine months ended September 30, 2019:</b>						
Operating revenues	\$ 942,441	\$ 27,414	\$ 969,855	\$ 11,208	\$ —	\$ 981,063
Resource costs	325,615	(1,505)	324,110	—	—	324,110
Other operating expenses (2)	261,934	9,551	271,485	15,137	—	286,622
Depreciation and amortization	147,208	7,237	154,445	498	—	154,943
Income (loss) from operations	130,200	11,309	141,509	(4,427)	—	137,082
Interest expense (3)	73,214	4,787	78,001	885	(823)	78,063
Income taxes	25,722	1,825	27,547	598	—	28,145
Net income attributable to Avista Corp. shareholders	139,086	4,825	143,911	2,292	—	146,203
Capital expenditures (4)	313,747	7,218	320,965	1,104	—	322,069
<b>For the nine months ended September 30, 2018:</b>						
Operating revenues	\$ 970,525	\$ 33,715	\$ 1,004,240	\$ 20,432	\$ —	\$ 1,024,672
Resource costs	353,148	8,958	362,106	—	—	362,106
Other operating expenses (2)	230,342	9,049	239,391	20,714	—	260,105
Depreciation and amortization	132,022	4,397	136,419	587	—	137,006
Income (loss) from operations	174,310	10,488	184,798	(869)	—	183,929
Interest expense (3)	71,953	2,686	74,639	1,179	(712)	75,106
Income taxes	17,716	2,098	19,814	(2,347)	—	17,467
Net income (loss) attributable to Avista Corp. shareholders	91,727	5,878	97,605	(7,019)	—	90,586
Capital expenditures (4)	288,046	8,169	296,215	809	—	297,024
<b>Total Assets:</b>						
As of September 30, 2019:	\$ 5,599,103	\$ 275,618	\$ 5,874,721	\$ 107,386	\$ (17,324)	\$ 5,964,783
As of December 31, 2018:	\$ 5,458,104	\$ 272,950	\$ 5,731,054	\$ 87,050	\$ (35,528)	\$ 5,782,576

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- (1) Intersegment eliminations reported as interest expense represent intercompany interest.
- (2) Other operating expenses for Avista Utilities for the three and nine months ended September 30, 2019 and 2018 include merger transaction costs which are separately disclosed on the Condensed Consolidated Statements of Income.
- (3) Including interest expense to affiliated trusts.
- (4) The capital expenditures for the other businesses are included in other investing activities on the Condensed Consolidated Statements of Cash Flows.

**NOTE 18. TERMINATION OF PROPOSED ACQUISITION BY HYDRO ONE**

On July 19, 2017, Avista Corp. entered into a Merger Agreement that provided for Avista Corp. to become an indirect, wholly-owned subsidiary of Hydro One, subject to the satisfaction or waiver of specified closing conditions, including approval by regulatory agencies. Hydro One, based in Toronto, is Ontario's largest electricity transmission and distribution provider.

***Termination of the Merger Agreement***

Due to the denial of the proposed merger by certain of the Company's regulatory commissions, on January 23, 2019, Avista Corp., Hydro One and certain subsidiaries thereof, entered into a Termination Agreement indicating their mutual agreement to terminate the Merger Agreement, effective immediately. Pursuant to the terms of the Termination Agreement, Hydro One paid Avista Corp. a \$103 million termination fee on January 24, 2019. The termination fee was used for reimbursing the Company's transaction costs incurred from 2017 to 2019. The balance of the termination fee remaining after payment of 2019 transaction costs and applicable income taxes was used for general corporate purposes and reduced the Company's need for external financing. The 2019 costs totaled \$19.7 million pre-tax and included financial advisers' fees, legal fees, consulting fees and employee time.

***Other Information Related to the Terminated Acquisition***

Due to the termination of the acquisition, all the financial commitments that were included in the various settlement agreements with the commissions for the proposed acquisition will not be required to be performed or observed.

The Company incurred significant transaction costs consisting primarily of consulting, banking fees, legal fees and employee time, and these costs are not being passed through to customers. When the Company was assuming the transaction was going to be completed, a significant portion of these costs were not deductible for income tax purposes. Now that the transaction has been terminated, more of the previously incurred transaction costs are deductible so it has recorded additional tax benefits from these costs in 2019.

See Note 16 for discussion of shareholder lawsuits filed against the Company, the Company's directors, Hydro One, Olympus Holding Corp., and Olympus Corp. in relation to the Merger Agreement and the proposed acquisition.

**NOTE 19. SALE OF METALfx**

In April 2019, Bay Area Manufacturing, Inc., a non-regulated subsidiary of Avista Corp., entered into a definitive agreement to sell its interest in METALfx to an independent third party. The transaction was a stock sale for a total cash purchase price of \$17.5 million plus cash on-hand, subject to customary closing adjustments. The transaction closed on April 18, 2019, and as of that date the Company has no further involvement with METALfx.

The purchase price of \$17.5 million, as adjusted, was divided among the security holders of METALfx, including the minority shareholder, pro rata based on ownership (Avista Corp. owned 89.2 percent of the equity of METALfx). As required under the purchase agreement, \$1.2 million (7 percent of the purchase price) will be held in escrow for 24 months from the closing of the transaction to satisfy certain indemnification obligations.

When all escrow amounts are released, the sales transaction is expected to provide cash proceeds to Avista Corp., net of payments to the minority holder, contractually obligated compensation payments and other transaction expenses, of \$16.5 million and result in a net gain after-tax of \$2.3 million. The Company expects to receive the full amount of its portion of the escrow accounts; therefore, the full amounts are included in the gain calculation. The gross gain is included in "Other income," the transaction expenses paid are included in "Non-utility Other operating expenses" and any taxes associated with the sale are included in "Income tax expense" on the Condensed Consolidated Statements of Income.

Prior to the completion of the sales transaction, METALfx was not a reportable business segment and was included in other in the business segment footnote at Note 17. This transaction does not meet the criteria for discontinued operations as it does not represent a strategic shift that will have a major effect on the Company's ongoing operations,

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of  
Avista Corporation  
Spokane, Washington

**Results of Review of Interim Financial Information**

We have reviewed the accompanying condensed consolidated balance sheet of Avista Corporation and subsidiaries (the "Company") as of September 30, 2019, and the related condensed consolidated statements of income, comprehensive income and equity for the three-month and nine-month periods ended September 30, 2019 and 2018 and the related cash flows for the nine-month periods ended September 30, 2019 and 2018, and the related notes (collectively referred to as the "interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2018, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the year then ended (not presented herein); and in our report dated February 19, 2019, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2018, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

**Basis for Review Results**

This interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ Deloitte & Touche LLP

Seattle, Washington  
November 6, 2019

**AVISTA CORPORATION****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's Discussion and Analysis of Financial Condition and Results of Operations has been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q. The interim Management's Discussion and Analysis of Financial Condition and Results of Operations does not contain the full detail or analysis which would be included in a full fiscal year Form 10-K; therefore, it should be read in conjunction with the Company's 2018 Form 10-K.

**Business Segments**

Our business segments have not changed during the nine months ended September 30, 2019. See the 2018 Form 10-K as well as "Note 17 of the Notes to Condensed Consolidated Financial Statements" for further information regarding our business segments.

The following table presents net income (loss) attributable to Avista Corp. shareholders for each of our business segments (and the other businesses) for the three and nine months ended September 30 (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Avista Utilities	\$ 5,966	\$ 11,935	\$ 139,086	\$ 91,727
AEL&P	197	824	4,825	5,878
Other	(1,073)	(2,640)	2,292	(7,019)
Net income attributable to Avista Corp. shareholders	\$ 5,090	\$ 10,119	\$ 146,203	\$ 90,586

**Executive Level Summary****Overall Results**

Net income attributable to Avista Corp. shareholders was \$5.1 million for the three months ended September 30, 2019, a decrease from \$10.1 million for the three months ended September 30, 2018. Net income was \$146.2 million for the nine months ended September 30, 2019, compared to \$90.6 million for the nine months ended September 30, 2018.

For the year-to-date, Avista Utilities' net income increased due to the receipt of a \$103 million termination fee from Hydro One (see "Note 18 of the Notes to Condensed Consolidated Financial Statements"), as well as the positive impact of general rate increases and customer growth. These increases were partially offset by final transaction costs for the Hydro One transaction, taxes associated with the termination fee, increased transmission and distribution operating and maintenance costs (other operating expenses), a \$7 million donation commitment to the local community and increased depreciation and amortization. For the third quarter, Avista Utilities' net income decreased due to increased transmission and distribution operating and maintenance costs (other operating expenses), an accrual for customer refunds related to our 2015 Washington general rate cases (see "Regulatory Matters"), and increased depreciation and amortization. These were partially offset by the positive impact of general rate increases and customer growth.

AEL&P net income decreased primarily due to an increase in other operating expenses and a decrease in operating revenues.

The increase in net income at our other businesses for the year-to-date was primarily due to the sale of METALfx and increased earnings from our other investments.

More detailed explanations of the fluctuations are provided in the results of operations and business segment discussions (Avista Utilities, AEL&P, and the other businesses) that follow this section.

**General Rate Cases and Regulatory Lag**

We expect to experience regulatory lag during the period 2019 through 2021 due to our continued investment in utility infrastructure and because we did not file general rate cases during 2018 due to the terminated Hydro One transaction. In April, we filed general rates cases in Washington that are two-year rate plans (settlement in principle in November 2019, refer to "Regulatory Matters"). We filed an electric only general rate case in Idaho in June that was settled in October 2019 (subject to IPUC approval). We also filed a natural gas general rate case in Oregon in March (with a settlement approved by the OPUC in October 2019). We expect these cases to provide rate relief in 2020 and start 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. This will require adequate and timely rate relief in our jurisdictions. See "Regulatory Matters" for additional discussion of the 2019 general rate cases.

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**Regulatory Matters****General Rate Cases**

We regularly review the need for electric and natural gas rate changes in each state in which we provide service. We expect to continue to file for rate adjustments to:

- seek recovery of operating costs and capital investments, and
- seek the opportunity to earn reasonable returns as allowed by regulators.

With regards to the timing and plans for future filings, the assessment of our need for rate relief and the development of rate case plans takes into consideration short-term and long-term needs, as well as specific factors that can affect the timing of rate filings. Such factors include, but are not limited to, in-service dates of major capital investments and the timing of changes in major revenue and expense items.

**Avista Utilities*****Washington General Rate Cases******2015 General Rate Cases***

In January 2016 we received an order which was reaffirmed by the WUTC in February 2016 that concluded our electric and natural gas general rate cases originally filed with the WUTC in February 2015. New electric and natural gas rates were effective on January 11, 2016.

The WUTC-approved rates were designed to provide a 1.6 percent, or \$8.1 million, decrease in electric base revenue and a 7.4 percent, or \$10.8 million, increase in natural gas base revenue. The WUTC also approved an ROR of 7.29 percent, with a common equity ratio of 48.5 percent and a 9.5 percent ROE.

In March 2016, the Public Counsel Unit of the Washington State Office of the Attorney General filed in Thurston County Superior Court a Petition for Judicial Review of the WUTC's orders (described above) that concluded our 2015 electric and natural gas general rate cases. In April 2016, this matter was certified for review directly by the Court of Appeals, an intermediate appellate court in the State of Washington.

On August 7, 2018, the Court of Appeals issued an Opinion which concluded that the WUTC's use of an attrition allowance to calculate Avista Corp.'s rate base violated Washington law. The Court struck all portions of the attrition allowance attributable to Avista Corp.'s rate base and reversed and remanded the case for the WUTC to recalculate Avista Corp.'s rates without including an attrition allowance in the calculation of rate base. On April 17, 2019, the Thurston County Superior Court issued a Remand Order, granting a Joint Motion of Avista Corp., PC and the WUTC to remand the case back to the WUTC.

On June 20, 2019, we filed testimony with the WUTC in the remand case. In our testimony we asserted that the potential amount to return to customers is limited to revenues collected on the basis of rates approved in the 2015 general rate cases, and we also asserted that no refund is due to customers. Subsequent to our filing, other parties in the case filed testimony and asserted that we should refund in the range of approximately \$3 million to \$77 million to customers. While we do not agree as a legal matter with the positions of the other parties to the case, as a practical matter we believe it is probable that ultimately we will refund some amount to customers. As such, as of September 30, 2019 we have recorded a refund liability of approximately \$3 million to Washington customers. Since we cannot predict the ultimate outcome of this matter at this time, the amount so recorded represents the best current estimate of a potential loss. See "Note 16 of the Notes to Condensed Consolidated Financial Statements" for further discussion of this matter.

***2017 General Rate Cases***

On April 26, 2018, the WUTC issued a final order in our electric and natural gas general rate cases that were originally filed on May 26, 2017. In the order, the WUTC approved new electric rates, effective on May 1, 2018, that increased base rates by 2.2 percent (designed to increase electric revenues by \$10.8 million). The net increase in electric base rates was made up of an increase in our base revenue requirement of \$23.2 million, an increase of \$14.5 million in power supply costs and a decrease of \$26.9 million for the impacts of the TCJA, which reflects the federal income tax rate change from 35 percent to 21 percent and the amortization of the regulatory liability for plant excess deferred income taxes that was recorded as of December 31, 2017.

While the WUTC authorized an increase in the ERM baseline to reflect increased power supply costs, it directed the parties to examine the functionality and rationale of the Company's power cost modeling and adjust the baseline only in extraordinary circumstances if necessary to more closely match the baseline to actual conditions.

For natural gas, the WUTC approved new natural gas base rates, effective on May 1, 2018, that decreased base rates by 2.4 percent (designed to decrease natural gas revenues by \$2.1 million). The net decrease in natural gas base rates was made up of

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an increase in base revenues of \$3.4 million that was offset by a decrease of \$5.5 million for the impacts from the TCJA, which reflects the federal income tax rate change and the amortization of the regulatory liability for plant-related excess deferred income taxes that was recorded as of December 31, 2017.

In addition to the above, the WUTC also ordered, effective June 1, 2018, a one-year temporary reduction of \$7.9 million in our revenue requirements for electric and \$3.2 million for natural gas, reflecting reductions for the return of tax benefits associated with the non-plant excess deferred income taxes and the customer refund liability that was established in 2018 related to the change in federal income tax expense for the period January 1, 2018 to April 30, 2018.

The new rates are based on a ROR of 7.50 percent with a common equity ratio of 48.5 percent and a 9.5 percent ROE.

In our original filings, we requested three-year rate plans for electric and natural gas; however, in the final order the WUTC only provided for new rates effective on May 1, 2018.

*TCJA Proceedings*

In February 2019, we filed an all-party settlement agreement with the WUTC related to the electric tax benefits associated with the TCJA that were set aside for Colstrip in the 2017 general rate case order (effective May 1, 2018). In the settlement agreement, the parties agreed to utilize \$10.9 million of the electric tax benefits to offset costs associated with accelerating the depreciation of Colstrip Units 3 & 4, to reflect a remaining useful life of those units through December 31, 2027. That portion of the settlement agreement was denied. The WUTC has indicated that it will review the TCJA and Colstrip in our next general rate case (which was filed on April 30, 2019).

*2019 General Rate Cases*

On April 30, 2019, we filed electric and natural gas general rate cases with the WUTC that are two-year rate plans. We have requested the following electric and natural gas base rate changes each year, which are designed to result in the following increases in annual revenues (dollars in millions):

Effective Date	Electric		Natural Gas	
	Revenue Increase	Base Rate Increase	Revenue Increase	Base Rate Increase
April 1, 2020	\$ 45.8	9.1%	\$ 12.9	13.8%
April 1, 2021	\$ 18.9	3.5%	\$ 6.5	6.1%

Our requests are based on a proposed ROR of 7.52 percent with a common equity ratio of 50 percent and a 9.9 percent ROE. The WUTC has up to 11 months to review our request and issue a decision.

Under these rate plans, we would not file new general rate cases for new rates to be effective prior to April 1, 2022.

The purpose of our general rate case requests is to recover costs associated with the need to replace infrastructure that has reached the end of its useful life and make technology investments required to build the integrated energy services grid.

Among the projects included in the filing are:

- The upgrade of generating units and other equipment at our Little Falls Dam, which will provide more generating capacity.
- Our distribution grid modernization program that rebuilds and upgrades electric feeders in the system, replacing old equipment like poles, conductor, and transformers to improve service reliability, capture energy efficiency savings and improve operational ability.
- Ongoing management and replacement of electric distribution wood poles through our wood pole management program.
- The ongoing project to systematically replace portions of natural gas distribution pipe in our service area that were installed prior to 1987, as well as replacement of other natural gas service equipment.
- The rebuild of a high voltage transmission line, including the installation of steel poles and crossarms.
- Technology upgrades that support necessary business processes and operational efficiencies.

As a part of these general rate cases, we are also seeking to extend our electric and natural gas decoupling mechanisms for an additional five years (through March 31, 2025). During the second quarter of 2019, we filed a motion to consolidate our ERM filing with our 2019 Washington general rate case and our motion was approved by the WUTC.

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A settlement in principle has been reached in the current Washington General Rate Case with all parties and all issues with the exception of decoupling and ERM-related issues. The Settlement Stipulation is in the drafting stage, and the parties, including the Public Counsel Unit of the Washington Attorney General's Office and the Sierra Club, are securing the necessary approvals in their respective organizations. The Settlement Stipulation is anticipated to be filed on or about November 21, 2019, and will require Commission approval. We believe that the terms of the settlement-in-principle are fair for customers and shareholders.

**Idaho General Rate Cases***2017 General Rate Cases*

On December 28, 2017, the IPUC approved a settlement agreement between us and other parties to our electric and natural gas general rate cases. New rates were effective on January 1, 2018 and January 1, 2019.

The settlement agreement is a two-year rate plan and has the following electric and natural gas base rate changes each year, which are designed to result in the following increases in annual revenues (dollars in millions):

Effective Date	Electric		Natural Gas	
	Revenue Increase	Base Rate Increase	Revenue Increase	Base Rate Increase
January 1, 2018	\$ 12.9	5.2%	\$ 1.2	2.9%
January 1, 2019	\$ 4.5	1.8%	\$ 1.1	2.7%

The settlement agreement is based on a ROR of 7.61 percent with a common equity ratio of 50 percent and a 9.5 percent ROE.

As part of the two-year rate plan the Company will not file a new general rate case for a new rate plan to be effective prior to January 1, 2020.

*TCJA Proceedings*

On May 31, 2018, the IPUC approved an all-party settlement agreement related to the income tax benefits associated with the TCJA. Effective June 1, 2018, current customer rates were reduced to reflect the reduction of the federal income tax rate to 21 percent, and the amortization of the regulatory liability for plant-related excess deferred income taxes. This reduction reduces annual electric rates by \$13.7 million (or 5.3 percent reduction to base rates) and natural gas rates by \$2.6 million (or 6.1 percent reduction to base rates).

In March 2019, the IPUC approved an all-party settlement agreement related to the electric tax benefits that were set aside for Colstrip in the 2017 general rate case order. In the approved settlement agreement, the parties agreed to utilize approximately \$6.4 million (\$5.1 million when tax-effected) of the electric tax benefits to offset costs associated with accelerating the depreciation of Colstrip Units 3 & 4, to reflect a remaining useful life of those units through December 31, 2027. The remaining tax benefits of approximately \$5.8 million will be returned to customers through a temporary rate reduction over a period of one year beginning on April 1, 2019. The tax benefits being utilized are related to non-plant excess deferred income taxes, and the customer refund liability that was established in 2018 related to the change in federal income tax expense for the period January 1, 2018 to May 31, 2018.

*2019 General Rate Cases*

On October 11, 2019, Avista Corp. and all parties to our electric general rate case reached a settlement agreement that has been submitted to the IPUC for its consideration. If approved, new rates would take effect December 1, 2019.

The proposed rates under the settlement agreement are designed to decrease annual base electric revenues by \$7.2 million (or 2.8 percent), effective December 1, 2019. The settlement revenue decreases are based on a 9.5 percent ROE with a common equity ratio of 50 percent and a rate of return ROR on rate base of 7.35 percent, which is a continuation of current levels. This outcome is in line with our expectations.

The primary element of the difference in the agreed upon base revenues in the settlement agreement from our original request is that the settlement includes the continued recovery of costs for our wind generation power purchase agreements, which will include Palouse Wind and Rattlesnake Flat, through the PCA mechanism rather than through base rates.

Our original request included an increase of annual electric base revenues of \$5.3 million or 2.1 percent, effective January 1, 2020.



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The electric request was based on a proposed ROR on rate base of 7.55 percent with a common equity ratio of 50 percent and a 9.9 percent ROE, as well as the inclusion of wind power purchase costs in base rates rather than receiving recovery through the PCA.

***Oregon General Rate Cases******2019 General Rate Case***

On October 9, 2019, the OPUC approved the all-party settlement agreements filed in the third quarter of 2019. New rates will take effect on January 15, 2020.

OPUC approved rates designed to increase annual natural gas billed revenues by \$3.6 million, or 4.2 percent.

The Commission's decision reflects a ROR on rate base of 7.24 percent, with a common equity ratio of 50 percent and a 9.4 percent ROE, both of which represent a continuation of existing authorized levels.

In addition, the approved settlement agreements included agreement among the parties to a future independent review of our interest rate hedging practices, with any recommendations based on the results and findings in the final report to be applicable only on a prospective basis and to not apply to any prior interest rate hedging activity.

***TCJA Proceedings***

In February 2019, the OPUC approved the deferral amount of \$3.8 million related to 2018 income tax benefits associated with the TCJA. The 2018 deferred benefits will be returned to customers through a temporary rate reduction over a period of one year beginning March 1, 2019. We will continue the deferral of the TCJA benefits during 2019 for later return to customers, until such time as these changes can be reflected in base rates.

***Petition for Judicial Review of the Deferral of Capital Projects***

In February 2019 and October 2018, the OPUC issued orders which concluded that, contrary to the OPUC's past practice, Oregon statutes that authorize the deferral of expense for later recovery from customers do not authorize the OPUC to allow deferrals of any costs related to capital investments (utility plant). In April 2019, Avista Corp. and other petitioners filed a Petition for Judicial Review with the Oregon Court of Appeals seeking review of the above OPUC orders. The Company cannot predict the outcome of this matter at this time, including whether or not any decision of the court would have retroactive effect.

***AMI Project***

In March 2016, the WUTC granted our Petition for an Accounting Order to defer and include in a regulatory asset the undepreciated value of our existing Washington electric meters for the opportunity for later recovery. This accounting treatment is related to our plans to replace our existing electric meters with new two-way digital meters and the related software and support services through our AMI project in Washington State. As of September 30, 2019, the estimated future undepreciated value for the existing electric meters was \$21.5 million. In September 2017, the WUTC also approved our request to defer the undepreciated net book value of existing natural gas encoder receiver transmitters (ERT) (consistent with the accounting treatment we obtained on our existing electric meters) that will be retired as part of the AMI project. As of September 30, 2019, the estimated future undepreciated value for the existing natural gas ERTs was \$4.4 million. Replacement of the electric meters and natural gas ERTs began during the second half of 2018 and is ongoing.

In September 2017, the WUTC approved a Petition to defer the depreciation expense associated with the AMI project, along with a carrying charge, and to seek recovery of the deferral and carrying charge in a future general rate case. Cost savings, such as reduced meter reading costs, will occur during the implementation period, and will offset a portion of the AMI costs not being deferred.

In May 2017, we filed Petitions with the IPUC and the OPUC requesting a depreciable life of 12.5 years for the meter data management system (MDM) related to the AMI project. Both the IPUC and the OPUC approved our request. In addition, in connection with the 2017 Idaho electric general rate case (discussed above), the settling parties agreed to cost recovery of Idaho's share of the MDM system, effective January 1, 2019. In connection with the approval of the Oregon general rate case settlement (discussed above), the OPUC approved cost recovery of Oregon's share of the MDM system, effective November 1, 2017.

***Avista Utilities******Purchased Gas Adjustments***

PGAs are designed to pass through changes in natural gas costs to Avista Utilities' customers with no change in utility margin (operating revenues less resource costs) or net income. In Oregon, we absorb (cost or benefit) 10 percent of the difference between actual and projected natural gas costs included in retail rates for supply that is not hedged. Total net deferred natural

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gas costs among all jurisdictions were a liability of \$3.3 million as of September 30, 2019 and a liability of \$40.7 million as of December 31, 2018. The liability decreased from the prior year primarily due to higher natural gas prices in 2019 as compared to the current year PGA rates.

***Power Cost Deferrals and Recovery Mechanisms***

The ERM is an accounting method used to track certain differences between Avista Utilities' actual power supply costs, net of wholesale sales and sales of fuel, and the amount included in base retail rates for our Washington customers. Under the ERM, Avista Utilities makes an annual filing on or before April 1 of each year to provide the opportunity for the WUTC staff and other interested parties to review the prudence of and audit the ERM deferred power cost transactions for the prior calendar year. See the 2018 Form 10-K for a full discussion of the mechanics of the ERM and the various sharing bands. Total net deferred power costs under the ERM were a liability of \$35.5 million as of September 30, 2019, compared to a liability of \$34.4 million as of December 31, 2018. These deferred power cost balances represent amounts due to customers. Pursuant to WUTC requirements, should the cumulative deferral balance exceed \$30 million in the rebate or surcharge direction, we must make a filing with the WUTC to adjust customer rates to either return the balance to customers or recover the balance from customers.

The cumulative rebate balance exceeds \$30 million and as a result, our 2019 filing contained a proposed rate refund, effective July 1, 2019 over a three-year period. During the second quarter of 2019 we filed a motion to consolidate this ERM filing with our 2019 Washington general rate case (which was filed on April 30, 2019). In our motion, we requested that the WUTC withhold the refund associated with the ERM for use in the 2019 general rate case rather than passing it back to customers over the three-year period that was proposed in the ERM filing. Our motion was approved by the WUTC and the ERM refund will now be considered with the 2019 Washington general rate case.

Avista Utilities has a PCA mechanism in Idaho that allows us to modify electric rates on October 1 of each year with IPUC approval. Under the PCA mechanism, we defer 90 percent of the difference between certain actual net power supply expenses and the amount included in base retail rates for our Idaho customers. The October 1 rate adjustments recover or rebate power supply costs deferred during the preceding July-June twelve-month period. Total net power supply costs deferred under the PCA mechanism were a liability of \$1.0 million as of September 30, 2019, compared to a liability of \$7.6 million as of December 31, 2018. These deferred power cost balances represent amounts due to customers.

***Decoupling and Earnings Sharing Mechanisms***

Decoupling (also known as a FCA in Idaho) is a mechanism designed to sever the link between a utility's revenues and consumers' energy usage. In each of our jurisdictions, Avista Utilities' electric and natural gas revenues are adjusted so as to be based on the number of customers in certain customer rate classes and assumed "normal" kilowatt hour and therm sales, rather than being based on actual kilowatt hour and therm sales. The difference between revenues based on the number of customers and "normal" sales and revenues based on actual usage is deferred and either surcharged or rebated to customers beginning in the following year. Only residential and certain commercial customer classes are included in our decoupling mechanisms. See the 2018 Form 10-K for a discussion of the mechanisms in each jurisdiction.

Total net cumulative decoupling deferrals among all jurisdictions were regulatory assets of \$25.5 million as of September 30, 2019 and \$13.9 million as of December 31, 2018. These decoupling assets represent amounts due from customers. Total net earnings sharing balances among all jurisdictions were regulatory liabilities of \$0.7 million as of September 30, 2019 and \$1.5 million as of December 31, 2018. These earnings sharing liabilities represent amounts due to customers.

See "Results of Operations - Avista Utilities" for further discussion of the amounts recorded to operating revenues in 2019 and 2018 related to the decoupling and earnings sharing mechanisms.

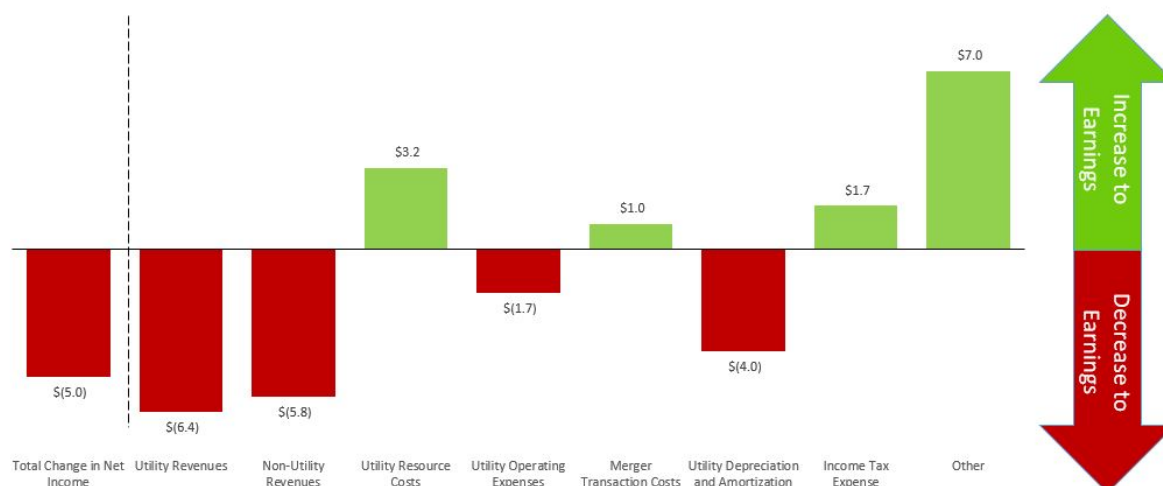
**Results of Operations - Overall**

The following provides an overview of changes in our Condensed Consolidated Statements of Income. More detailed explanations are provided, particularly for operating revenues and operating expenses, in the business segment discussions (Avista Utilities, AEL&P, and the other businesses) that follow this section.

The balances included below for utility operations reconcile to the Condensed Consolidated Statements of Income.

**Three months ended September 30, 2019 compared to the three months ended September 30, 2018**

The following graph shows the total change in net income attributable to Avista Corp. shareholders for the third quarter of 2018 to the third quarter of 2019, as well as the various factors that caused such change (dollars in millions):



Utility revenues decreased at both Avista Utilities and AEL&P. Avista Utilities' revenues decreased primarily from a provision for customer rate refunds related to the 2015 Washington general rate cases as well as a decrease in decoupling rates and PGA rates, which are included in rates billed to retail customers. These decreases were partially offset by an increase from electric decoupling, general rate increases and customer growth. AEL&P's revenues decreased from a reduction in sales volumes due to weather that was warmer than normal and warmer than the prior year. Also, there was lower hydroelectric generation at AEL&P which prevented them from making sales to a large interruptible customer.

Non-utility revenues decreased due to the sale of METALfx, which occurred in April 2019.

Utility resource costs decreased at both Avista Utilities and AEL&P. While there was a decrease in gross resource costs at Avista Utilities, there was an increase in power purchase prices and thermal fuel costs. The decrease at AEL&P was due to a decrease in deferred power supply expenses, as well as the adoption of the new lease standard on January 1, 2019, which resulted in the reclassification of Snettisham power purchase costs from resource costs to depreciation and amortization and interest expense in 2019. See "Notes 2 and 5 of the Notes to Condensed Consolidated Financial Statements" for further information regarding the adoption of the new lease standard.

The increase in utility other operating expenses was due to an increase at Avista Utilities related to an increase in salaries, pensions and benefits. This was partially offset by a decrease in generation and distribution operating and maintenance costs.

The merger transaction costs are related to the terminated Hydro One acquisition. There were no costs in the third quarter of 2019 because the transaction was terminated in the first quarter of 2019. None of the acquisition costs are being passed through to customers.

Utility depreciation and amortization increased due to additions to utility plant and amortization of the Snettisham finance lease, which was reclassified from utility resource costs to depreciation and amortization, effective January 1, 2019. See "Notes 2 and 5 of the Notes to Condensed Consolidated Financial Statements" for further information regarding the Snettisham lease and the adoption of the new lease standard.

The increase in other was primarily related to a decrease in non-utility other operating expenses due to the sale of METALfx during the second quarter of 2019 and also due to lower property taxes.

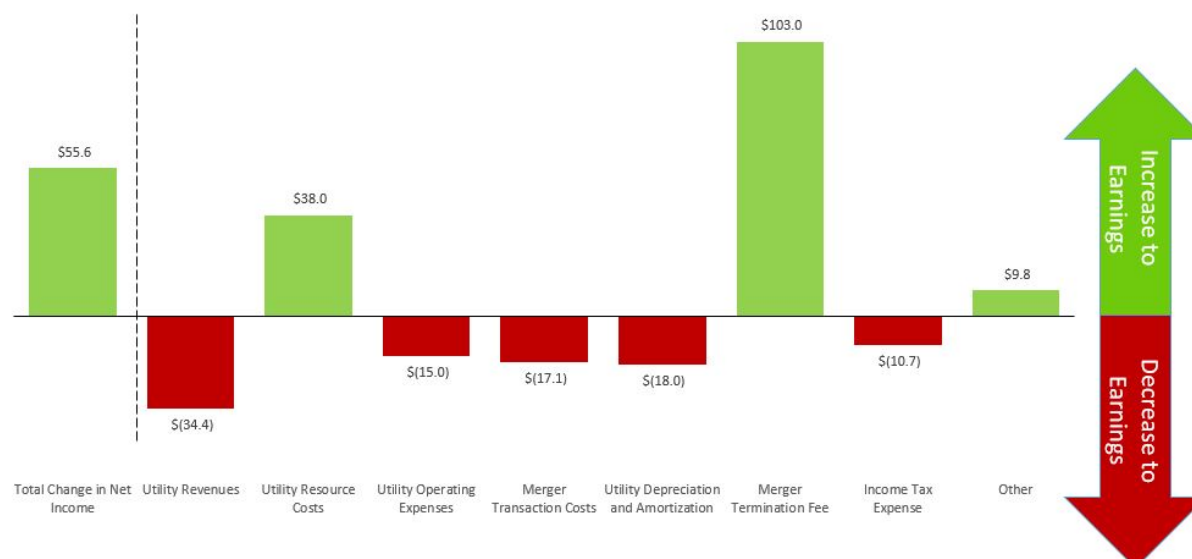
Income taxes decreased primarily due to a decrease in income before taxes. Our effective tax rate was negative 2.6 percent for the third quarter of 2019 compared to 13.3 percent for the third quarter of 2018. We expect our full year 2019 effective tax rate

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to be approximately 16 percent to 17 percent. See "Note 8 of the Notes to Condensed Consolidated Financial Statements" for further details and a reconciliation of our effective tax rate.

**Nine months ended September 30, 2019 compared to the nine months ended September 30, 2018**

The following graph shows the total change in net income attributable to Avista Corp. shareholders for the nine months ended September 30, 2018 to the nine months ended September 30, 2019, as well as the various factors that caused such change (dollars in millions):



Utility revenues decreased at both Avista Utilities and AEL&P. Avista Utilities' revenues decreased primarily from a decrease in wholesale electric revenues (due mostly to a decrease in volumes), as well as a decrease in sales of fuel. These items decreased due to lower than normal hydroelectric generation, which resulted in less optimization of the system. These decreases were partially offset by general rate increases and customer growth. AEL&P's revenues decreased from a reduction in sales volumes due to weather that was warmer than normal and warmer than the prior year. Also, there was lower hydroelectric generation at AEL&P which prevented them from making sales to a large interruptible customer.

Utility resource costs decreased at both Avista Utilities and AEL&P. While there was a decrease in gross resource costs at Avista Utilities, there was an increase in power purchase prices, higher thermal fuel costs and lower hydroelectric generation compared to 2018. The decrease at AEL&P was due to a decrease in deferred power supply expenses, as well as the adoption of the new lease standard on January 1, 2019. See "Notes 2 and 5 of the Notes to Condensed Consolidated Financial Statements" for further information regarding the adoption of the new lease standard.

The increase in utility other operating expenses was primarily due to an increase at Avista Utilities primarily related to a donation commitment, which was recorded in the second quarter 2019. There were also increases in generation, transmission and distribution operating and maintenance costs.

The merger transaction costs are related to the terminated Hydro One acquisition. These costs increased for the year-to-date 2019 related to financial advisers' fees, legal fees, consulting fees and employee time, whereas 2018 consisted primarily of employee time incurred directly related to the transaction. None of the acquisition costs are being passed through to customers.

Utility depreciation and amortization increased due to additions to utility plant, amortization of the Snettisham lease (See "Notes 2 and 5 of the Notes to Condensed Consolidated Financial Statements for further information on the Snettisham lease), and from a March 2019 settlement in Idaho, which allowed us to utilize approximately \$6.4 million (\$5.1 million when tax-effected) of the electric tax benefits to offset costs associated with accelerating the depreciation of Colstrip Units 3 & 4 to reflect a remaining useful life of those units through December 31, 2027. This amount was recorded as a one-time charge to depreciation expense in the second quarter of 2019, with an offsetting amount included in income tax expense.

The merger termination fee was received from Hydro One due to the mutual agreement to terminate the proposed acquisition.

See "Note 18 of the Notes to Condensed Consolidated Financial Statements" for additional discussion.

The increase in other was primarily related to the gain on the sale of METALfx during the second quarter of 2019 and a net increase in earnings from our investments. See "Note 19 of the Notes to Condensed Consolidated Financial Statements" for further details of the sales transaction.

Income taxes increased primarily due to increased income before taxes mostly associated with the receipt of the Hydro One termination fee. Our effective tax rate was 16.2 percent for 2019, compared to 16.1 percent for 2018. We expect our full year 2019 effective tax rate to be approximately 16 percent to 17 percent. See "Note 8 of the Notes to Condensed Consolidated Financial Statements" for further details and a reconciliation of our effective tax rate.

#### **Non-GAAP Financial Measures**

The following discussion for Avista Utilities includes two financial measures that are considered "non-GAAP financial measures": electric utility margin and natural gas utility margin. In the AEL&P section, we include a discussion of utility margin, which is also a non-GAAP financial measure.

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 (excluded) in the most directly comparable measure calculated and presented in accordance with GAAP. Electric utility margin is electric operating revenues less electric resource costs, while natural gas utility margin is natural gas operating revenues less natural gas resource costs. The most directly comparable GAAP financial measure to electric and natural gas utility margin is utility operating revenues as presented in "Note 17 of the Notes to Condensed Consolidated Financial Statements."

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.

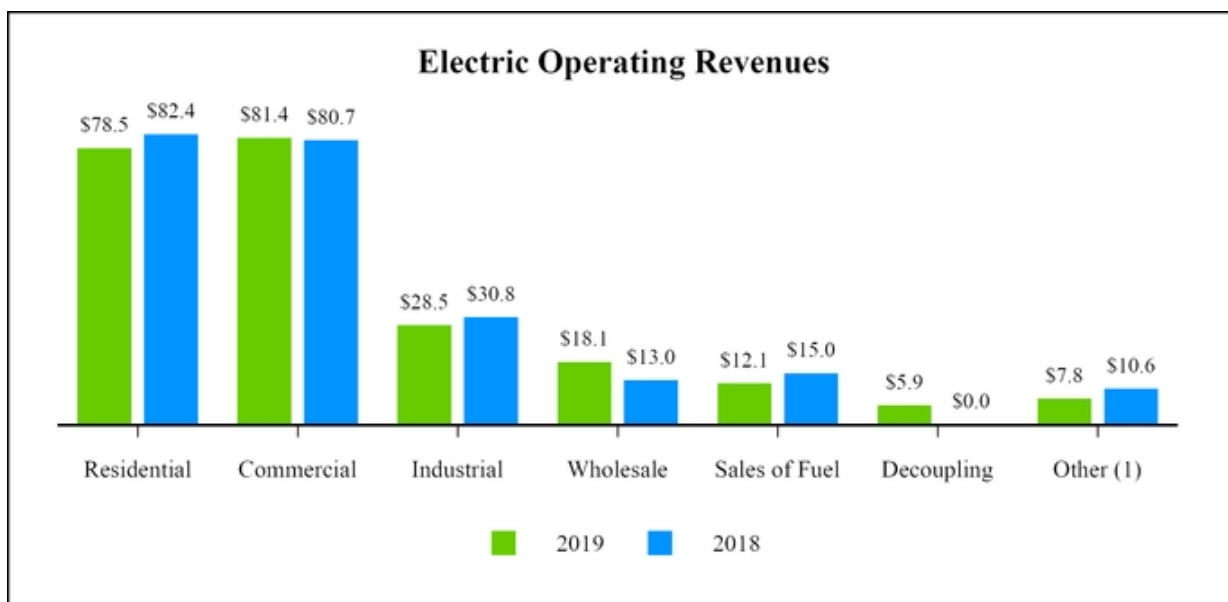
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**Results of Operations - Avista Utilities**

*Three months ended September 30, 2019 compared to the three months ended September 30, 2018*

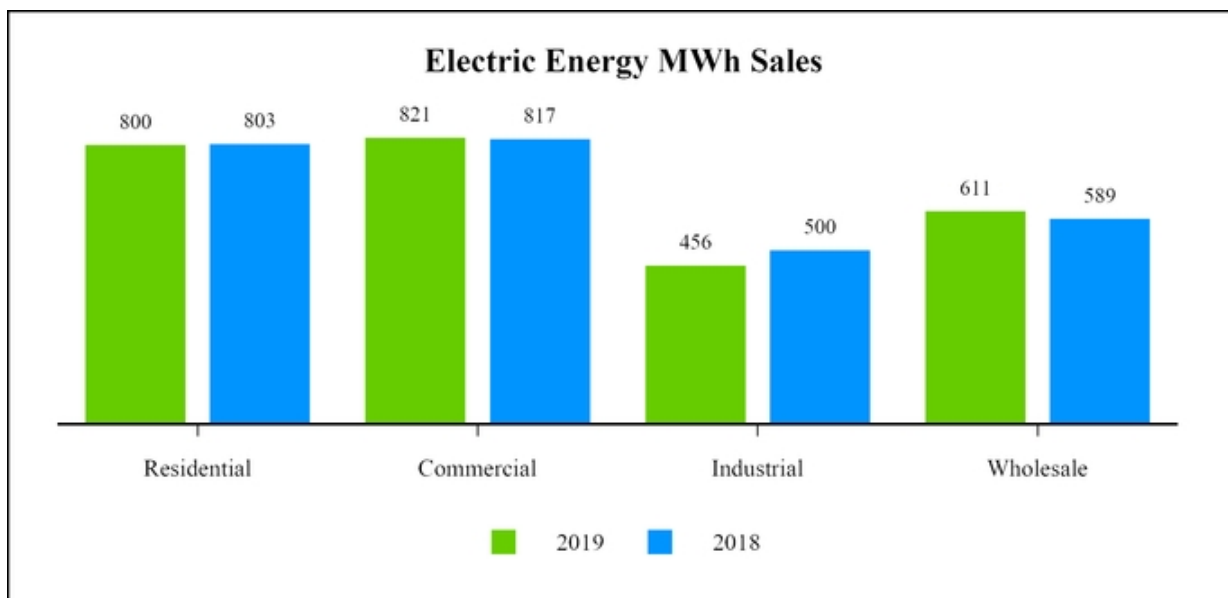
**Utility Operating Revenues**

The following graphs present Avista Utilities' electric operating revenues and megawatt-hour (MWh) sales for the three months ended September 30 (dollars in millions and MWhs in thousands):



(1) This balance includes public street and highway lighting, which is considered part of retail electric revenues, and deferrals/amortizations to customers related to federal income tax law changes.

Total electric operating revenues in the graph above include intracompany sales of \$8.5 million and \$11.6 million for the three months ended September 30, 2019 and September 30, 2018, respectively.



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The following table presents the current year deferrals and the amortization of prior year decoupling balances that are reflected in utility electric operating revenues for the three months ended September 30 (dollars in thousands):

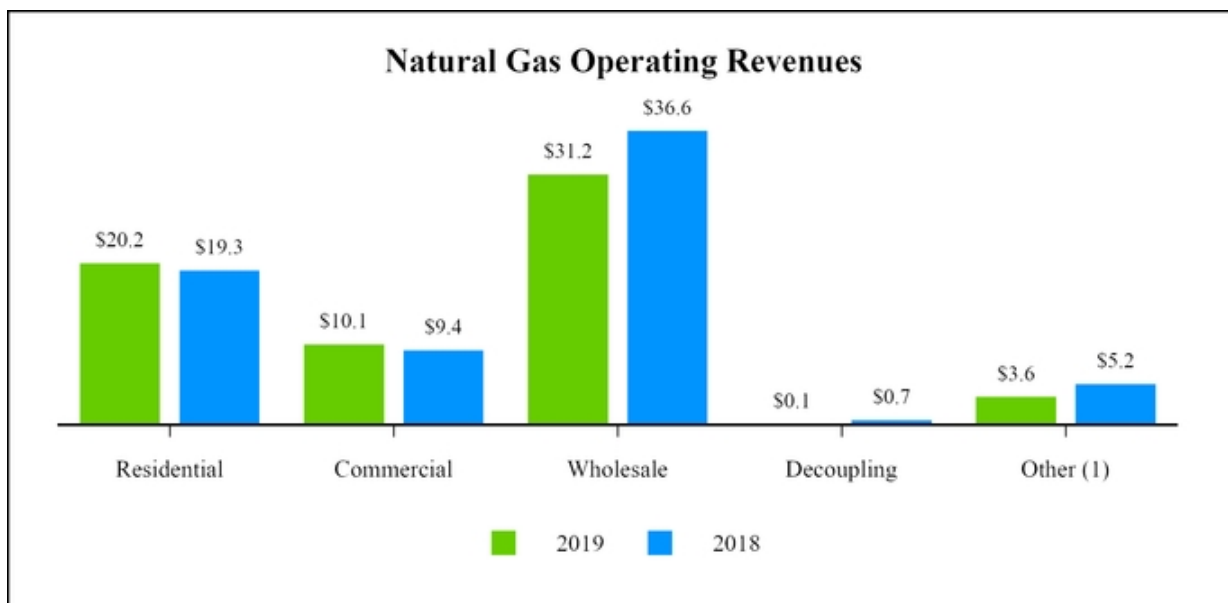
	Electric Decoupling Revenues	
	2019	2018
Current year decoupling deferrals (a)	\$ 5,361	\$ 3,738
Amortization of prior year decoupling deferrals (b)	563	(3,782)
<b>Total electric decoupling revenue</b>	<b>\$ 5,924</b>	<b>\$ (44)</b>

- (a) Positive amounts are increases in decoupling revenue in the current year and will be surcharged to customers in future years. Negative numbers are decreases in decoupling revenue in the current year and will be rebated to customers in future years.
- (b) Positive amounts are increases in decoupling revenue in the current year and are related to the amortization of rebate balances that resulted in prior years and are being refunded to customers (causing a corresponding decrease in retail revenue from customers) in the current year. Negative numbers are decreases in decoupling revenue in the current year and are related to the amortization of surcharge balances that resulted in prior years and are being surcharged to customers (causing a corresponding increase in retail revenue from customers) in the current year.

Total electric revenues decreased \$0.1 million for the third quarter of 2019 as compared to the third quarter of 2018 primarily due to the following:

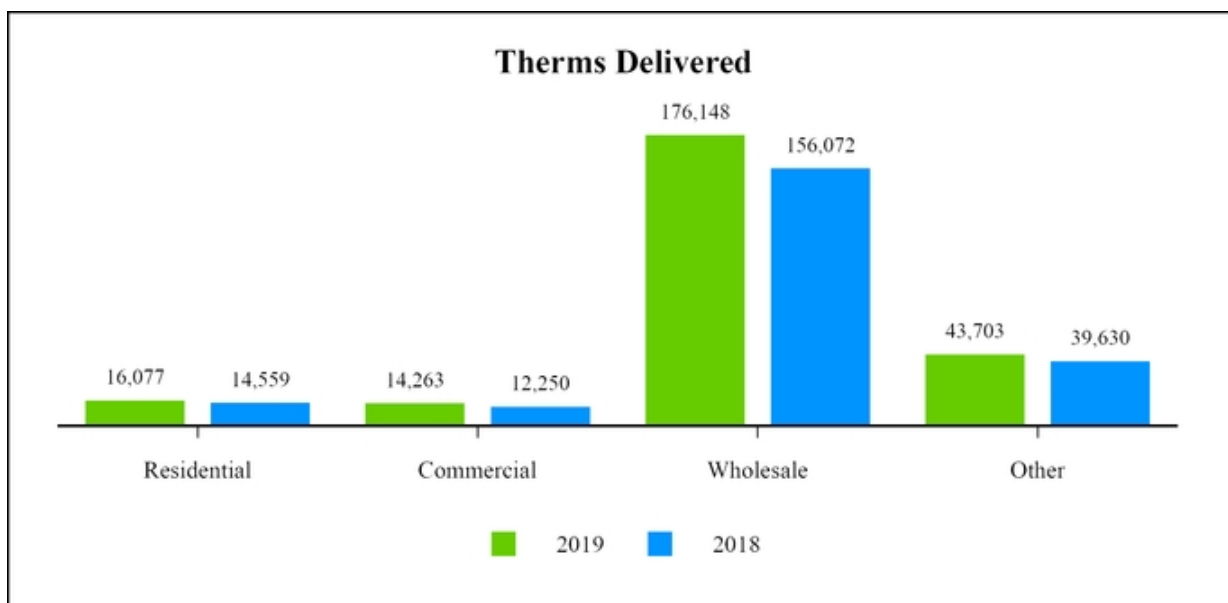
- a \$5.7 million decrease in retail electric revenue due to a decrease in total MWhs sold (decreased revenues \$4.0 million) and a decrease in revenue per MWh (decreased revenues \$1.7 million).
  - The decrease in total retail MWhs sold was primarily the result of a decrease in industrial sales volumes and a slight decrease in residential sales volumes. These were partially offset by residential and commercial customer growth. Compared to the third quarter of 2018, residential electric use per customer decreased 1 percent and commercial use per customer decreased 1 percent. Cooling degree days in Spokane were 16 percent below normal and 15 percent below the third quarter of 2018, which resulted in a decrease in cooling loads. Heating degree days in Spokane were 14 percent above normal and 18 percent above the third quarter of 2018.
  - The decrease in revenue per MWh was primarily due to a decrease in decoupling rates (as our decoupling surcharges were larger in prior years, which resulted in higher surcharge rates in 2018 as compared to rebates in 2019) and decreases associated with the lower corporate tax rate. This was partially offset by general rate increases in Washington (effective May 1, 2018) and Idaho (effective January 1, 2019).
- a \$5.1 million increase in wholesale electric revenues due to an increase in sales prices (increased revenues \$4.5 million) and an increase in sales volumes (increased revenues \$0.6 million). The fluctuation in volumes and prices was primarily the result of our optimization activities.
- a \$2.9 million decrease in sales of fuel due to a decrease in sales of natural gas fuel as part of thermal generation resource optimization activities.
- a \$6.0 million increase in electric decoupling revenue. Weather was cooler than normal in the third quarter of 2019, reducing the demand for electric cooling, which resulted in decoupling deferral surcharges related to the current year. There was also the amortization of decoupling rebates from prior years.
- the \$2.8 million decrease in other electric revenues was primarily related to a \$1.4 million accrual for customer refunds related to our 2015 Washington general rate case that was remanded back to the WUTC during 2019. See "Regulatory Matters" for further discussion.

The following graphs present Avista Utilities' natural gas operating revenues and therms delivered for the three months ended September 30 (dollars in millions and therms in thousands):



(1) This balance includes interruptible and industrial revenues, which are considered part of retail natural gas revenues, and deferrals/amortizations to customers related to federal income tax law changes.

Total natural gas operating revenues in the graph above include intracompany sales of \$14.1 million and \$12.4 million for the three months ended September 30, 2019 and September 30, 2018, respectively.





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The following table presents the current year deferrals and the amortization of prior year decoupling balances that are reflected in utility natural gas operating revenues for the three months ended September 30 (dollars in thousands):

	Natural Gas Decoupling Revenues	
	2019	2018
Current year decoupling deferrals (a)	\$ (422)	\$ 1,619
Amortization of prior year decoupling deferrals (b)	535	(969)
<b>Total natural gas decoupling revenue</b>	<b>\$ 113</b>	<b>\$ 650</b>

- (a) Positive amounts are increases in decoupling revenue in the current year and will be surcharged to customers in future years. Negative numbers are decreases in decoupling revenue in the current year and will be rebated to customers in future years.
- (b) Positive amounts are increases in decoupling revenue in the current year and are related to the amortization of rebate balances that resulted in prior years and are being refunded to customers (causing a corresponding decrease in retail revenue from customers) in the current year. Negative numbers are decreases in decoupling revenue in the current year and are related to the amortization of surcharge balances that resulted in prior years and are being surcharged to customers (causing a corresponding increase in retail revenue from customers) in the current year.

Total natural gas revenues decreased \$5.9 million for the third quarter of 2019 as compared to the third quarter of 2018 primarily due to the following:

- a \$1.7 million increase in natural gas retail revenues due to an increase in volumes (increased revenues \$3.9 million), partially offset by lower retail rates (decreased revenues \$2.2 million).
  - Retail natural gas sales increased in the third quarter of 2019 as compared to the third quarter of 2018 primarily due to residential and commercial customer growth and higher use per customer. Compared to third quarter of 2018, residential use per customer increased 9 percent and commercial use per customer increased 15 percent. Heating degree days in Spokane were 14 percent above normal, and 18 percent above the third quarter of 2018. Heating degree days in Medford were 117 percent above normal, and 139 percent above the third quarter of 2018.
  - Lower retail rates were primarily due to PGAs and decoupling rate decreases (as our decoupling surcharges were larger in prior years, which resulted in higher surcharge rates in 2018 as compared to rebates in 2019), partially offset by general rate increases in Washington (effective May 1, 2018) and Idaho (effective January 1, 2019).
- a \$5.4 million decrease in wholesale natural gas revenues due to a decrease in prices (decreased revenues \$9.0 million), partially offset by an increase in volumes (increased revenues \$3.6 million). Differences between revenues and costs from sales of resources in excess of retail load requirements and from resource optimization are accounted for through the PGA mechanisms.
- the \$1.6 million decrease in other natural gas revenues was primarily related to a \$1.6 million accrual for customer refunds related to our 2015 Washington general rate case that was remanded back to the WUTC during 2019. See "Regulatory Matters" for further discussion.

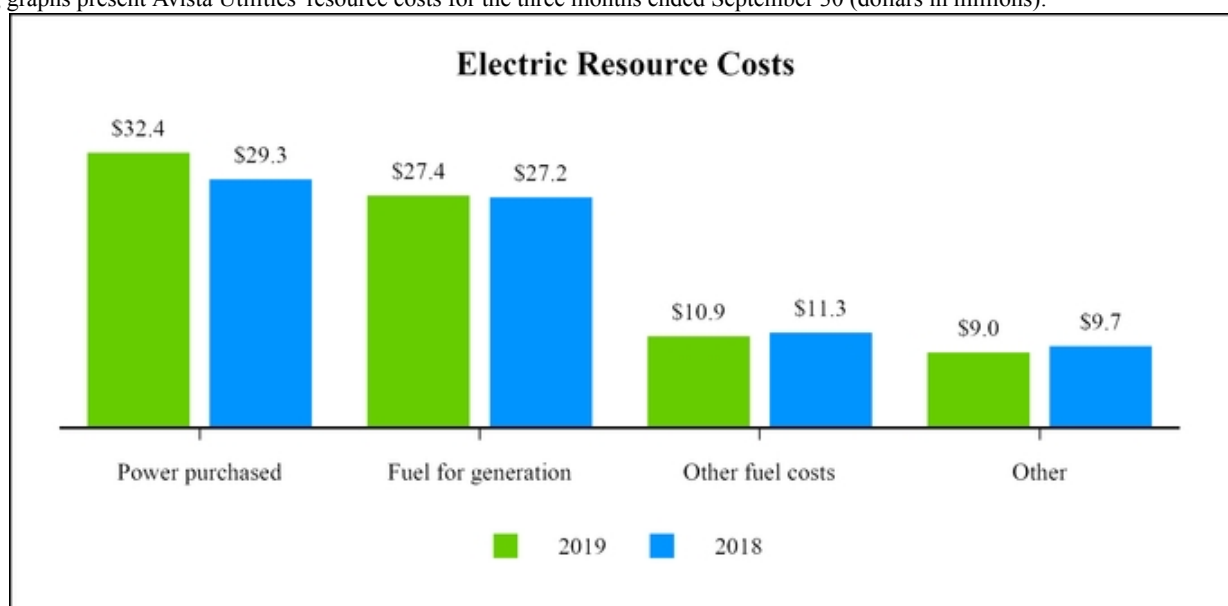
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The following table presents Avista Utilities' average number of electric and natural gas retail customers for the three months ended September 30:

	Electric Customers		Natural Gas Customers	
	2019	2018	2019	2018
Residential	343,345	339,765	319,634	313,922
Commercial	42,846	42,396	35,604	35,200
Interruptible	—	—	43	39
Industrial	1,301	1,317	243	245
Public street and highway lighting	615	593	—	—
<b>Total retail customers</b>	<b>388,107</b>	<b>384,071</b>	<b>355,524</b>	<b>349,406</b>

**Utility Resource Costs**

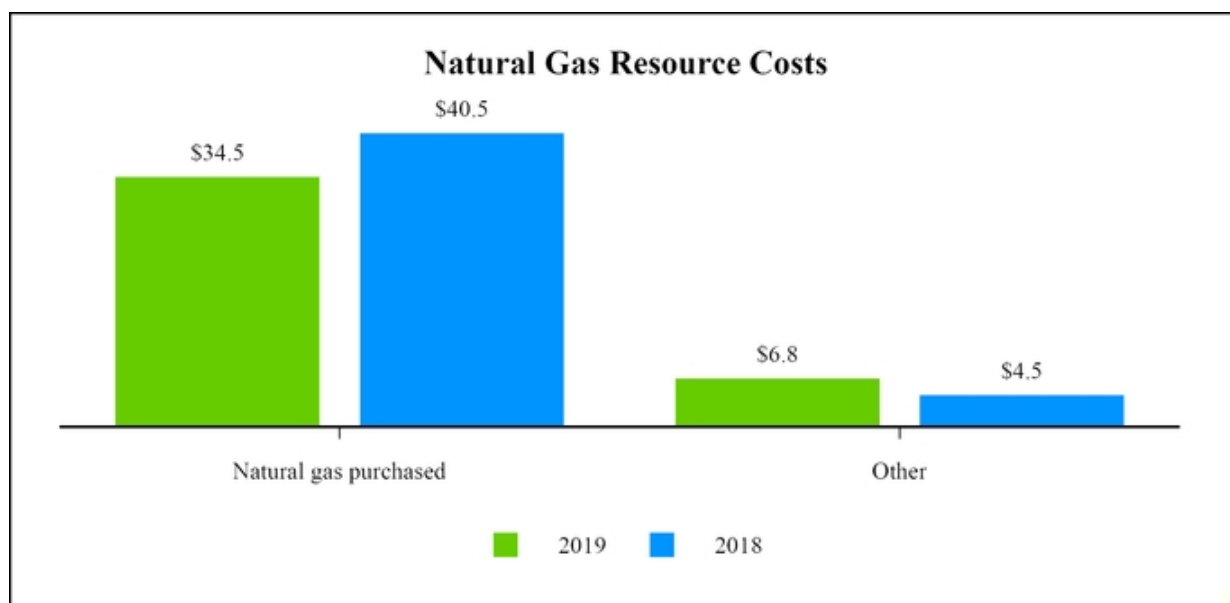
The following graphs present Avista Utilities' resource costs for the three months ended September 30 (dollars in millions):



Total electric resource costs in the graph above include intracompany resource costs of \$14.1 million and \$12.4 million for the three months ended September 30, 2019 and September 30, 2018, respectively.

Total electric resource costs increased \$2.1 million for the third quarter of 2019 as compared to the third quarter of 2018 primarily due to the following:

- a \$3.1 million increase in power purchased due to an increase in wholesale prices (increased costs \$8.9 million), partially offset by a decrease in the volume of power purchases (decreased costs \$5.8 million). The fluctuation in volumes and prices was primarily the result of our optimization activities during the quarter.



Total natural gas resource costs in the graph above include intracompany resource costs of \$8.5 million and \$11.6 million for the three months ended September 30, 2019 and September 30, 2018, respectively.

Total natural gas resource costs decreased \$3.6 million for the third quarter of 2019 as compared to the third quarter of 2018 primarily due to the following:

- a \$6.0 million decrease in natural gas purchased due to a decrease in the price of natural gas (decreased costs \$10.0 million), partially offset by an increase in total therms purchased (increased costs \$4.0 million).
- a \$2.1 million increase from net amortizations and deferrals of natural gas costs.

**Utility Margin**

The following table reconciles Avista Utilities' operating revenues, as presented in "Note 17 of the Notes to Condensed Consolidated Financial Statements" to the Non-GAAP financial measure utility margin for the three months ended September 30 (dollars in thousands):

	Electric		Natural Gas		Intracompany		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Operating revenues	\$ 232,320	\$ 232,448	\$ 65,266	\$ 71,189	\$ (22,655)	\$ (24,088)	\$ 274,931	\$ 279,549
Resource costs	79,698	77,576	41,354	44,973	(22,655)	(24,088)	98,397	98,461
Utility margin	\$ 152,622	\$ 154,872	\$ 23,912	\$ 26,216	\$ —	\$ —	\$ 176,534	\$ 181,088

Electric utility margin decreased \$2.2 million and natural gas utility margin decreased \$2.3 million.

Electric utility margin decreased primarily due to an increase in net power supply costs due to higher than authorized power purchase prices and thermal fuel costs. For the third quarter of 2019, we had a \$2.4 million pre-tax expense under the ERM in Washington, compared to a \$0.2 million pre-tax expense for the third quarter of 2018. 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. Electric utility margin was also negatively affected by an accrual for customer refunds of \$1.4 million related to our 2015 Washington general rate case that was remanded back to the WUTC during 2019. See "Regulatory Matters" for further discussion.

Electric utility margin was also positively impacted by a general rate increase in Idaho (effective January 1, 2019), and customer growth.

Natural gas utility margin decreased primarily due to an accrual for customer refunds of \$1.6 million related to our 2015 Washington general rate case that was remanded back to the WUTC during 2019. See "Regulatory Matters" for further discussion. This was partially offset by general rate increases in Idaho (effective January 1, 2019), and customer growth.

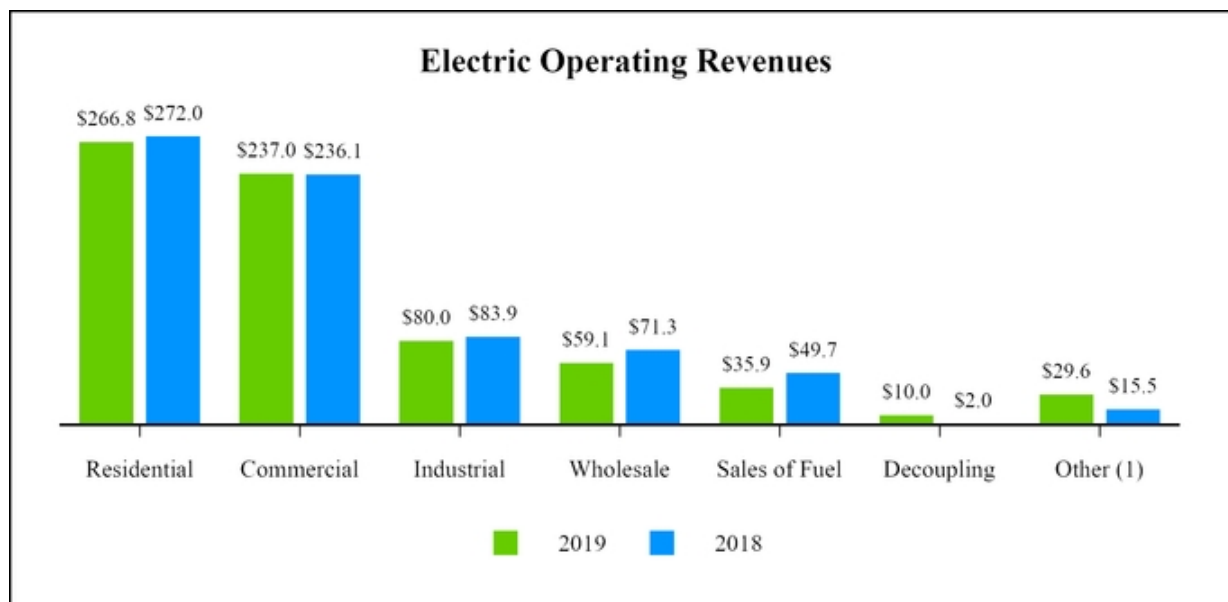
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Intracompany revenues and resource costs represent purchases and sales of natural gas between our natural gas distribution operations and our electric generation operations (as fuel for our generation plants). These transactions are eliminated in the presentation of total results for Avista Utilities and in the condensed consolidated financial statements but are included in the separate results for electric and natural gas presented above.

*Nine months ended September 30, 2019 compared to the nine months ended September 30, 2018*

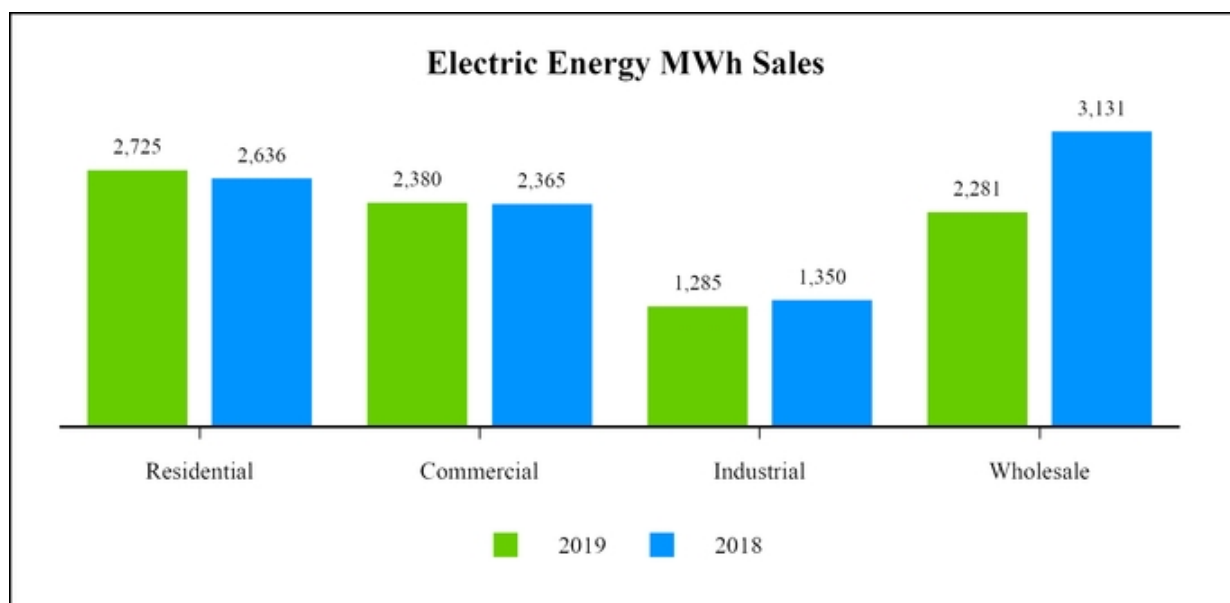
**Utility Operating Revenues**

The following graphs present Avista Utilities' electric operating revenues and megawatt-hour (MWh) sales for the nine months ended September 30 (dollars in millions and MWhs in thousands):



(1) This balance includes public street and highway lighting, which is considered part of retail electric revenues, and deferrals/amortizations to customers related to federal income tax law changes.

Total electric operating revenues in the graph above include intracompany sales of \$34.3 million and \$20.5 million for the nine months ended September 30, 2019 and September 30, 2018, respectively.



The following table presents the current year deferrals and the amortization of prior year decoupling balances that are reflected in utility electric operating revenues for the nine months ended September 30 (dollars in thousands):

	Electric Decoupling Revenues	
	2019	2018
Current year decoupling deferrals (a)	\$ 7,839	\$ 14,024
Amortization of prior year decoupling deferrals (b)	2,172	(12,058)
<b>Total electric decoupling revenue</b>	<b>\$ 10,011</b>	<b>\$ 1,966</b>

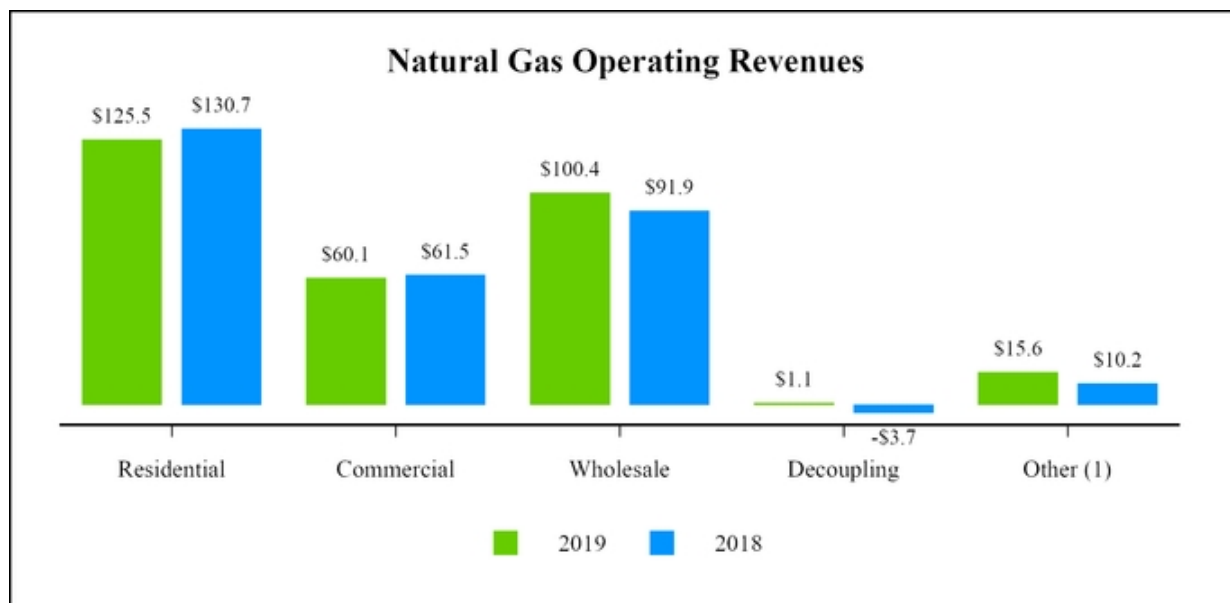
- (a) Positive amounts are increases in decoupling revenue in the current year and will be surcharged to customers in future years. Negative numbers are decreases in decoupling revenue in the current year and will be rebated to customers in future years.
- (b) Positive amounts are increases in decoupling revenue in the current year and are related to the amortization of rebate balances that resulted in prior years and are being refunded to customers (causing a corresponding decrease in retail revenue from customers) in the current year. Negative numbers are decreases in decoupling revenue in the current year and are related to the amortization of surcharge balances that resulted in prior years and are being surcharged to customers (causing a corresponding increase in retail revenue from customers) in the current year.

Total electric revenues decreased \$12.1 million for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 primarily due to the following:

- an \$8.3 million decrease in retail electric revenue due to a decrease in revenue per MWh (decreased revenues \$11.8 million), partially offset by an increase in total MWhs sold (increased revenues \$3.5 million).
  - The decrease in revenue per MWh was primarily due to a decrease in decoupling rates (as our decoupling surcharges were larger in prior years, which resulted in higher surcharge rates in 2018 as compared to rebates in 2019) and decreases associated with the lower corporate tax rate. This was partially offset by general rate increases in Washington (effective May 1, 2018) and Idaho (effective January 1, 2019).
  - The increase in total retail MWhs sold was the result of weather that was cooler than the prior year during the first quarter heating season and September 2019 (which increased electric heating loads), and residential and commercial customer growth. Compared to the nine months ended September 30, 2018, residential electric use per customer increased 2 percent and commercial use per customer was relatively consistent. Heating degree days in Spokane were 4 percent above normal and 14 percent above the first nine months of 2018. Year-to-date 2019 cooling degree days were 8 percent below normal and 6 percent below the prior year, which decreased cooling loads.

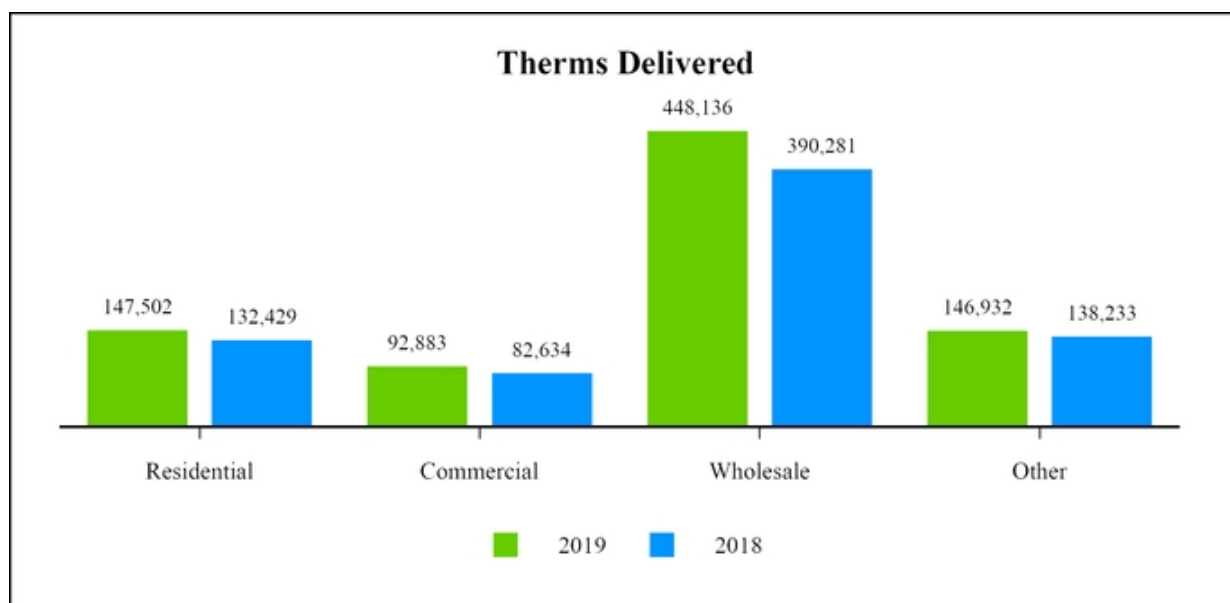
- a \$12.2 million decrease in wholesale electric revenues due to a decrease in sales volumes (decreased revenues \$22.1 million), partially offset by an increase in sales prices (increased revenues \$9.9 million). The fluctuation in volumes and prices was primarily the result of our optimization activities.
- a \$13.8 million decrease in sales of fuel due to a decrease in sales of natural gas fuel as part of thermal generation resource optimization activities.
- an \$8.0 million increase in electric revenue due to decoupling.
- the \$14.1 million increase in other electric revenues was primarily related to federal income tax law changes that lowered the corporate tax rate from 35 percent to 21 percent. As our customers' rates had the 35 percent corporate tax rate built in from prior general rate cases, we deferred the impact of the change in the first quarter of 2018. Effective May 1, 2018 in Washington and June 1, 2018 in Idaho, base rates reflect the lower 21 percent corporate tax. These were partially offset by the accrual for customer refunds associated with the 2015 Washington general rate case.

The following graphs present Avista Utilities' natural gas operating revenues and therms delivered for the nine months ended September 30 (dollars in millions and therms in thousands):



(1) This balance includes interruptible and industrial revenues, which are considered part of retail natural gas revenues, and deferrals/amortizations to customers related to federal income tax law changes.

Total natural gas operating revenues in the graph above include intracompany sales of \$44.4 million and \$30.0 million for the nine months ended September 30, 2019 and September 30, 2018, respectively.



The following table presents the current year deferrals and the amortization of prior year decoupling balances that are reflected in natural gas operating revenues for the nine months ended September 30 (dollars in thousands):

	Natural Gas Decoupling Revenues	
	2019	2018
Current year decoupling deferrals (a)	\$ (3,390)	\$ 4,225
Amortization of prior year decoupling deferrals (b)	4,483	(7,955)
<b>Total natural gas decoupling revenue</b>	<b>\$ 1,093</b>	<b>\$ (3,730)</b>

- (a) Positive amounts are increases in decoupling revenue in the current year and will be surcharged to customers in future years. Negative numbers are decreases in decoupling revenue in the current year and will be rebated to customers in future years.
- (b) Positive amounts are increases in decoupling revenue in the current year and are related to the amortization of rebate balances that resulted in prior years and are being refunded to customers (causing a corresponding decrease in retail revenue from customers) in the current year. Negative numbers are decreases in decoupling revenue in the current year and are related to the amortization of surcharge balances that resulted in prior years and are being surcharged to customers (causing a corresponding increase in retail revenue from customers) in the current year.

Total natural gas revenues increased \$12.1 million for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 primarily due to the following:

- a \$6.6 million decrease in natural gas retail revenues due to lower retail rates (decreased revenues \$27.6 million), partially offset by an increase in volumes (increased revenues \$21.0 million).
  - Retail natural gas sales increased in the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 due to cooler weather during the heating season, and residential and commercial customer growth. Compared to the first nine months of 2018, residential natural gas use per customer increased 9 percent and commercial use per customer increased 11 percent. Heating degree days in Spokane were 4 percent above normal and 14 percent above the first nine months of 2018. Heating degree days in Medford were 2 percent above normal, and 8 percent above the first nine months of 2018.
  - Lower retail rates were due to PGAs and rate decreases associated with the lower corporate tax rate and decoupling rate decreases (as our decoupling surcharges were larger in prior years, which resulted in higher surcharge rates in 2018 as compared to rebates in 2019), partially offset by general rate increases in Washington (effective May 1, 2018) and Idaho (effective January 1, 2019).

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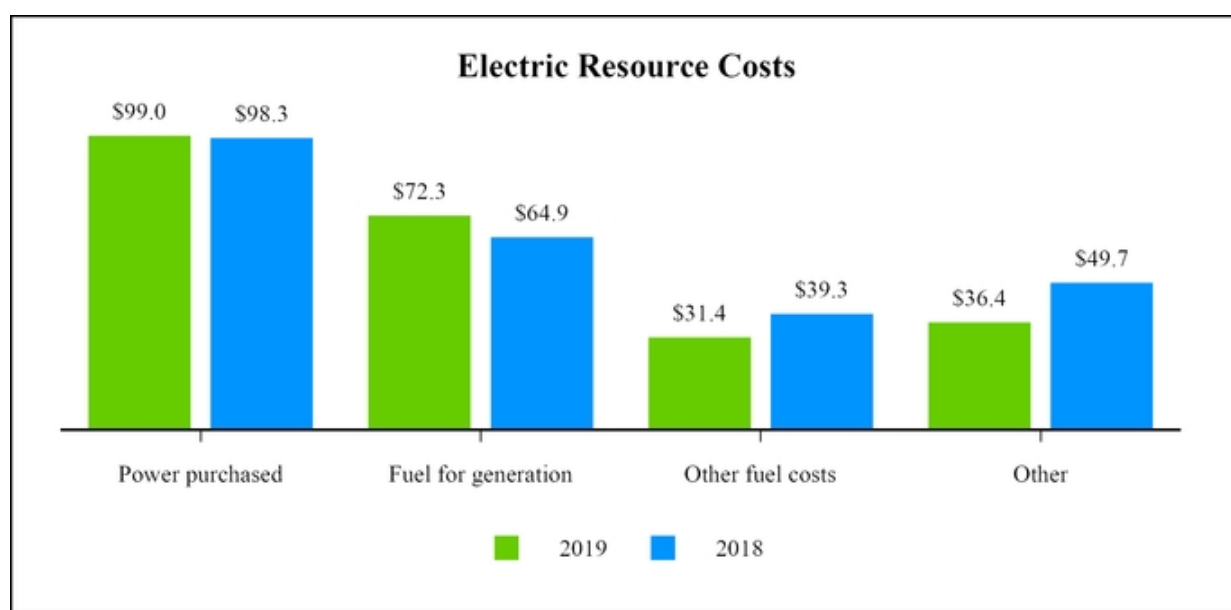
- an \$8.5 million increase in wholesale natural gas revenues due to an increase in volumes (increased revenues \$13.0 million), partially offset by a decrease in prices (decreased revenues \$4.5 million). Differences between revenues and costs from sales of resources in excess of retail load requirements and from resource optimization are accounted for through the PGA mechanisms.
- a \$4.8 million increase in natural gas revenue due to decoupling.
- the \$5.4 million increase in other natural gas revenues was primarily related to federal income tax law changes that lowered the corporate tax rate from 35 percent to 21 percent. As our customers' rates had the 35 percent corporate tax rate built in from prior general rate cases, we deferred the impact of the change beginning January 1, 2018. Effective May 1, 2018 in Washington, June 1, 2018 in Idaho, base rates reflect the lower 21 percent corporate tax. These were partially offset by the accrual for customer refunds associated with the 2015 Washington general rate case.

The following table presents Avista Utilities' average number of electric and natural gas retail customers for the nine months ended September 30:

	Electric Customers		Natural Gas Customers	
	2019	2018	2019	2018
Residential	343,875	339,331	320,084	313,650
Commercial	42,881	42,520	35,715	35,395
Interruptible	—	—	44	39
Industrial	1,307	1,317	241	246
Public street and highway lighting	607	591	—	—
<b>Total retail customers</b>	<b>388,670</b>	<b>383,759</b>	<b>356,084</b>	<b>349,330</b>

**Utility Resource Costs**

The following graphs present Avista Utilities' resource costs for the nine months ended September 30 (dollars in millions):



Total electric resource costs in the graph above include intracompany resource costs of \$44.4 million and \$30.0 million for the nine months ended September 30, 2019 and September 30, 2018, respectively.

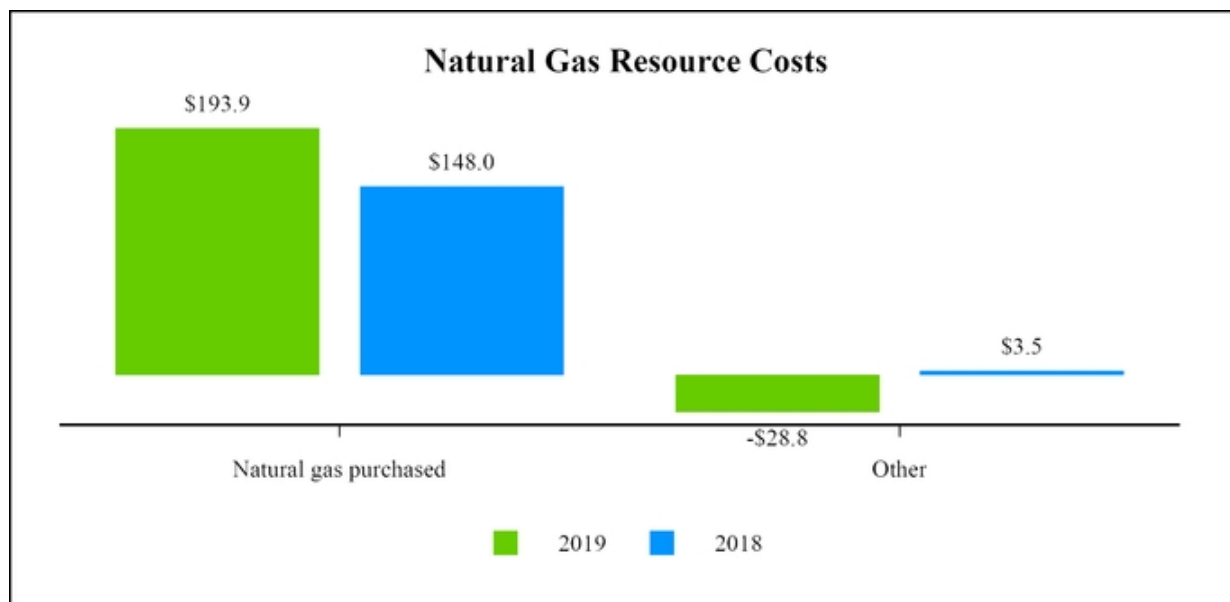
Total electric resource costs decreased \$13.1 million for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 primarily due to the following:

- a \$0.7 million increase in power purchased due to an increase in wholesale prices (increased costs \$21.9 million), partially offset by a decrease in the volume of power purchases (decreased costs \$21.2 million). The fluctuation in volumes and prices was primarily the result of our optimization activities during the period.



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- a \$7.4 million increase in fuel for generation primarily due to an increase in thermal generation, as well as natural gas fuel prices.
- a \$7.9 million decrease in other fuel costs. This represents fuel and the related derivative instruments that were purchased for generation but were later sold when conditions indicated that it was more economical to sell the fuel as part of the resource optimization process. When the fuel or related derivative instruments are sold, that revenue is included in sales of fuel.
- a \$17.2 million decrease from amortizations and deferrals of power costs.



Total natural gas resource costs in the graph above include intracompany resource costs of \$34.3 million and \$20.5 million for the nine months ended September 30, 2019 and September 30, 2018, respectively.

Total natural gas resource costs increased \$13.7 million for the nine months ended September 30, 2019 as compared to the nine months ended September 30, 2018 primarily due to the following:

- a \$45.9 million increase in natural gas purchased due to an increase in total therms purchased (increased costs \$23.8 million) and an increase in the price of natural gas (increased costs \$22.1 million). Total therms purchased increased due to an increase in retail sales and wholesale sales.
- a \$34.7 million decrease from amortizations and deferrals of natural gas costs, primarily reflecting higher natural gas prices.

**Utility Margin**

The following table reconciles Avista Utilities' operating revenues, as presented in "Note 17 of the Notes to Condensed Consolidated Financial Statements" to utility margin for the nine months ended September 30 (dollars in thousands):

	Electric		Natural Gas		Intracompany		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Operating revenues	\$ 718,378	\$ 730,483	\$ 302,709	\$ 290,583	\$ (78,646)	\$ (50,541)	\$ 942,441	\$ 970,525
Resource costs	239,143	252,232	165,118	151,457	(78,646)	(50,541)	325,615	353,148
Utility margin	\$ 479,235	\$ 478,251	\$ 137,591	\$ 139,126	\$ —	\$ —	\$ 616,826	\$ 617,377

Electric utility margin increased \$1.0 million and natural gas utility margin decreased \$1.5 million.

Electric utility margin was positively impacted during 2019 by general rate increases in Idaho (effective January 1, 2019) and Washington (effective May 1, 2018), as well as customer growth. This was partially offset by higher net power supply costs for 2019 as compared to 2018 due to higher than authorized power purchase prices and thermal fuel costs. For the nine months ended September 30, 2019, we recognized a pre-tax benefit of \$1.1 million under the ERM in Washington compared to a pre-

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tax benefit of \$5.6 million for the nine months ended September 30, 2018. 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. In addition, electric utility margin was negatively affected by the accrual for customer refunds of \$1.4 million related to the 2015 Washington general rate case.

Natural gas utility margin was negatively affected by the accrual for customer refunds of \$1.6 million related to the 2015 Washington general rate case. This was partially offset by general rate increases in Washington (effective May 1, 2018) and Idaho (effective January 1, 2019), and customer growth.

Intracompany revenues and resource costs represent purchases and sales of natural gas between our natural gas distribution operations and our electric generation operations (as fuel for our generation plants). These transactions are eliminated in the presentation of total results for Avista Utilities and in the condensed consolidated financial statements but are included in the separate results for electric and natural gas presented above.

**Results of Operations - Alaska Electric Light and Power Company**

**Three months ended September 30, 2019 compared to the three months ended September 30, 2018 and nine months ended September 30, 2019 compared to the nine months ended September 30, 2018**

Net income for AEL&P was \$0.2 million for the three months ended September 30, 2019 compared to \$0.8 million for the three months ended September 30, 2018. Net income was \$4.8 million for the nine months ended September 30, 2019 compared to \$5.9 million for the nine months ended September 30, 2018.

The following table presents AEL&P's operating revenues, resource costs and resulting utility margin for the three and nine months ended September 30 (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Operating revenues	\$ 7,790	\$ 9,570	\$ 27,414	\$ 33,715
Resource costs	(73)	3,058	(1,505)	8,958
Utility margin	\$ 7,863	\$ 6,512	\$ 28,919	\$ 24,757

Electric revenues decreased for the third quarter and year-to-date 2019 primarily due to lower sales volumes to residential and commercial customers for 2019 as compared to 2018. This resulted from weather that was warmer than normal and warmer than the prior year, as well as lower hydroelectric generation, which prevented AEL&P from making sales to an interruptible customer (discussed further below).

Resource costs decreased from the prior year due to the adoption of the new lease standard on January 1, 2019, which resulted in the reclassification of Snettisham power purchase costs from resource costs to depreciation and amortization and interest expense in 2019. See "Notes 2 and 5 of the Notes to Condensed Consolidated Financial Statements" for further information regarding the adoption of the new lease standard. In addition, AEL&P had low hydroelectric generation during the first three quarters of 2019, which limited energy provided to their interruptible customers. A portion of the sales to interruptible customers is used to reduce the overall cost of power to AEL&P's firm customers. When interruptible sales are below a certain threshold, AEL&P recognizes a regulatory asset and records a reduction to deferred power supply costs (resource costs) to reflect a future billable amount to its firm customers when the cost of power rates are reset.

**Results of Operations - Other Businesses**

Net loss for our other businesses was \$1.1 million for the three months ended September 30, 2019 compared to a net loss of \$2.6 million for the three months ended September 30, 2018. Net income was \$2.3 million for the nine months ended September 30, 2019 compared to net losses of \$7.0 million for the nine months ended September 30, 2018.

During the second quarter of 2019, we sold METALfx, which resulted in a net gain after-tax of approximately \$2.3 million. See "Note 19 of the Notes to Condensed Consolidated Financial Statements" for further discussion of the sale of METALfx.

In addition, during 2019 we had net investment gains associated with our equity investments compared to net investment losses during 2018.

**Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material effect on our consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein. Our critical accounting policies that require the use of

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estimates and assumptions were discussed in detail in the 2018 Form 10-K and have not changed materially from that discussion.

**Liquidity and Capital Resources****Overall Liquidity**

Our sources of overall liquidity and the requirements for liquidity have not materially changed in the nine months ended September 30, 2019. See the 2018 Form 10-K for further discussion.

As of September 30, 2019, we had \$179.5 million of available liquidity under the Avista Corp. committed line of credit and \$25.0 million under the AEL&P committed line of credit. With our \$400.0 million credit facility that expires in April 2021 and AEL&P's \$25.0 million credit facility that expires in November 2019, we believe that we have adequate liquidity to meet our needs for the next 12 months. We anticipate pursuing an extension to the AEL&P credit facility or entering into a new agreement during 2019.

**Review of Cash Flow Statement****Operating Activities**

Net cash provided by operating activities was \$340.5 million for the nine months ended September 30, 2019 compared to \$365.8 million for the nine months ended September 30, 2018. The decrease in net cash provided by operating activities was primarily due to power and natural gas deferrals which increased during 2019 due to higher natural gas prices during the year (which decreased cash flows by \$45.8 million) as compared to an increase to operating cash flows of \$6.3 million in 2018. As compared to 2018, changes in accounts receivable resulted in a decrease to operating cash flows of \$21.3 million.

The above decreases were partially offset by the receipt of the \$103.0 million merger termination fee from Hydro One that is reflected in net income for 2019. The termination fee was used for reimbursing our transaction costs incurred from 2017 to 2019 which totaled approximately \$51.0 million, including income taxes. The balance of the termination fee was used for general corporate purposes and reduced our need for external financing. Our total transaction costs were \$19.7 million (pre-tax) for 2019 and we also incurred approximately \$15.7 million in taxes in 2019 (net of \$1.8 million in tax benefits recaptured from 2017 and 2018). In addition, we cash settled interest rate swaps during 2019 and paid a net amount of \$13.3 million, compared to net cash paid of \$26.6 million for interest rate swap settlements in 2018.

**Investing Activities**

Net cash used in investing activities was \$320.3 million for the nine months ended September 30, 2019, compared to \$307.7 million for the nine months ended September 30, 2018. During the nine months ended September 30, 2019, we paid \$321.0 million for utility capital expenditures compared to \$296.2 million for the nine months ended September 30, 2018. Also, during 2019, we received proceeds from the sale of METALfx (net of cash sold and amounts held in escrow) of \$16.4 million. This amount is prior to the payment of transaction costs, which are reflected in operating activities.

**Financing Activities**

Net cash used by financing activities was \$20.4 million for the nine months ended September 30, 2019, compared to \$53.1 million for the nine months ended September 30, 2018. During 2019, we issued \$42.9 million of common stock, most of which was under our sales agency agreements in the second and third quarters. During 2018, we issued \$374.6 million in long-term debt and repaid \$276.8 million, as well as paid off \$70.4 million of borrowings on our committed line of credit.

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**Capital Resources**

Our consolidated capital structure, including the current portion of long-term debt and short-term borrowings, and excluding noncontrolling interests, consisted of the following as of September 30, 2019 and December 31, 2018 (dollars in thousands):

	September 30, 2019		December 31, 2018	
	Amount	Percent of total	Amount	Percent of total
Current portion of long-term debt and leases (1)	\$ 21,880	0.5%	\$ 107,645	2.8%
Short-term borrowings	119,300	2.9%	190,000	4.9%
Long-term debt to affiliated trusts	51,547	1.3%	51,547	1.3%
Long-term debt and leases (1)	2,000,741	49.0%	1,755,529	45.3%
Total debt	2,193,468	53.7%	2,104,721	54.3%
Total Avista Corporation shareholders' equity	1,893,568	46.3%	1,773,220	45.7%
Total	\$ 4,087,036	100.0%	\$ 3,877,941	100.0%

(1) Effective, January 1, 2019, we adopted ASC 842 which resulted in the reclassification of the Snettisham lease from long-term debt, to lease liabilities in 2019. The Snettisham lease amount is included here for this calculation. In addition, operating leases were recorded on the Condensed Consolidated Balance Sheet as of January 1, 2019 and are included here for this calculation. See "Note 5 of the Notes to Condensed Consolidated Financial Statements" for further discussion.

Our shareholders' equity increased \$120.3 million during the first nine months of 2019 primarily due to net income and the issuance of common stock, partially offset by dividends.

We need to finance capital expenditures and acquire additional funds for operations from time to time. The cash requirements needed to service our indebtedness, both short-term and long-term, reduce the amount of cash flow available to fund capital expenditures, purchased power, fuel and natural gas costs, dividends and other requirements.

**Committed Lines of Credit**

Avista Corp. has a committed line of credit with various financial institutions in the total amount of \$400.0 million that expires in April 2021. As of September 30, 2019, there was \$179.5 million of available liquidity under this line of credit.

The Avista Corp. credit facility contains customary covenants and default provisions, including a covenant which does not permit our ratio of "consolidated total debt" to "consolidated total capitalization" to be greater than 65 percent at any time. As of September 30, 2019, we were in compliance with this covenant with a ratio of 53.7 percent.

AEL&P has a \$25.0 million committed line of credit that expires in November 2019. As of September 30, 2019, there were no borrowings or letters of credit outstanding under this committed line of credit. We are currently working on entering into a new committed line of credit at AEL&P that is expected to be completed during the fourth quarter 2019.

The AEL&P credit facility contains customary covenants and default provisions including a covenant which does not permit the ratio of "consolidated total debt at AEL&P" to "consolidated total capitalization at AEL&P," (including the impact of the Snettisham obligation) to be greater than 67.5 percent at any time. As of September 30, 2019, AEL&P was in compliance with this covenant with a ratio of 52.3 percent.

Balances outstanding and interest rates of borrowings under Avista Corp.'s committed line of credit were as follows as of and for the nine months ended September 30 (dollars in thousands):

	2019	2018
Borrowings outstanding at end of period	\$ 207,000	\$ 35,000
Letters of credit outstanding at end of period	\$ 13,503	\$ 21,230
Maximum borrowings outstanding during the period	\$ 207,000	\$ 111,000
Average borrowings outstanding during the period	\$ 133,495	\$ 36,299
Average interest rate on borrowings during the period	3.22%	2.43%
Average interest rate on borrowings at end of period	2.94%	2.88%

The increase in the average interest rates as of and for the nine months ended September 30, 2019 was primarily the result of a downgrade in our credit rating by Moody's during December 2018. See the 2018 10-K for further discussion of the downgrade by Moody's.

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As of September 30, 2019, Avista Corp. and its subsidiaries were in compliance with all of the covenants of their financing agreements, and none of Avista Corp.'s subsidiaries constituted a "significant subsidiary" as defined in Avista Corp.'s committed line of credit.

***Liquidity Expectations***

In January 2019, we received a \$103 million termination fee from Hydro One in connection with the termination of the proposed acquisition. The termination fee was used for reimbursing our transaction costs incurred from 2017 to 2019. These costs, including income taxes, total approximately \$51 million. The balance of the termination fee was used for general corporate purposes and reduced our need for external financing.

In September 2019, we entered into a bond purchase agreement to issue \$180.0 million of first mortgage bonds in November 2019. No further long-term debt issuances are planned for 2019. During 2019, we expect to issue \$65.0 million of equity (including \$42.9 million issued during the nine months ended September 30, 2019). We intend to use the proceeds from our debt and equity issuances to refinance maturing long-term debt, fund planned capital expenditures, maintain an appropriate capital structure and for other general corporate purposes. This represents an increase from our previous estimates as discussed in the Liquidity section of the 2018 Form 10-K.

After considering the expected issuances of long-term debt and equity during 2019, we expect net cash flows from operating activities, together with cash available under our committed line of credit agreements, to provide adequate resources to fund capital expenditures, dividends, and other contractual commitments.

**Capital Expenditures**

We are making capital investments to enhance service and system reliability for our customers and replace aging infrastructure. Our estimated capital expenditures at Avista Utilities have increased from \$405.0 million to \$435.0 million for 2019 primarily due to additional spending associated with capital for renewable integration and customer growth. See the 2018 Form 10-K for further information on our expected capital expenditures.

**Off-Balance Sheet Arrangements**

As of September 30, 2019, we had \$13.5 million in letters of credit outstanding under our \$400.0 million committed line of credit, compared to \$10.5 million as of December 31, 2018. The increase in letters of credit outstanding was due to additional letters of credit being issued as collateral for energy commodity derivative instruments.

**Pension Plan*****Avista Utilities***

In the nine months ended September 30, 2019 we contributed \$22.0 million to the pension plan and we do not expect further contributions in 2019. We expect to contribute a total of \$88.0 million to the pension plan in the period 2020 through 2023, with annual contributions of \$22.0 million over that period.

The final determination of pension plan contributions for future periods is subject to multiple variables, most of which are beyond our control, including changes to the fair value of pension plan assets, changes in actuarial assumptions (in particular the discount rate used in determining the benefit obligation), or changes in federal legislation. We may change our pension plan contributions in the future depending on changes to any variables, including those listed above.

See "Note 7 of the Notes to Condensed Consolidated Financial Statements" for additional information regarding the pension plan.

**Contractual Obligations**

Our future contractual obligations have not materially changed during the nine months ended September 30, 2019, except for the following:

- a bond purchase agreement of \$180.0 million for the issuance and sale of 3.43 percent first mortgage bonds in the fourth quarter of 2019. See "Note 10 of the Notes to Condensed Consolidated Financial Statements" for additional discussion of the bond issuance; and
- a contractual obligation for an investment in venture funds that totals \$25.0 million over five years.

See the 2018 Form 10-K for our contractual obligations.

**Environmental Issues and Contingencies**

Our environmental issues and contingencies disclosures have not materially changed during the nine months ended September 30, 2019 except for the following:

***Colstrip Coal Contract***

Colstrip, which is operated by Talen Montana, is supplied with fuel from adjacent coal reserves under coal supply and transportation agreements. The current contract for coal supply extends through 2019; however, the coal mine operator is in bankruptcy and had indicated that it would reject the current contract in its bankruptcy. The co-owners of Colstrip filed objections to the proposed rejection of the coal supply contract and in February 2019, an amended plan of reorganization was filed in which the proposal to reject the coal supply contract was withdrawn. The court approved the amended plan of reorganization on March 2, 2019, which allows the coal supply contract to remain in effect through 2019. The co-owners of Colstrip are in negotiations for an extension to the coal contract beyond 2019 and at the same time are exploring alternative sources for coal supply. Any new arrangements for coal beyond 2019 may have higher costs than the existing coal supply agreement.

***Clean Energy Commitment***

On April 18, 2019, we announced a goal to serve our customers with 100 percent clean electricity by 2045 and to have a carbon-neutral supply of electricity by the end of 2027. To help achieve our goals and add to our clean electricity portfolio, in the last three years, we have implemented three renewable energy projects on behalf of our customers, the Community Solar project (0.4 MW) in Spokane Valley, Washington (owned by Avista Corp.), the Solar Select project (28 MW) in Lind, Washington (PPA) and the Rattlesnake Flat Wind project (144 MW) in Adams County, Washington (PPA).

To achieve our clean energy goals, we assume that energy storage and other technology which is not currently available or not affordable will advance such that it will allow us to meet our goals while also maintaining reliability and affordability for our customers. If the required technology is not available or not affordable in the future, we may not meet our predetermined goals in the timeframe we have forecasted.

***Climate Change - Federal Regulatory Actions***

The EPA released the final version of the Affordable Clean Energy (ACE) rule, the replacement for the Clean Power Plan (CPP), in June 2019. EPA's final rule does not contain any final action on the proposed modifications to the new source review (NSR) program that would provide coal-fired power plants more latitude to make efficiency improvements without triggering pre-construction permit requirements. The final ACE rule combines three distinct EPA actions.

First, EPA finalizes the repeal of the CPP.

Second, the EPA finalizes the ACE rule, which comprises EPA's determination of the Best System of Emissions Reduction (BSER) for existing coal-fired power plants and establishment of the procedures that will govern States' promulgation of standards of performance for existing EGUs within their borders. EPA sets the final BSER as heat rate efficiency improvements (HRI) based on a range of "candidate technologies" that can be applied to a plant's operating units and requires that each State determine which apply to each coal-fired unit based on consideration of remaining useful plant life.

Lastly, EPA finalizes a number of changes to the implementing regulations for the timing of State plans for this and future section 111(d) rulemakings. With respect to the Colstrip Generation Station, the Montana Department of Environmental Protection (MDEQ) would initiate the BSER evaluation process. We cannot reasonably predict the timing or outcome of MDEQ's efforts, or estimate the extent to which Colstrip may be impacted at this time.

***Climate Change - State Legislation and State Regulatory Activities***

The states of Washington and Oregon have adopted non-binding targets to reduce GHG emissions. Both states enacted their targets with an expectation of reaching the targets through a combination of renewable energy standards, eventual carbon pricing mechanisms, such as cap and trade regulation or a carbon tax, and assorted "complementary policies." However, no specific reductions are mandated as yet. In Washington State, Senate Bill 5116 (SB 5116) was passed. The focus of the legislation is to reduce greenhouse gas emissions from specific sectors of the economy through direct regulation. SB 5116 requires Washington utilities to no longer allocate coal-fired resources to Washington retail customers by the end of 2025, and to achieve carbon neutrality by 2030 while meeting a minimum 80 percent of load through delivery of renewable or non-emitting resources to customers. The legislation sets-forth alternative compliance measures that can be pursued by an electric utility to offset emissions from fossil fuel generation. The bill also requires utilities to meet 100 percent of load with renewable and non-emitting resources by 2045, although no penalties for failing to meet that standard were established. Under SB 5116, our hydroelectric and biomass generation facilities are considered resources that can be used to comply with the bill's clean

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energy standards. The bill was passed by both the Senate and House in April 2019 and was signed into law by the Governor on May 7, 2019. The law requires additional rulemaking by several Washington agencies for its measures to be enacted. We intend to seek recovery of any costs associated with the clean energy legislation through the regulatory process.

See the 2018 Form 10-K for further discussion of environmental issues and contingencies.

**Enterprise Risk Management**

The material risks to our businesses were discussed in our 2018 Form 10-K and have not materially changed during the nine months ended September 30, 2019. Refer to the 2018 Form 10-K for further discussion of our risks and the mitigation of those risks.

***Financial Risk***

Our financial risks have not materially changed during the nine months ended September 30, 2019. Refer to the 2018 Form 10-K. The financial risks included below are required interim disclosures, even if they have not materially changed from December 31, 2018.

***Interest Rate Risk***

We use a variety of techniques to manage our interest rate risks. We have an interest rate risk policy and have established a policy to limit our variable rate exposures to a percentage of total capitalization. Additionally, interest rate risk is managed by monitoring market conditions when timing the issuance of long-term debt and optional debt redemptions and establishing fixed rate long-term debt with varying maturities. See "Note 6 of the Notes to Condensed Consolidated Financial Statements" for a summary of our interest rate swap derivatives outstanding as of September 30, 2019 and December 31, 2018 and the amount of additional collateral we would have to post in certain circumstances. In addition, see "Regulatory Matters" for a discussion of commitments we made in Oregon surrounding the independent review of our interest rate hedging practices.

***Credit Risk***

Avista Utilities' contracts for the purchase and sale of energy commodities can require collateral in the form of cash or letters of credit. As of September 30, 2019, we had cash deposited as collateral in the amount of \$4.9 million and letters of credit of \$9.5 million outstanding related to our energy derivative contracts. Price movements and/or a downgrade in our credit ratings could impact further the amount of collateral required. See "Credit Ratings" in the 2018 Form 10-K for further information. For example, in addition to limiting our ability to conduct transactions, if our credit ratings were lowered to below "investment grade" based on our positions outstanding at September 30, 2019 (including contracts that are considered derivatives and those that are considered non-derivatives), we would potentially be required to post the following additional collateral (in thousands):

	September 30, 2019	
Additional collateral taking into account contractual thresholds	\$	4,162
Additional collateral without contractual thresholds		4,986

Under the terms of interest rate swap derivatives that we enter into periodically, we may be required to post cash or letters of credit as collateral depending on fluctuations in the fair value of the instrument. As of September 30, 2019, we had interest rate swap derivatives outstanding with a notional amount totaling \$215.0 million and we had deposited cash in the amount of \$8.9 million as collateral for these interest rate swap derivatives. If our credit ratings were lowered to below "investment grade" based on our interest rate swap derivatives outstanding at September 30, 2019, we would potentially be required to post the following additional collateral (in thousands):

	September 30, 2019	
Additional collateral taking into account contractual thresholds	\$	14,070
Additional collateral without contractual thresholds		44,391

**AVISTA CORPORATION**
**Energy Commodity Risk**

Our energy commodity risks have not materially changed during the nine months ended September 30, 2019, except as discussed below. Refer to the 2018 Form 10-K. The following table presents energy commodity derivative fair values as a net asset or (liability) as of September 30, 2019 that are expected to settle in each respective year (dollars in thousands):

Year	Purchases				Sales			
	Electric Derivatives		Gas Derivatives		Electric Derivatives		Gas Derivatives	
	Physical (1)	Financial (1)	Physical (1)	Financial (1)	Physical (1)	Financial (1)	Physical (1)	Financial (1)
Remainder 2019	\$ (18)	\$ 1,515	\$ (431)	\$ (219)	\$ 12	\$ (2,331)	\$ (667)	\$ (787)
2020	—	514	(749)	2,332	49	(3,313)	(1,628)	(2,414)
2021	—	—	1	953	—	538	(861)	(27)
2022	—	—	26	114	—	—	—	—
2023	—	—	—	—	—	—	—	—
Thereafter	—	—	—	—	—	—	—	—

The following table presents energy commodity derivative fair values as a net asset or (liability) as of December 31, 2018 that are expected to be delivered in each respective year (dollars in thousands):

Year	Purchases				Sales			
	Electric Derivatives		Gas Derivatives		Electric Derivatives		Gas Derivatives	
	Physical (1)	Financial (1)	Physical (1)	Financial (1)	Physical (1)	Financial (1)	Physical (1)	Financial (1)
2019	\$ (2,238)	\$ 7,289	\$ (991)	\$ (32,285)	\$ 34	\$ (19,047)	\$ (443)	\$ 6,252
2020	—	—	(1,266)	(7,797)	(28)	(4,044)	(1,517)	(240)
2021	—	—	—	(1,393)	—	—	(629)	47
2022	—	—	—	—	—	—	—	—
2023	—	—	—	—	—	—	—	—
Thereafter	—	—	—	—	—	—	—	—

- (1) Physical transactions represent commodity transactions where we will take or make delivery of either electricity or natural gas; financial transactions represent derivative instruments with delivery of cash in the amount of the benefit or cost but with no physical delivery of the commodity, such as futures, swap derivatives, options, or forward contracts.

The above electric and natural gas derivative contracts will be included in either power supply costs or natural gas supply costs during the period they are delivered and will be included in the various deferral and recovery mechanisms (ERM, PCA, and PGAs), or in the general rate case process, and are expected to eventually be collected through retail rates from customers.

**Regional Energy Markets**

The California Independent System Operator (CAISO) operates an Energy Imbalance Market (EIM) in the western United States. Most investor-owned utilities in the Pacific Northwest are either participants in the CAISO EIM or plan to integrate into the market in the near future. Factors to be considered in deciding whether to join the CAISO EIM include the amount of variable generating resources in the utilities' systems, the ability to manage the variable generating resources within the utilities' systems, the costs associated with joining the CAISO EIM, and the economic benefits associated with joining the CAISO EIM. As additional utilities join the CAISO EIM, there is a reduction in bilateral market liquidity and opportunities for wholesale transactions close to the operating hour. Based on these considerations, we signed an agreement in April 2019 to join the CAISO EIM. We have begun implementing new processes to enable participation in the EIM in the second half of 2019 and we expect to be full participants by April 2022. We estimate the total cost of joining the EIM to be approximately \$25 million for both capital and operating expense spending over the three-year implementation period and we estimate annual benefits of approximately \$6 million from market participation. We expect to seek recovery of the net costs through the regulatory process.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The information required by this item is set forth in the Enterprise Risk Management section of "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and is incorporated herein by reference.



**Item 4. Controls and Procedures*****Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures***

The Company has disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) (Act) that are designed to ensure that information required to be disclosed in the reports it files or submits under the Act is recorded, processed, summarized and reported on a timely basis. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. With the participation of the Company's principal executive officer and principal financial officer, the Company's management evaluated its disclosure controls and procedures as of the end of the period covered by this report. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective at a reasonable assurance level as of September 30, 2019.

There have been no changes in the Company's internal control over financial reporting that occurred during the third quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. Other Information****Item 1. Legal Proceedings**

See "Note 16 of Notes to Condensed Consolidated Financial Statements" in "Part I. Financial Information Item 1. Condensed Consolidated Financial Statements."

**Item 1A. Risk Factors**

Refer to the 2018 Form 10-K for disclosure of risk factors that could have a significant impact on our results of operations, financial condition or cash flows and could cause actual results or outcomes to differ materially from those discussed in our reports filed with the SEC (including this Quarterly Report on Form 10-Q), and elsewhere. These risk factors have not materially changed from the disclosures provided in the 2018 Form 10-K.

In addition to these risk factors, see also "Forward-Looking Statements" for additional factors which could have a 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.

**Item 5. Other Information**

Termination of Individual Change of Control Agreements and adoption of Executive Change of Control Plan.

***General***

On November 6, 2019, as part of its regular review of compensation and benefits, the Compensation and Organization Committee of the Board of Directors of the Company (the "Committee") determined that it would be preferable for the Company to have a single change of control plan covering eligible officers rather than separate change of control agreements with each such eligible officer. In connection with this determination, the Board of Directors on November 6, 2019, adopted the Avista Corporation Executive Change of Control Plan (the "Change of Control Plan"), to be effective January 1, 2020.

Certain officers of the Company are presently party to individual change of control agreements with the Company (the "Individual Agreements"). Participation in the Change of Control Plan by an officer with an Individual Agreement is conditioned upon the timely acceptance by such officer of an offer to terminate the Individual Agreement (the "Offer") in exchange for, among other things, participation in Change of Control Plan.

The description of the Change of Control Plan and the Offers, each set forth below, do not purport to be complete and are qualified in their entireties by reference to the texts of the Change of Control Plan and related Offer letter, each of which is filed as an exhibit to this report.

***Offers of Participation in the Change of Control Plan***

Officers who are currently parties to Individual Agreements will be offered the opportunity to terminate their Individual Agreements in return for a one-time payment of \$75,000 in cash and participation, effective January 1, 2020, in the Change of Control Plan. If the Offer is timely accepted, (i) the \$75,000 payment will be made, subject to applicable tax and other withholdings, on or before March 15, 2020, (ii) the Individual Agreement will terminate on December 31, 2019, and (iii) participation in the Change of Control Plan will commence January 1, 2020. The period for accepting the Offer will open on December 1, 2019, and close on December 30, 2019. Officers other than those who are currently subject to Individual Agreements may also be offered participation, effective January 1, 2020, in the Change of Control Plan, though no \$75,000 payment will be made to such officers.

***Description of Change of Control Plan***

Upon a Change of Control (as defined in the Change of Control Plan) and for the 24-month period immediately thereafter (the “Protection Period”), participants’ continued employment with the successor will be governed by the terms of the Change of Control Plan. Annual base salary and target annual bonus opportunities will be no less than as in effect immediately prior to the Change of Control. In addition, officers will be offered employee benefits and other incentive compensation generally available to other similarly-situated officers of the successor.

Upon the occurrence of a termination of employment by the successor without Cause or by the officer for Good Reason (each as defined in the Change of Control Plan), in either case, during the Protection Period, the participant will receive the following benefits, subject to timely execution and return of a general release of claims:

*Severance payment.* The officer will receive a lump sum cash severance payment, payable on the 60th day following the date of termination in an amount equal to (i) three times the sum of annual base salary and annual target bonus for fiscal year in which the termination of employment occurs for participants who were named executive officers of the Company as of December 31, 2019, and (ii) two times the sum of annual base salary and annual target bonus for fiscal year in which the termination of employment occurs for all other participants.

*Prorata target bonus payment.* Participants will receive a lump sum cash payment based on the annual target bonus for fiscal year in which the termination of employment occurs, pro-rated to reflect the portion of the fiscal year elapsed prior to the termination of employment and payable on the 60th day following termination of employment.

*COBRA Reimbursement.* The participants will receive reimbursement for up to 18 months of premiums for COBRA continuation coverage under the successor’s applicable health plan.

The Change of Control Plan does not provide any gross-ups for excise taxes the participant may be subject to with respect to golden parachute payments. In the event the participant would be subject to a 20 percent golden parachute excise tax under Code Section 4999, the payments and benefits to the participant would be reduced to the maximum amount that does not trigger the excise tax, unless the participant would retain greater value (on an after-tax basis) by receiving all payments and benefits and paying the excise tax, in which event the participant would receive the unreduced amount and be subject to the excise tax.

The Change in Control Plan will become effective January 1, 2020.

**Item 6. Exhibits**

[10.1 Form of Change of Control Agreement between the Company and its Executive Directors \(1\)](#)

[10.2 Change of Control Agreement Letter \(1\)](#)

[15 Letter Re: Unaudited Interim Financial Information \(1\)](#)

[31.1 Certification of Chief Executive Officer \(Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\) \(1\)](#)

[31.2 Certification of Chief Financial Officer \(Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\) \(1\)](#)

[32 Certification of Corporate Officers \(Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\) \(2\)](#)

101.INS XBRL Instance Document. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

(1) Filed herewith.

(2) Furnished herewith.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVISTA CORPORATION

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(Registrant)

Date: November 6, 2019

/s/ Mark T. Thies

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Mark T. Thies

Executive Vice President,  
Chief Financial Officer, and Treasurer  
(Principal Financial Officer)

## Avista Corporation

## EXECUTIVE CHANGE OF CONTROL PLAN

Effective as of January 1, 2020

## ARTICLE I

## PURPOSE, ESTABLISHMENT AND APPLICABILITY OF PLAN

- A. Purposes. The Board of Directors (“Board”) of Avista Corporation (the “Company”) has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication of its executive staff, notwithstanding a Change of Control, and that it is in the best interests of the Company and its stockholders to provide the executive staff with financial security and encouragement to remain with the Company and to maximize the value of the Company following a Change of Control. The Plan is an unfunded welfare plan maintained by the Company for the purpose of providing benefits for a select group of management or highly compensated employees pursuant to 29 CFR Section 2520.104-24.
- B. Establishment of Plan. As of the Effective Date, the Company hereby establishes the Plan, as set forth in this document.
- C. Applicability of Plan. Subject to the terms and conditions of this Plan, the benefits provided by this Plan shall be available to those Employees who, on or after the Effective Date, receive a Notice of Participation.

## ARTICLE II

## DEFINITIONS AND CONSTRUCTION

Whenever used in the Plan, the following terms shall have the meanings set forth below.

- A. “Accrued Obligations” shall mean the sum of (1) the Participant’s earned Annual Base Compensation through the Termination Date, (2) any earned Annual Bonus, and (3) any accrued, unused vacation pay, in each case to the extent not theretofore paid as of the Termination Date.
- B. “Annual Base Compensation” shall mean the amount equal to the Participant’s gross annual base salary (exclusive of bonuses, commissions and other incentive pay), which shall be no less than as in effect immediately preceding the Change of Control.
- C. “Annual Bonus” shall mean an annual cash bonus, which shall be no less than the cash value of the Participant’s target bonus under the Company’s short-term incentive bonus program

(or any successor program) as in effect for the fiscal year in which the Change of Control occurs.

D. The “Board” shall mean the Board of Directors of the Company.

E. “Cause” shall mean:

1. the willful and continued failure of the Participant to perform substantially the Participant’s duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Participant by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Participant has not substantially performed the Participant’s duties, or
2. the willful engaging by the Participant in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

For purposes of this provision, no act or failure to act, on the part of the Participant, shall be considered “willful” unless it is done, or omitted to be done, by the Participant in bad faith or without reasonable belief that the Participant’s action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Participant in good faith and in the best interests of the Company. The cessation of employment of the Participant shall not be deemed to be for Cause unless and until there shall have been delivered to the Participant a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Participant and the Participant is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Participant is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

F. “Change of Control” shall mean:

1. The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of twenty percent (20%) or more of either (i) the then outstanding shares of common stock of the Company (the

“Outstanding Company Common Stock”) or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control: (w) any acquisition directly from the Company, (x) any acquisition by the Company, (y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (z) any acquisition by any corporation pursuant to a transaction which complies with clauses (x), (y) and (z) of subsection (iii) of this Section 1; or

2. Individuals who, as of the date hereof, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors, or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or
3. Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), in each case, unless, following such Business Combination, (x) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (y) no Person (excluding any corporation resulting from such Business Combination or employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, twenty percent (20%) or more of,

respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (z) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

4. Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.
- G. The “Code” means the Internal Revenue Code of 1986, as amended, and the regulations and administrative guidance promulgated thereunder.
- H. The “Company” means Avista Corporation, any subsidiary corporations, any successor entities as provided in Article XI hereof and any parent or subsidiaries of such successor entities.
- I. The “Effective Date” shall mean January 1, 2020.
- J. “Employee” means an employee of the Company who, for purposes of 29 CFR Section 2520.104-24, is a member of a select group of management or highly compensated employees.
- K. “ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and the regulations and administrative guidance promulgated thereunder.
- L. The “Employment Period” is the period commencing on the date of the first Change of Control to occur on or after the Effective Date and ending on the second anniversary of such Change of Control, unless terminated earlier in accordance with Section V of this Agreement.
- M. “Good Reason” means a voluntary termination of employment by the Participant during the Employment Period and following the initial existence of any one of the following conditions arising without the consent of the Participant:
1. a material diminution by the Company of the Participant’s authority, duties, or responsibilities from that which exists immediately prior to the date of a Change of Control, excluding for this purpose isolated and inadvertent actions not taken in bad faith and remedied by the Company promptly after the Company receives notice



from the Participant; provided, however, that a change in title or reporting relationship alone shall not constitute Good Reason;

2. a material diminution in Participant's Annual Base Salary or Annual Bonus opportunity;
3. a material change in the geographic location at which Participant must perform the services (which, for purposes of this Plan, means relocation of the offices of the Company at which Participant is principally employed to a location more than 50 miles from the location of such offices immediately prior to the date of a Change of Control);
4. a material diminution in the budget over which Participant retains authority; or
5. any action or inaction that constitutes a material breach by the Company of this Plan with respect to Participant, including the failure of the Company to obtain from its successors the express assumption of the Plan required under Section XI (A).

Good Reason shall exist only if (i) Participant provides notice to the Company of the existence of a condition described in (1) through (5) above within 90 days of the initial existence of the condition, (ii) upon the notice of which the Company shall be provided a period of 30 days during which it may remedy the condition, and (iii) if the Company does not timely remedy such condition, Participant terminates employment after the end of such remedial period and in all events no later than 90 days following the end of such remedial period.

- N. "NEO" means each Chief Executive Officer, each Chief Financial Officer and each of the three most highly compensated executive officers, other than each Chief Executive Officer and Chief Financial Officer, who were serving as executive officers at the end of the most recently completed financial year and whose total salary and bonus exceeds \$150,000 as well as any additional individuals for whom disclosure would have been provided except that the individual was not serving as an officer of the Company at the end of the most recently completed financial year end.
- O. "Notice of Participation" means an individualized written notice of participation in the Plan from an authorized officer of the Company provided to an Employee, in a form acceptable to the Company that is substantially similar to that attached hereto as Exhibit A.
- P. "Participant" means an Employee who meets the eligibility requirements of Article III.
- Q. "Plan" means this Avista Corporation Executive Change of Control Plan, as set forth in this document, and as hereafter amended from time to time.

- R. “Plan Administrator” means the Board of Directors or its committee or designate, as shall be administering the Plan.
- S. “Release Agreement” means the form of general release and waiver agreement a Participant must execute as a condition to receiving severance and other benefits (other than the Accrued Obligations) pursuant to Article IV.
- T. “Severance Multiple” means:
- |                     |                 |
|---------------------|-----------------|
| NEO pre-1/1/2020    | Three (3) times |
| NEO post-12/31/2019 | Two (2) times   |
| Non-NEO             | Two (2) times   |
- U. “Termination Date” means:
1. the date on which the Company delivers notice of termination of employment to the Participant or such later date, not to exceed ninety (90) days, specified in the notice of termination,
  2. in the event the term of employment ends by reason of the Participant’s death, the date of death, or
  3. if the Participant terminates his or her employment with the Company, the date on which the Participant delivers notice of termination of employment to the Company.

### **ARTICLE III ELIGIBILITY**

- A. Participation in Plan. Each Employee who is designated by the Board and who signs and timely returns to the Company a Notice of Participation shall be a Participant in the Plan. An Employee shall immediately and automatically cease to be a Participant in the Plan upon the earlier of (i) ceasing to be an Employee and (ii) the date 12 months following the decision of the Board that the Participant no longer is eligible under the Plan. Notwithstanding the preceding sentence, if an Employee becomes entitled to severance and other benefits under Section A of Article V prior to ceasing to be a Participant, he or she nevertheless shall be entitled to receive full payment of severance and benefits in accordance with the Plan. A Participant entitled to benefits hereunder as a result of termination of his or her employment shall remain a Participant in the Plan until the full amount of the benefits accrued hereunder has been delivered to the Participant.

- B. Waiver. As a condition of receiving severance benefits under Article V, Section A(1)-(3), a Participant must sign and return to the Company, no earlier than his or her termination of employment, the Release Agreement, in a form acceptable to the Company that is substantially similar to that attached hereto as Exhibit B, which becomes final and irrevocable within 55 days after such Participant's termination of employment.

#### **ARTICLE IV EMPLOYMENT PERIOD**

- A. Employment Period. Subject to Article V, the Company will continue to employ Participant during the Employment Period.
- B. Terms of Employment.
1. Duties.  
During the Employment Period, and excluding any periods of vacation and sick leave to which the Participant is entitled, the Participant agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Participant, to use the Participant's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Participant to (a) serve on corporate, civic or charitable boards or committees, (b) deliver lectures, fulfill speaking engagements or teach at educational institutions and (c) manage personal investments, so long as, in the Company's determination, such activities do not significantly interfere with the performance of the Participant's responsibilities as an employee of the Company. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Participant prior to the Change of Control, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Change of Control shall not thereafter be deemed to interfere with the performance of the Participant's responsibilities to the Company.
  2. Compensation.
    - a. Annual Base Compensation. During the Employment Period, the Participant shall receive Annual Base Compensation, which shall be paid in accordance with the Company's customary payroll practices. During the Employment Period, the Annual Base Compensation shall be reviewed no more than 12 months after the last salary increase awarded to the Participant prior to the date of the Change of Control and thereafter at least annually. Any increase in Annual Base Compensation shall not serve to limit or reduce any other

obligation to the Participant under this Plan. Annual Base Compensation shall not be reduced during the Employment Period after any such increase and the term Annual Base Compensation as utilized in this Plan shall refer to Annual Base Compensation as so increased.

- b. Annual Bonus. During the Employment Period, the Participant shall be eligible for an Annual Bonus for each fiscal year ending during the Employment Period. Any Annual Bonus earned will be payable to the Participant hereunder shall be paid in a lump sum no later than March 15 of the calendar year following the end of the calendar year for which the Annual Bonus was awarded.
3. Incentive, Savings and Retirement Plans. During the Employment Period, the Participant shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Company and its affiliated companies, subject to the terms and conditions of such plans, practices, policies and programs and applicable law.
4. Welfare Benefit Plans. During the Employment Period, the Participant and/or the Participant's family, as the case may be, shall be eligible to participate in all welfare benefit plans, practices, policies and programs provided by the Company (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs, if so offered) to the extent applicable generally to other peer executives of the Company, subject to the terms and conditions of such plans, practices, policies and programs and applicable law.
5. Expenses. During the Employment Period, the Participant shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Participant in accordance with the policies, practices and procedures of the Company.
6. Fringe Benefits. During the Employment Period, the Participant shall be entitled to fringe benefits, in accordance with the plans, practices, programs and policies of the Company.
7. Vacation. During the Employment Period, the Participant shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Company.

## ARTICLE V TERMINATION OF EMPLOYMENT

- A. Termination without Cause or for Good Reason following a Change of Control. If, during the Employment Period, the Company terminates a Participant's employment without Cause or a Participant voluntarily terminates his or her employment on account of Good Reason, in either case at a time when the Participant is otherwise willing and able to continue in employment with the Company, the Participant shall be entitled to receive (i) the Accrued Obligations, payable within 60 days after termination (or such shorter period as required by applicable law) and (ii) provided the Participant timely executes and returns to the Company and does not revoke a Release Agreement in accordance with Section B of Article III, the following severance and other benefits:
1. Cash Severance. The Participant shall be entitled to receive an amount equal to the applicable Severance Multiple times the sum of (a) Participant's Annual Base Compensation and (b) target Annual Bonus for the fiscal year in which the Termination occurs, payable in a single lump sum. Any payment to which Participant is entitled under this Section A(1) shall be reduced, to the extent permitted by Section 409A of the Code, by the aggregate amount of severance payable to the Participant by the Company pursuant to any other plan, program, agreement or contract between the Participant and the Company.
  2. Prorated Annual Bonus. The Participant shall be entitled to receive the target Annual Bonus for the fiscal year in which the Termination occurs, prorated for the number of days employed during the fiscal year to the date of termination.
  3. Employee Benefits. If the Participant (and any spouse and/or eligible dependents of the Participant ("Family Members")) has medical, dental and vision coverage on the date of the Participant's termination of employment under a group health plan sponsored by the Company, the Company will reimburse the Participant for the total applicable premium cost incurred by the Participant for medical and dental coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, Part 6 of Subtitle B of Title I of ERISA, and Section 4980B(f) of the Code, and all applicable regulations (referred to collectively as "COBRA") for the Participant and any Family Members for a period that ends on the earliest of (i) eighteen (18) months following the Participant's Termination Date, (ii) the date that the Participant and his or her Family Members become covered under another employer's medical, dental and vision plans, or (iii) the date that the Participant otherwise ceases to be eligible to continue coverage under applicable Company plans pursuant to COBRA.
- B. Timing of Payments. Subject Article III, Section B. above, and Article XIV, Section D. below, any severance payments described in Sections A(1) and (2) above shall be made on, and reimbursements described in Section A(3) above shall commence on, the sixtieth (60th) day following his or her termination of employment with the Company. Subject to the requirements of the immediately preceding sentence, with respect to any COBRA

premiums with respect to applicable Company plans that Participant pays during the 60-day period immediately following his or her termination of employment with the Company, such premiums shall be eligible for reimbursement following such sixtieth (60th) day and such 60-day period shall count against the maximum period of Company reimbursement obligation pursuant to Section A(3) above. Notwithstanding anything in this Section 1(B) to the contrary, if the Participant shall die following a termination described in Section A above but prior to the date he or she returns the Release and Non-Solicitation Agreement, the Participant shall not be required to execute the Release and Non-Solicitation Agreement in order for the Participant's successors to receive the benefits described in Sections A(1)-(3) above.

- C. Non-Solicitation Restrictions. In the event a Participant's employment terminates as described in Article III, Section A, above, as a condition to receipt of the severance and benefits set forth in Article III, Section A, above, Participant agrees that, during the eighteen (18) months period immediately following the Termination Date, Participant will not directly or indirectly:
1. Solicit, encourage, recruit or take any other action which is intended to induce any other employee, independent contractor, customer or supplier of the Company or any affiliated corporation to terminate his, her or its relationship with the Company or any affiliated corporation; or
  2. Interfere in any manner with the contractual or employment relationship between the Company or any affiliated corporation and any employee, independent contractor, customer or supplier of the Company or any affiliated corporation.
- D. Other Termination. If (i) the Participant voluntarily resigns from the Company without Good Reason, (ii) the Company terminates the Participant's employment for Cause, (iii) the Participant's employment terminates by reason of his or her disability or death, or (iv) prior to the Participant's death during employment, the Company provides him or her notice of termination for Cause or the Participant provides the Company notice of termination without Good Reason, then the Participant shall not be entitled to receive severance or other benefits under this Plan and shall be entitled to his or her Accrued Obligations, payable within 60 days after termination (or such shorter period as required by applicable law), only as may then be established under the Company's then existing benefit plans and policies at the time of such resignation or termination.

## **ARTICLE VI GOLDEN PARACHUTE**

In the event that the benefits provided for in this Plan or otherwise with respect to a Participant constitute "parachute payments" within the meaning of Section 280G of the Code and would, but for this Article VI be subject to the excise tax imposed by Section 4999 of the Code (the "Excise

Tax”), then such Participant’s compensation and benefits under Article V or otherwise that constitute such parachute payments shall be either:

- A. delivered in full, or
- B. delivered as to such lesser extent as would result in no portion of such compensation and benefits being subject to the Excise Tax;

whichever of the foregoing amounts, taking into account the applicable federal, state and local taxes and the Excise Tax, results in the receipt by the Participant on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. Unless the Company otherwise agrees in writing, all determinations required to be made under this Article, including the manner and amount of any reduction in the Participant’s benefits under Article IV or otherwise, and the assumptions to be utilized in arriving at such determinations, shall be made in writing in good faith by the accounting firm serving as the Company’s independent public accountants immediately prior to the event giving rise to such payment (the “Accountants”). If such of the Participant’s compensation and benefits are delivered to a lesser extent in accordance with clause (B), then the Participant’s aggregate compensation and benefits as constitute parachute payments shall be reduced in the following order until no portion of such remaining compensation and benefits is subject to the Excise Tax: (i) cash severance pay that is exempt from Section 409A of the Code, (ii) any other cash severance pay (reduced on a pro rata basis without otherwise changing the time or form of payments), (iii) reimbursement payments under Article IV.B.5., above, that are exempt from Section 409A of the Code, (iv) any other reimbursement payments under Article IV.B.5., above, (reduced on a pro rata basis without otherwise changing the time or form of payments), (v) any restricted stock units that are exempt from Section 409A of the Code, (vi) any other restricted stock units (reduced on a pro rata basis without otherwise changing the time or form of payments), (vii) any equity awards (other than restricted stock units and stock options) that are exempt from Section 409A of the Code, (viii) any other equity awards (other than restricted stock units and stock options) (reduced on a pro rata basis without otherwise changing the time or form of payments), (ix) stock options that are exempt from Section 409A, (x) any other stock options (reduced on a pro rata basis without otherwise changing the time or form of payments), (xi) any remaining compensation and benefits exempt from Section 409A of the Code, and (xii) any other remaining compensation and benefits (reduced on a pro rata basis without otherwise changing the time or form of payments). For purposes of making the calculations required by this Article VI, the Accountants may make reasonable assumptions and approximations concerning the application of Sections 280G and 4999 of the Code. The Company and the Participant shall furnish to the Accountants such information and documents as the Accountants may reasonably request to make a determination under this Article. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Article.

## **ARTICLE VII FUNDING POLICY AND METHOD**

Benefits and any administrative expenses arising in connection with the Plan shall be paid as needed solely from the general assets of the Company. No contributions are required from any Participant. This Plan shall not be construed to require the Company to fund any of the benefits provided hereunder nor to establish a trust or other funding vehicle or mechanism for such purpose. Participants' rights against the Company with respect to severance and other benefits provided under this Plan shall be those of general unsecured creditors. No Participant has an interest in his or her severance or other benefits under this Plan until the Participant actually receives a payment.

## **ARTICLE VIII CLAIMS PROCEDURE**

In the event any claim for benefits is denied, in whole or in part, the Company shall notify the claimant of such denial in writing and shall advise the claimant of his or her right to appeal the denial. Such written notice shall set forth the specific reasons for the denial and shall be given to the claimant within ninety (90) days after the Company receives his or her claim. However, if special circumstances require an extension of the period of time for processing a claim, the Company may extend the determination period for up to an additional ninety (90) days by notifying the claimant of the extension before expiration of the initial ninety (90) day determination period, the reason why the extension is necessary, and the date by which the Company expects to render the claim determination. If a claim is denied in whole or in part, the written notice shall set forth, in a manner calculated to be understood by the claimant, the specific reason(s) for the denial, reference to the specific provision(s) of the Plan upon which the determination was based, a description of any additional material or information necessary to perfect the claim and explanation of the need for such material or information, a description of the Plan's review procedures and the time limits applicable to such procedures, and a reference stating the claimant's right to bring a civil action under Section 502(a) of ERISA.

## **ARTICLE IX REVIEW PROCEDURE**

- A. Review Panel. In the event the Board receives appeals from denials of claims for benefits under the Plan, it may appoint a committee (a "Review Panel") to act as fiduciary to the Plan to act on such appeals.
- B. Right to Appeal. Any person whose claim for benefits is denied, in whole or in part, may appeal from the denial by submitting a written request for review of the claim within sixty (60) days after receiving written notice of the denial from the Company.
- C. Form of Request for Review. A request for review must be made in writing and shall be addressed as follows: "Board of Directors, Avista Corporation, c/o General Counsel, 1411



E Mission Avenue, Spokane, WA 99202.” A request for review shall set forth all of the grounds upon which it is based, all facts and support thereof and any other matters that the claimant deems pertinent. The claimant will have the opportunity to submit written comments, documents, records, and other information relating to the claim, irrespective of whether these were submitted or considered in the initial claim determination, and to obtain access to and copies of documents, records and other information relevant to the claim upon request and free of charge.

- D. Review Decision. Within sixty (60) days after receipt of a request for review, the Board or the designated Review Panel shall give written notice of its decision to the claimant and the Company, unless the Board or the designated Review Panel determines that special circumstances require an extension of time for processing the claim. If an extension of time for processing is required, written notice of the extension shall be furnished to the claimant prior to the termination of the initial sixty (60) day period. In no event shall such extension exceed a period of sixty (60) days from the end of the initial sixty (60) day period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Plan expects to render the determination on review. In the event the denial of the claim for benefits is confirmed, in whole or in part, such notice shall set forth, in a manner calculated to be understood by the claimant, specific reasons for such denial, specific references to the Plan provisions on which the decision was based, a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant’s claim for benefits, and a statement of the claimant’s right to bring an action under Section 502 of ERISA. In the event that the Board or the Review Panel determines that the claim for benefits should not have been denied, in whole or in part, the Company shall take appropriate remedial action as soon as reasonably practicable after receiving notice of the decision.

## **ARTICLE X EMPLOYMENT STATUS; WITHHOLDING**

- A. Employment Status. This Plan does not constitute a contract of employment or impose on the Participant or the Company any obligation to retain the Participant as an Employee, to change the status of the Participant’s employment, or to change the Company’s policies regarding termination of employment. The Participant’s employment is and shall continue to be “at-will”, as defined under applicable law. If the Participant’s employment with the Company or a successor entity terminates for any reason, the Participant shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Plan, or as may otherwise be available in accordance with applicable law or with the Company’s established employee plans and practices or other agreements with the Company at the time of termination.
- B. Tax Withholding. All payments made and benefits provided pursuant to this Plan shall be subject to all applicable reporting obligations and any tax or other contributions required to

be withheld under Federal, state or local law, or the applicable laws of any non-U.S. taxing authority as interpreted by the Company.

## **ARTICLE XI SUCCESSORS TO COMPANY AND PARTICIPANTS**

- A. Company's Successors. Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume and perform the obligations under this Plan. For all purposes under this Plan, the term "Company" shall include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this subsection or which becomes bound by the terms of this Plan by operation of law.
- B. Participant's Successors. All rights of the Participant hereunder shall inure to the benefit of, and be enforceable by, the Participant's personal or legal representatives, executors, administrators, successors, heirs, distributes, devisees and legatees.

## **ARTICLE XII DURATION, AMENDMENT AND TERMINATION**

Duration, Amendment and Termination. The Board may amend or terminate this Plan at any time, in its sole discretion. Any termination of the Plan, or amendment of the Plan which materially diminishes the value or protections of the Plan to participants will take effect twelve (12) months after the action of the Board to terminate or amend the Plan. Subject to the other provisions of this Article XII, prior to the occurrence of a Change of Control, the Board reserves the right to amend the Plan at any time, provided that no such amendment may be adverse to the Participant with respect to eligibility or amount of payments or benefits hereunder. Notwithstanding the preceding, commencing on the date of a Change of Control, no amendment or termination of the Plan shall reduce the payments or benefits payable to any Participant who terminates employment within twenty-four (24) months after the Change of Control (unless the affected Participant consents in writing to such amendment or termination). Any action of the Company in amending or terminating the Plan will be taken in a non-fiduciary capacity. A termination of this Plan pursuant to the preceding sentences shall be effective for all purposes, except that such termination shall not affect the payment or provision of compensation or benefits earned by a Participant prior to the termination of this Plan.

## **ARTICLE XIII NOTICE**

General. Notices and all other communications contemplated by this Plan shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered

or certified mail, return receipt requested and postage prepaid. In the case of the Participant, mailed notices shall be addressed to him or her at the home address which he or she most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its General Counsel.

#### **ARTICLE XIV MISCELLANEOUS PROVISIONS**

- A. No Duty to Mitigate. The Participant shall not be required to mitigate the amount of any benefits contemplated by this Plan, nor shall any such benefits be reduced by any earnings or benefits that the Participant may receive from any other source, except as provided otherwise in Section A(i) of Article V of this Plan.
- B. Severability. The invalidity or unenforceability of any provision or provisions of this Plan shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.
- C. Administration. The Company is the administrator of the Plan (within the meaning of section 3(16)(A) of ERISA). The Plan will be administered and interpreted by the Board or its designee. Any decision made or other action taken by the Board, its designee or the Review Panel with respect to the Plan, and any interpretation by any of them with respect to any term or condition of the Plan, or any related document, will be conclusive and binding on all persons and be given the maximum possible deference allowed by law. The Board may delegate to any other person all or any portion of its authority or responsibility with respect to the Plan.
- D. Code Section 409A.
1. The Plan and the compensation and benefits provided hereunder are intended to either comply with or be exempt from Section 409A of the Code and shall be construed, interpreted and administered in accordance with such intention.
  2. Notwithstanding anything herein to the contrary, any amount payable upon a Participant's termination of employment that is deemed deferred compensation subject to Section 409A of the Code (or that otherwise requires a "separation from service" to qualify for an exemption therefrom) shall not be payable upon the Participant's termination of employment pursuant to the Plan unless such termination of employment constitutes a "separation from service" with the Company within the meaning of Section 409A of the Code.
  3. Notwithstanding any other provision of the Plan, if any payment or benefit provided to a Participant in connection with his or her separation from service is determined

to constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Code and that is not otherwise exempt from Section 409A of the Code and the Participant is determined to be a “specified employee” within the meaning of Section 409A of the Code, then such payment or benefit shall not be paid until the first regular Company payroll date to occur following the six-month anniversary of such separation from service or, if earlier, on the Participant’s death (such payroll date, the “Specified Employee Date”). All payments that would otherwise have been paid to the Participant before the Specified Employee Date shall be paid to the Participant in a lump sum, without interest, on the Specified Employee Date and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule.

4. For purposes of Section 409A of the Code, each installment payment provided under the Plan shall be treated as a separate payment.
  5. All taxable reimbursements for costs and expenses, if any, subject to reimbursement to a Participant under the Plan shall be paid no later than the end of the calendar year following the calendar year in which the Participant incurs such expense. With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Section 409A of the Code, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (ii) the amount of expenses eligible for reimbursements or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year.
  6. Notwithstanding any contrary provision of the Plan, the Company reserves the right to amend the Plan as it deems necessary or advisable, in its sole discretion and without the consent of the Participants, to comply with Section 409A of the Code or to otherwise avoid income recognition or imposition of any tax under Section 409A of the Code, provided that to the extent reasonably practicable, any such amendments shall be designed not to result in a material diminution of the benefits provided by the Plan.
- E. No Guarantee of Tax Consequences. The Company makes no commitment or guarantee to any Participant (or any party claiming through or on behalf of any Participant) that any federal, state, local or other tax treatment will (or will not) apply or be available to any Participant (or any party claiming through or on behalf of any Participant) and assumes no liability or responsibility whatsoever for the tax consequences to Participant (or any party claiming through or on behalf of any Participant) with respect to this Plan.
- F. No Assignment of Benefits. The rights of any person to payments or benefits under this Plan shall not be made subject to option or assignment, either by voluntary or involuntary

assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this subsection shall be void.

- G. Integration. The Plan constitutes the entire agreement between the Company and any Participant concerning the subject matter hereof and supersedes in its entirety any and all other plans, agreements or understandings related to the subject matter hereof, including without limitation, the Agreements, if any, as in effect prior to the effective date.
- H. Governing Law. To the extent not pre-empted by federal law, the Plan shall be construed in accordance with and governed by the laws of the State of Washington without regard to conflicts of law principles.
- I. Headings and Subheadings. Headings and subheadings contained in the Plan are intended solely for convenience and no provision of the Plan is to be construed by reference to the heading or subheading of any section or paragraph.
- J. Clawback Provisions. Notwithstanding any other provisions in this Plan to the contrary, any incentive-based compensation, or any other compensation, payable pursuant to this Plan or any other agreement or arrangement with the Company or an affiliate which is subject to recovery under any law, government regulation or stock exchange listing requirement, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company or an affiliate pursuant to any such law, government regulation or stock exchange listing requirement).

#### **ARTICLE XV PLAN INFORMATION**

- A. Plan Name. Avista Corporation Executive Change of Control Plan
- B. Plan Sponsor. The Plan sponsor and administrator is:  
Avista Corporation  
1411 E Mission Avenue  
Spokane, WA 99202  
509-489-0500
- C. Designated Agent. Designated agent for service of process:  
General Counsel  
Avista Corporation  
1411 E Mission Avenue  
Spokane, WA 99202
- D. Plan Records. Plan records are kept on a calendar year basis.

- E. Plan Funding. Payments to participants will be paid from the Company's general assets.
- F. Plan Number. The Plan number is 528.
- G. Employer Identification Number. 91-0462470

## EXHIBIT A

### AVISTA CORPORATION EXECUTIVE CHANGE OF CONTROL PLAN NOTICE OF PARTICIPATION

To:

Date:

The Board has designated you as a Participant in the Avista Corporation Executive Change of Control Plan, as amended from time to time (the “Plan”), subject to your timely execution of this Notice of Participation and its return to the Company. A copy of the Plan is attached hereto.

The terms and conditions of your participation in the Plan are as set forth in the Plan and in this Notice of Participation. As a condition to participating in the Plan you agree to maintain in complete confidence your participation in the Plan as well as the contents and terms of the Plan and of this Notice of Participation. As a condition to receiving severance benefits under Article V, Section A(1)-(3) of the Plan, you agree to, following termination of your employment with the Company, timely sign, return to the Company and not revoke a general release and waiver agreement, substantially in the form attached to the Plan as Exhibit B. You will immediately cease to be a Participant in the Plan if you terminate employment under circumstances that do not entitle you to benefits under the Plan. Also, the Board may, in its sole discretion, choose to end your participation in this Plan. If that happens, your participation will end on the earlier of (i) the first anniversary of the Company giving you written notice that the Board has decided to end your participation or (ii) the date your employment with the Company terminates.

If you enter into a separate agreement with the Company which provides benefits relating to a Change of Control and that agreement specifically states that such provisions shall supersede the provisions in the Plan, then you shall not be considered a Participant in the Plan so long as those alternative contractual benefits are in effect.

By signature below, you acknowledge that, effective immediately prior to your commencement of participation in the Plan, (i) the Plan and this Notice of Participation supersede any and all predecessor plans and agreements with respect to a Change of Control or similar event or transaction with respect to the Company and any notices or similar participation documents provided under such predecessor plans and agreements in which you participated or to which you were a party (collectively, the “Prior Agreements”) and (ii) the Prior Agreements no longer have any force or effect. You also acknowledge that the Company makes no commitment or guarantee as to the federal, state, local or other tax consequences for you with respect to the Plan superseding the Prior Agreements and assumes no liability or responsibility whatsoever with respect thereto.

[You acknowledge that among the Prior Agreements that will be superseded, effective December 31, 2019, by the Plan and this Notice of Participation is that certain Change of Control Agreement by and between you and the Company, dated [DATE]<sup>1</sup>, as the same may have been amended (“Old

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<sup>1</sup>Include applicable execution date of Old CIC Agreement for the officer in question.

CIC Agreement”). In exchange for your timely execution and return to the Company of this Notice of Participation, the Company will pay to you a lump sum payment in cash in the amount of seventy-five thousand dollars (\$75,000) (the “Cancellation Consideration”), payable no later than March 15, 2020, and subject to applicable tax and other withholdings. You acknowledge that if you participate in the Plan, the Old CIC Agreement, along with all other Prior Agreements, will automatically terminate and cease to be of force and effect on December 31, 2019. If you do not timely execute and return the Notice of Participation to the Company, the Old CIC Agreement will remain in effect and you will not be entitled to Cancellation Consideration or to participate in the Plan.]<sup>2</sup>

If you agree to participate in the Plan on these terms and conditions, please acknowledge your acceptance by signing below. Please return the signed copy of this Notice of Participation no later than [DATE]<sup>3</sup> to:

Avista Corporation  
Attn: General Counsel  
1411 E Mission Avenue  
Spokane, WA 99202

Your failure to timely remit this signed Notice of Participation will result in you not being eligible to participate in the Plan. Please retain a copy of this Notice of Participation, along with the Plan, for your records.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Dated

\_\_\_\_\_  
Print Name

\_\_\_\_\_

<sup>2</sup> To be used only for officers with existing CIC agreements that are to be terminated prior to participation in the Plan.

<sup>3</sup> Since officers holding current CIC agreements are to be given 30 days to consider and this notice will also serve to terminate those agreements, the 10-day return period was too short.



**EXHIBIT B**  
**GENERAL RELEASE OF AND WAIVER AGREEMENT**

This General Release and Waiver Agreement (“Agreement”) is made by and between Avista Corporation (the “Company”) and (“Participant”).

WHEREAS, Participant was employed by the Company;

WHEREAS, Participant is a participant in the Company’s Executive Change of Control Plan effective January 1, 2020, as amended from time to time (the “Plan”); and

WHEREAS, Participant warrants and represents that Participant has not assigned, transferred, or subrogated any portion of any claim that Participant could assert against the Released Parties (defined below) and Participant has full authority to enter into this Agreement.

NOW THEREFORE, in consideration of the mutual promises made herein, the Company and Participant (collectively referred to as the “Parties”) hereby agree as follows:

1. Termination. Participant’s employment from the Company terminated on (the “Termination Date”).
2. Consideration. The Company agreed pursuant to the terms of the Plan to provide Participant with certain benefits, including, but not limited to, cash severance payments, in the event Participant’s employment was terminated on or within twenty-four (24) months following certain Changes of Control of the Company, as set forth in the Plan, provided Participant timely executes and returns, and does not revoke, this Agreement.
3. Payment of Salary. Participant acknowledges and represents that the Company has paid all Accrued Obligations (as defined in the Plan) and all other benefits due to Participant, as of the Termination Date.
4. Release of Claims. Participant agrees that the foregoing consideration represents settlement in full of all outstanding obligations owed to Participant by the Company. In consideration for receiving the consideration addressed in Section 2 above, which Participant acknowledges that Participant is not otherwise entitled to receive except by signing this Agreement, Participant, on behalf of Participant, and his or her respective heirs, family members, executors and assigns, hereby fully and forever releases the Company and its past, present and future officers, agents, directors, employees, investors, shareholders, administrators, affiliates, divisions, subsidiaries, parents, predecessor and successor corporations, and assigns (collectively, the “Released Parties” and individually, a “Released Party”), from any and all claims, duties, obligations or causes of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that Participant

may possess arising from any omissions, acts or facts that have occurred up until and including the time that Participant signs this Agreement including, without limitation,

- a. any and all claims relating to or arising from Participant's employment relationship with the Company or any Released Party and the termination of that relationship;
- b. any and all claims for wrongful discharge of employment; termination in violation of public policy; discrimination; breach of contract, both express and implied; breach of a covenant of good faith and fair dealing, both express and implied; promissory estoppel; negligent or intentional infliction of emotional distress; negligent or intentional misrepresentation; negligent or intentional interference with contract or prospective economic advantage; unfair business practices; defamation; libel; slander; negligence; personal injury; assault; battery; invasion of privacy; false imprisonment; and conversion;
- c. any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, The Worker Adjustment and Retraining Notification Act, and all amendments to each such Act as well as the regulations issued thereunder;
- d. any and all claims for violation of the federal, or any state, constitution;
- e. any and all claims arising out of any other laws and regulations relating to employment or employment discrimination; and
- f. any and all claims for attorneys' fees and costs.

Participant agrees that the release set forth in this section shall be and remain in effect in all respects as a complete general release as to the matters released. The released claims do not include any claims that Participant cannot lawfully release.

5. Acknowledgment of Waiver of Claims under ADEA. The Company hereby advises Participant to consult with an attorney before signing this Agreement. Participant acknowledges that Participant is waiving and releasing any rights Participant may have under the Age Discrimination in Employment Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary. Participant and the Company agree that this waiver and release does not apply to any rights or claims under the ADEA that are based on facts that occur after the time Participant signs this Agreement. Participant acknowledges that the consideration given for this waiver and release Agreement is in addition to anything of value to which Participant was already entitled. Participant further acknowledges that Participant has been advised by this writing that (a) Participant should consult with an attorney prior to executing this Agreement; (b) Participant has [at least twenty-one (21)/ forty-five (45)]<sup>4</sup> calendar days from receipt of this Agreement within which to consider this Agreement;

<sup>4</sup> Applicable time period under ADEA, as amended by OWBPA, to be utilized per individual circumstances.

- (c) Participant has seven (7) days following the execution of this Agreement by Participant to revoke the Agreement; and  
(d) this Agreement shall not be effective until the revocation period has expired. Employee must return the signed Agreement to Name at E-mail] or [physical address], by [date that is at least 22/46 days from receipt of Agreement by Participant]. Any revocation should be in writing and delivered to the General Counsel at Avista Corporation, 1411 E Mission Avenue, Spokane, WA 99202, by close of business on the seventh day from the date that Participant signs this Agreement.
6. No Pending Lawsuits. Participant represents that Participant has no lawsuits pending in Participant's name, or on behalf of any other person or entity, against the Company or any Released Party.
  7. Non-Solicitation. Participant agrees to comply with the non-solicitation restrictions set forth in Article III, Section C of the Plan.
  8. Nondisclosure of Confidential or Proprietary Information. During Participant's employment with the Company, Participant had access to confidential and proprietary business information that constitutes valuable and unique property of the Released Parties. Participant agrees that Participant will not, directly or indirectly, communicate, disclose, or use any of the Released Parties' Confidential Information. "Confidential Information" includes, but is not limited to, information regarding the Released Parties' business plans, finances, employees, development strategies, and all information relating to the Released Parties' business that is not common knowledge outside of the Released Parties.
  9. Return of Property and Equipment. Participant agrees and acknowledges that Participant has returned all property in Participant's possession belonging to any of the Released Parties, including, but not limited to, keys, I.D. badges, credit cards, cellular phones, equipment, tools, computers, and original and copies of documents, emails, trade secrets, proprietary information, Confidential Information, client lists, books, handbooks, records, financial statements, data, computer software, computer discs or tapes, and any and all electronic or hard copies derived therefrom, any and all other information pertaining to the business of the Released Parties, and any other materials or property that was in Participant's possession or under Participant's control that is the property of any of the Released Parties. Participant agrees that Participant is not entitled to the consideration if Participant has not returned all such property.
  10. Non-Disparagement. To the extent permitted by law, Participant agrees that Participant will engage in no act (including a verbal or written statement) that is intended, or reasonably may be expected, to defame, disparage, or harm the reputation, business, prospects, or operations of the Released Parties. Nothing in this Agreement will prevent Participant from commenting about Participant's work experience at the Company in connection with any bona fide efforts at seeking employment.
  11. Lawful Communications. Nothing in this Agreement prevents Participant from exercising any rights that cannot be lawfully waived or restricted. Nothing in this Agreement prevents

Participant from testifying at a hearing, deposition, or in court in response to a lawful subpoena. This Agreement does not limit Participant's ability to communicate with any government agencies or otherwise participate in any investigation or proceeding that may be conducted by any government agency, including providing documents or other information, without notice to the Company. This Agreement does not limit Participant's right to receive an award from a government agency for information provided to any government agency. Notwithstanding the foregoing, Participant agrees that Participant has waived—where such rights can be lawfully waived—any right to recover monetary damages or other personal relief from the Released Parties in any action filed by Participant or by anyone else on Participant's behalf.

12. Costs. The Parties shall each bear their own costs, expert fees, attorneys' fees and other fees incurred in connection with this Agreement.
13. Authority. Participant represents and warrants that Participant has the capacity to act on Participant's own behalf and on behalf of all who might claim through her to bind them to the terms and conditions of this Agreement.
14. No Representations. Participant represents that Participant has had the opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. Neither party has relied upon any representations or statements made by the other party hereto which are not specifically set forth in this Agreement.
15. Modification. This Agreement shall not be modified, altered or discharged except by a written agreement signed by Participant and an authorized representative of the Company. No waiver of any of the terms of this Agreement shall be valid unless in writing and signed by all parties to this Agreement.
16. Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.
17. Entire Agreement. This Agreement, the Plan and the notice of participation executed by Participant in connection with accepting participation in the Plan represent the entire agreement and understanding between the Company and Participant concerning Participant's separation from the Company, and supersede and replace any and all prior agreements and understandings concerning Participant's relationship with the Company and her compensation by the Company. This Agreement may only be amended in writing signed by Participant and an officer of the Company.
18. Governing Law. This Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of the State of Washington.

- 19. Effective Date. This Agreement is effective eight (8) days after it has been signed by Participant, provided that Participant did not timely revoke the Agreement, as described above.
- 20. Counterparts. This Agreement may be executed in counterparts, and each counterpart shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.
- 21. Voluntary Execution of Agreement. This Agreement is executed voluntarily and without any duress or undue influence on the part or behalf of the Parties hereto, with the full intent of releasing all claims. The Parties acknowledge that:
  - a. They have read this Agreement;
  - b. They have been represented in the preparation, negotiation, and execution of this Agreement by legal counsel of their own choice or that they have voluntarily declined to seek such counsel;
  - c. They understand the terms and consequences of this Agreement and of the releases it contains;
  - d. They are fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

AVISTA CORPORATION

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Dated

\_\_\_\_\_  
Print Name

PARTICIPANT

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Dated

\_\_\_\_\_  
Print Name

Date \_\_\_\_\_

Re: Executive Change of Control Plan

Dear \_\_\_\_\_:

At its recent meeting, the Compensation and Organization Committee of Board of Directors of Avista Corporation (the "Committee") took certain actions regarding compensation and benefits, including severance payments, that may become payable to officers following the occurrence of a change of control of Avista Corporation ("Company"). Those actions include:

1. Effective January 1, 2020, the Company will no longer enter into individual Change of Control Agreements ("CIC Agreements") with any officer of the Company; and
2. Approval of an Executive Change of Control Plan ("Plan") that becomes effective January 1, 2020.

Based on the terms of the Plan, the Board, in its sole discretion, determines which officers of the Company may participate in the Plan. The Board has decided that it will offer participation in the Plan to officers of the Company who are not subject to an existing change of control agreement as of the date their participation in the Plan is to commence.

The Board has also determined that an officer with an existing CIC Agreement (an "Identified Officer") may become a participant in the Plan if he or she cancels the existing CIC Agreement. In consideration for an Identified Officer cancelling his or her CIC Agreement, effective December 31, 2019, the Company will pay such Identified Officer seventy-five thousand dollars (\$75,000.00) in a lump sum (subject to applicable tax and other withholdings) as soon as administratively possible after receipt by the Company of a signed Notice of Participation that will accompany the copy of the Plan that will be provided to you ("Notice of Participation"). This offer will remain valid from December 1, 2019 to December 30, 2019.

You have been determined by the Board to be an Identified Officer to whom the Board desires to offer participation in the Plan. In order to assist you with your decision process, please find attached a copy of the Plan, to which the Notice of Participation is attached. If you have any questions regarding your CIC Agreement, the Plan, the Notice of Participation or this letter please contact Bryan Cox at [bryan.cox@avistacorp.com](mailto:bryan.cox@avistacorp.com) or at 509-495-8305.

If you decide to submit a Notice of Participation, you should return a signed copy of the Notice of Participation to Bryan Cox , MSC \_\_\_\_\_. If you do not timely submit a Notice of Participation, your CIC Agreement will remain in effect, you will not receive the \$75,000 payment and you will not be eligible to participate in the Plan.

Sincerely,

Dennis Vermillion  
President and Chief Executive Officer

Encl.

November 6, 2019

To the Board of Directors and Shareholders of Avista Corporation  
1411 East Mission Ave  
Spokane, Washington 99202

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Avista Corporation and subsidiaries for the periods ended September 30, 2019 and 2018, as indicated in our report dated November 6, 2019; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, is incorporated by reference in Registration Statement Nos. 333-33790, 333-126577, 333-179042 and 333-208986 on Form S-8 and in Registration Statement No. 333-231431 on Form S-3.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statements prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP

Seattle, Washington

CERTIFICATION

I, Dennis P. Vermillion, certify that:

1. I have reviewed this report on Form 10-Q of Avista Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

/s/ Dennis P. Vermillion

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Dennis P. Vermillion  
President and Chief Executive Officer  
(Principal Executive Officer)



CERTIFICATION

I, Mark T. Thies, certify that:

1. I have reviewed this report on Form 10-Q of Avista Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

/s/ Mark T. Thies

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Mark T. Thies  
Executive Vice President,  
Chief Financial Officer, and Treasurer  
(Principal Financial Officer)

**AVISTA CORPORATION**

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**CERTIFICATION OF CORPORATE OFFICERS**

(Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002)

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Each of the undersigned, Dennis P. Vermillion, President and Chief Executive Officer of Avista Corporation (the “Company”), and Mark T. Thies, Executive Vice President, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2019

/s/ Dennis P. Vermillion

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Dennis P. Vermillion  
President and Chief Executive Officer

/s/ Mark T. Thies

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Mark T. Thies  
Executive Vice President,  
Chief Financial Officer, and Treasurer