AVISTA CORP
Form 10-Q
May 07, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number 1-3701

AVISTA CORPORATION

(Exact name of registrant as specified in its charter)

Washington	**91-0462470**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1411 East Mission Avenue, Spokane, Washington	**99202-2600**
(Address of principal executive offices)	**(Zip Code)**

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

Web site: http://www.avistacorp.com

None

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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, accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No x

As of April 30, 2010, 54,901,690 shares of Registrant s Common Stock, no par value (the only class of common stock), were outstanding.

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FORWARD-LOOKING STATEMENTS

Our Quarterly Report on Form 10-Q contains forward-looking statements, which should be read with the cautionary statements and important factors included at Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements on pages 29-30. 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, predicts, and similar expressions. All forward-looking statements are subject to a variety of risks and uncertainties and other factors. Many of these factors are beyond our control and could have a significant effect on our operations, results of operations, financial condition or cash flows and could cause actual results to differ materially from those anticipated in our statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Avista Corporation

For the Three Months Ended March 31

Dollars in thousands, except per share amounts

(Unaudited)

	2010	2009
Operating Revenues:		
Utility revenues	$ 423,581	$ 460,864
Non-utility energy revenues	5,105	5,997
Other non-utility revenues	27,729	20,609
Total operating revenues	456,415	487,470
Operating Expenses:		
Utility operating expenses:		
Resource costs	259,567	289,692
Other operating expenses	55,749	57,732
Depreciation and amortization	24,330	22,923
Taxes other than income taxes	21,171	26,895
Non-utility operating expenses:		
Resource costs	2,745	5,728
Other operating expenses	23,213	17,293
Depreciation and amortization	1,816	1,362
Total operating expenses	388,591	421,625
Income from operations	67,824	65,845
Other Expense - Net:		
Interest expense	(19,115)	(15,588)
Interest expense to affiliated trusts	(146)	(1,358)
Capitalized interest	320	548
Other expense-net	(1,699)	(560)
Total other expense-net	(20,640)	(16,958)
Income before income taxes	47,184	48,887
Income taxes	17,867	17,468
Net income	29,317	31,419
Less: Net income attributable to noncontrolling interests	(507)	(393)
Net income attributable to Avista Corporation	$ 28,810	$ 31,026
Weighted-average common shares outstanding (thousands), basic	54,869	54,616

Weighted-average common shares outstanding (thousands), diluted		55,115		54,722
Earnings per common share attributable to Avista Corporation:				
Basic	$	0.53	$	0.57
Diluted	$	0.52	$	0.57
Dividends paid per common share	$	0.25	$	0.18

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Avista Corporation

For the Three Months Ended March 31

Dollars in thousands

(Unaudited)

	2010	2009
Net income	$ 29,317	$ 31,419
Other Comprehensive Income:		
Change in unfunded benefit obligation for pension plan - net of taxes of $19 and $54, respectively	36	101
Total other comprehensive income	36	101
Comprehensive income	29,353	31,520
Comprehensive income attributable to noncontrolling interests	(507)	(393)
Comprehensive income attributable to Avista Corporation	$ 28,846	$ 31,127

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

Avista Corporation

Dollars in thousands

(Unaudited)

	March 31, 2010	December 31, 2009
Assets:		
Current Assets:		
Cash and cash equivalents	$ 39,603	$ 37,035
Accounts and notes receivable-less allowances of $44,070 and $42,928	199,957	210,645
Current portion of long-term energy contract receivable of Spokane Energy	9,055	
Utility energy commodity derivative assets	10,198	7,757
Regulatory asset for utility derivatives	34,355	8,330
Funds held for customers	54,232	51,648
Materials and supplies, fuel stock and natural gas stored	31,680	37,282
Deferred income taxes	29,482	34,473
Income taxes receivable	3,181	16,438
Other current assets	14,924	15,315
Total current assets	426,667	418,923
Net Utility Property:		
Utility plant in service	3,589,109	3,549,658
Construction work in progress	60,575	60,055
Total	3,649,684	3,609,713
Less: Accumulated depreciation and amortization	1,021,706	1,002,702
Total net utility property	2,627,978	2,607,011
Other Property and Investments:		
Investment in exchange power-net	23,071	23,683
Investment in affiliated trusts	11,547	11,547
Goodwill	24,790	24,718
Long-term energy contract receivable of Spokane Energy	69,834	
Other property and investments-net	77,229	77,590
Total other property and investments	206,471	137,538
Deferred Charges:		
Regulatory assets for deferred income taxes	96,545	97,945
Regulatory assets for pensions and other postretirement benefits	138,807	141,085
Other regulatory assets	103,572	109,825
Non-current utility energy commodity derivative assets	23,983	45,483
Power deferrals	24,146	27,771
Other deferred charges	22,067	21,378

Total deferred charges	409,120	443,487
Total assets	$ 3,670,236	$ 3,606,959

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

Avista Corporation

Dollars in thousands

(Unaudited)

	March 31, 2010	December 31, 2009
Liabilities and Equity:		
Current Liabilities:		
Accounts payable	$ 146,870	$ 160,861
Customer fund obligations	54,232	51,648
Current portion of long-term debt	35,316	35,189
Current portion of nonrecourse long-term debt of Spokane Energy	11,635	
Short-term borrowings	75,300	92,700
Utility energy commodity derivative liabilities	44,553	16,087
Natural gas deferrals	30,127	39,952
Other current liabilities	107,591	106,980
Total current liabilities	505,624	503,417
Long-term debt	1,039,010	1,036,149
Nonrecourse long-term debt of Spokane Energy	55,918	
Long-term debt to affiliated trusts	51,547	51,547
Other Non-Current Liabilities and Deferred Credits:		
Regulatory liability for utility plant retirement costs	219,194	217,176
Non-current regulatory liability for utility derivatives	1,660	42,611
Pensions and other postretirement benefits	118,839	123,281
Deferred income taxes	491,576	494,666
Other non-current liabilities and deferred credits	84,137	52,665
Total other non-current liabilities and deferred credits	915,406	930,399
Total liabilities	2,567,505	2,521,512
Commitments and Contingencies (See Notes to Condensed Consolidated Financial Statements)		
Redeemable Noncontrolling Interests	39,949	34,833
Equity:		
Avista Corporation Stockholders Equity:		
Common stock, no par value; 200,000,000 shares authorized; 54,894,340 and 54,836,781 shares outstanding	779,828	778,647
Accumulated other comprehensive loss	(2,314)	(2,350)
Retained earnings	285,938	274,990
Total Avista Corporation stockholders equity	1,063,452	1,051,287

Noncontrolling Interests	(670)	(673)
Total equity	1,062,782	1,050,614
Total liabilities and equity	$ 3,670,236	$ 3,606,959

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Avista Corporation

For the Three Months Ended March 31

Dollars in thousands

(Unaudited)

	2010	2009
Operating Activities:		
Net income	$ 29,317	$ 31,419
Non-cash items included in net income:		
Depreciation and amortization	26,146	24,285
Provision (benefit) for deferred income taxes	4,155	(4,859)
Power and natural gas cost amortizations (deferrals), net	(6,342)	20,776
Amortization of debt expense	1,051	1,411
Equity-related AFUDC	(410)	(676)
Other	12,573	6,382
Contributions to defined benefit pension plan	(7,000)	(16,000)
Changes in working capital components:		
Accounts and notes receivable	10,344	5,324
Materials and supplies, fuel stock and natural gas stored	5,602	28,803
Other current assets	12,599	15,606
Accounts payable	(9,174)	(31,330)
Other current liabilities	2,193	10,420
Net cash provided by operating activities	81,054	91,561
Investing Activities:		
Utility property capital expenditures (excluding equity-related AFUDC)	(42,552)	(41,510)
Other capital expenditures	(465)	(988)
Increase in funds held for customers	(2,584)	(1,862)
Other	(1,733)	(1,468)
Net cash used in investing activities	(47,334)	(45,828)
Financing Activities:		
Net decrease in short-term borrowings	(17,000)	(26,100)
Borrowings from Advantage IQ line of credit	1,000	
Repayment of borrowings from Advantage IQ line of credit	(1,400)	
Redemption and maturity of long-term debt	(59)	(114)
Redemption and maturity of nonrecourse long-term debt of Spokane Energy	(2,752)	
Long-term debt and short-term borrowing issuance costs	(33)	(307)
Issuance of common stock	374	79
Cash dividends paid	(13,753)	(9,845)
Increase in customer fund obligations	2,584	1,862
Equity transactions of consolidated subsidiaries	(113)	33
Net cash used in financing activities	(31,152)	(34,392)

Net increase in cash and cash equivalents	2,568	11,341
Cash and cash equivalents at beginning of period	37,035	24,313
Cash and cash equivalents at end of period	$ 39,603	$ 35,654
Supplemental Cash Flow Information:		
Cash paid (received) during the period:		
Interest	$ 8,075	$ 7,464
Income taxes	(136)	(1,504)
Non-cash financing and investing activities		
Accounts payable for capital expenditures	3,481	2,294
Utility property acquired under capital leases	5,300	
Redeemable noncontrolling interests	4,579	(355)

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

Avista Corporation

For the Three Months Ended March 31, 2010 and 2009

Dollars in thousands

(Unaudited)

	Common Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Avista Corporation Stockholders Equity	Non-Controlling Interests	Total Equity	Redeemable Non-Controlling Interests
	Shares	Amount						
Balance as of January 1, 2010	54,836,781	$ 778,647	$ (2,350)	$ 274,990	$ 1,051,287	$ (673)	$ 1,050,614	$ 34,833
Net income				28,810	28,810	(3)	28,807	510
Equity compensation expense		729			729		729	
Issuance of common stock	57,559	375			375		375	
Other comprehensive income			36		36		36	
Cash dividends paid (common stock)				(13,753)	(13,753)		(13,753)	
Valuation adjustments and other noncontrolling interests activity				(4,109)	(4,109)		(4,109)	4,606
Other		77			77	6	83	
Balance as of March 31, 2010	54,894,340	$ 779,828	$ (2,314)	$ 285,938	$ 1,063,452	$ (670)	$ 1,062,782	$ 39,949
Balance as of January 1, 2009	54,487,574	$ 774,986	$ (6,092)	$ 227,989	$ 996,883	$	$ 996,883	$ 39,846
Net income				31,026	31,026	(37)	30,989	430
Equity compensation expense		575			575		575	
Issuance of common stock	155,641	79			79		79	
Other comprehensive income			101		101		101	
Cash dividends paid (common stock)				(9,845)	(9,845)		(9,845)	
Purchase of subsidiary noncontrolling interests								(725)
Valuation adjustments and other noncontrolling interests activity				228	228		228	(414)
Other		173			173	(361)	(188)	
Balance as of March 31, 2009	54,643,215	$ 775,813	$ (5,991)	$ 249,398	$ 1,019,220	$ (398)	$ 1,018,822	$ 39,137

The Accompanying Notes are an Integral Part of These Statements.

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AVISTA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements of Avista Corporation (Avista Corp. or the Company) for the interim periods ended March 31, 2010 and 2009 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. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. 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, 2009 (2009 Form 10-K). Please refer to the section Acronyms and Terms in the 2009 Form 10-K for definitions of terms such as capacity, energy and therm. The acronyms and terms are an integral part of these condensed consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Avista Corp. is an energy company engaged in the generation, transmission and distribution of energy, as well as other energy-related businesses. Avista Utilities is an operating division of Avista Corp., comprising the regulated utility operations. Avista Utilities generates, transmits and distributes electricity in parts of eastern Washington and northern Idaho. In addition, Avista Utilities has electric generating facilities in Montana and northern Oregon. Avista Utilities also provides natural gas distribution service in parts of eastern Washington and northern Idaho, as well as parts of northeast and southwest Oregon. Avista Capital, Inc. (Avista Capital), a wholly owned subsidiary of Avista Corp., is the parent company of all of the subsidiary companies in the non-utility businesses, except Spokane Energy, LLC. Avista Capital s subsidiaries include Advantage IQ, Inc. (Advantage IQ), a 74 percent owned subsidiary as of March 31, 2010. Advantage IQ is a provider of energy efficiency and other facility information and cost management programs and services for multi-site customers and utilities throughout North America. See Note 13 for business segment information.

Basis of Reporting

The condensed consolidated financial statements include the assets, liabilities, revenues and expenses of the Company and its subsidiaries, including Advantage IQ 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.

Taxes Other Than Income Taxes

Taxes other than income taxes include state excise taxes, city occupational and franchise taxes, real and personal property taxes and certain other taxes not based on net income. These taxes are generally based on revenues or the value of property. Utility related taxes collected from customers (primarily state excise taxes and city utility taxes) are recorded as operating revenue and expense and totaled $16.0 million for the three months ended March 31, 2010 and $21.4 million for the three months ended March 31, 2009.

Other Expense - Net

Other expense - net consisted of the following items for the three months ended March 31 (dollars in thousands):

	2010	2009
Interest income	$ 298	$ 488
Interest on regulatory deferrals	71	748
Equity-related AFUDC	410	676
Net gain (loss) on investments	(633)	(748)
Other expense	(1,967)	(1,730)
Other income	122	6
Total	$ (1,699)	$ (560)

AVISTA CORPORATION

Goodwill

Goodwill arising from acquisitions represents the excess of the purchase price over the estimated fair value of net assets acquired. The Company evaluates goodwill for impairment using a discounted cash flow model on at least an annual basis or more frequently if impairment indicators arise. The Company completed its annual evaluation of goodwill for potential impairment as of November 30, 2009 for the other businesses and as of December 31, 2009 for Advantage IQ and determined that goodwill was not impaired at that time. The carrying amount of goodwill as of March 31, 2010 is as follows (dollars in thousands):

	Advantage IQ	Other	Accumulated Impairment Losses	Total
Goodwill	$ 19,544	$ 12,979	$ (7,733)	$ 24,790

Other Intangibles

Other Intangibles primarily represent the amounts assigned to client relationships related to the Advantage IQ acquisition of Cadence Network in 2008 (estimated amortization period of 14 years) and Ecos in 2009 (estimated amortization period of 3 years), software development costs (estimated amortization period of 5 to 7 years) and other. Other Intangibles are included in other property and investments - net on the Condensed Consolidated Balance Sheets. Amortization expense related to Other Intangibles was $0.9 million for the three months ended March 31, 2010 and $0.5 million for the three months ended March 31, 2009. The gross carrying amount and accumulated amortization of Other Intangibles as of March 31, 2010 and December 31, 2009 are as follows (dollars in thousands):

	March 31, 2010	December 31, 2009
Client relationships	$ 10,259	$ 10,259
Software development costs	16,962	16,496
Other	1,371	1,371
Total other intangibles	28,592	28,126
Less accumulated amortization	(9,133)	(8,192)
Total other intangibles - net	$ 19,459	$ 19,934

The following table details the future estimated amortization expense related to Other Intangibles for each of the five years ending December 31 (dollars in thousands):

	2010	2011	2012	2013	2014
Estimated amortization expense	$ 2,905	$ 3,620	$ 3,113	$ 2,424	$ 2,011

Regulatory Deferred Charges and Credits

The Company prepares its condensed consolidated financial statements in accordance with regulatory accounting practices because:

- rates for regulated services are established by or subject to approval by independent third-party regulators,
- the regulated rates are designed to recover the cost of providing the regulated services, and
- in view of demand for the regulated services and the level of competition, it is reasonable to assume that rates can be charged to and collected from customers at levels that will recover costs.

Regulatory accounting practices require that certain costs and/or obligations (such as incurred power and natural gas costs not currently included in rates, but expected to be recovered or refunded in the future) are reflected as deferred charges or credits on the Condensed Consolidated Balance Sheets. These costs and/or obligations are not reflected in the Condensed Consolidated Statements of Income until the period during which matching revenues are recognized.

If at some point in the future the Company determines that it no longer meets the criteria for continued application of regulatory accounting practices for all or a portion of its regulated operations, the Company could be:

- required to write off its regulatory assets, and
- precluded from the future deferral of costs not recovered through rates at the time such costs are incurred, even if the Company expected to recover such costs in the future.

Redeemable Noncontrolling Interests

This item represents the estimated fair value of redeemable stock and stock options of Advantage IQ issued under its employee stock incentive plan and to the previous owners of Cadence Network. See Note 3 for further information. This amount was corrected in the Condensed Consolidated Statement of Equity for the three months ended March 31, 2009. The Company has reclassified $39.1 million as redeemable noncontrolling interests as of March 31, 2009. This amount was previously included as $3.0 million of other current liabilities, $24.6 million of other non-current liabilities and deferred credits and $11.5 million of noncontrolling interests (in equity).

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Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, net of tax, consisted of the unfunded benefit obligation for pensions and other postretirement benefit plans as of March 31, 2010 and December 31, 2009.

NOTE 2. NEW ACCOUNTING STANDARDS

Effective January 1, 2010, the Company adopted Accounting Standards Update (ASU) No. 2009-16, Transfers and Servicing (Accounting Standards Codification (ASC) Topic 860). This ASU amends certain provisions of ASC 860 related to accounting for transfers of financial assets and a transferor s continuing involvement in transferred financial assets. In particular, the Company evaluated its accounts receivable sales financing facility (see Note 4) and determined the transactions no longer meet the criteria of sales of financial assets. As such, any transactions will be accounted for as secured borrowings. During the three months ended March 31, 2010, the Company did not borrow any funds under the revolving agreement. As such, the adoption of this ASU did not have any impact on the Company s financial condition, results of operations and cash flows.

Effective January 1, 2010, the Company adopted ASU No. 2009-17, Consolidations (Topic 810) - Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (VIEs). This ASU carries forward the scope of ASC 810, with the addition of entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated in ASU No. 2009-16 (ASC 860). The amendments required the Company to reconsider previous conclusions relating to the consolidation of VIEs, whether the Company is the VIE s primary beneficiary, and what type of financial statement disclosures are required.

The Company evaluated its power purchase agreement (PPA) for the Lancaster Project, a 270 MW natural gas-fired combined cycle combustion turbine plant located in Idaho, owned by an unrelated third-party (Rathdrum Power LLC). During development and at the time of the commencement of commercial operations in September 2001, Avista Power, LLC, another subsidiary of Avista Corp., owned 49 percent of the equity in the Lancaster Project. The Lancaster Project was financed with 80 percent debt and 20 percent equity. In October 2006, Avista Power, LLC sold its equity ownership interest in the Lancaster Project.

All of the output from the Lancaster Plant is contracted to Avista Turbine Power, Inc. (ATP), a subsidiary of Avista Corp., through 2026 under the PPA. In September 2001 the rights and obligations under the PPA were assigned to Avista Energy, Inc. (Avista Energy) another subsidiary of Avista Corp. Beginning in July 2007 through the end of 2009, ATP conveyed the majority of its rights and obligations under the PPA to Shell Energy in connection with the sale of the majority of Avista Energy s contracts and ongoing operations to Shell Energy. ATP conveyed these rights and obligations to Avista Corp. (Avista Utilities) beginning in January 2010.

Since Avista Corp. has a variable interest in the PPA, Avista Corp. made an evaluation of which interest holders have the power to direct the activities that most significantly impact the economic performance of the entity and which interest holders have the obligation to absorb losses or receive benefits that could be significant to the entity. Avista Corp. pays a fixed capacity and operations and maintenance payment and certain monthly variable costs under the PPA. Under the terms of the PPA, Avista Corp. makes the dispatch decisions, provides all natural gas fuel and receives all of the electric energy output from the Lancaster Plant. However, Rathdrum Power LLC (the owner) controls the daily operation of the Lancaster Plant and makes operating and maintenance decisions. Rathdrum Power LLC controls all of the rights and obligations of the Lancaster Plant after the expiration of the PPA in 2026. It is estimated that the plant will have 15 to 25 years of useful life after that time. Rathdrum Power LLC bears the maintenance risk of the plant and will receive the residual value of the Lancaster Plant. Avista Corp. has no debt or equity investments in the Lancaster Project and does not provide financial support through liquidity arrangements or other commitments (other than the PPA). Avista Corp. has provided Rathdrum Power LLC, the owner of the Lancaster Plant, a guarantee under which Avista Corp. has guaranteed ATP s performance under the PPA. Based on its analysis, Avista Corp. does not consider itself to be the primary beneficiary of the Lancaster Plant. The Company has a future contractual obligation of approximately $384 million under the PPA (representing the fixed capacity and operations and maintenance payments through 2026) and believes this would be its maximum exposure to loss. However, the Company believes that such costs will be recovered through retail rates.

The implementation of amendments to ASC 810 results in the Company including Spokane Energy, LLC (Spokane Energy) in its consolidated financial statements effective January 1, 2010. Spokane Energy is a special purpose limited liability company and all of its membership capital is

owned by Avista Corp. Spokane Energy was formed in December 1998, to assume ownership of a fixed rate electric capacity contract between Avista Corp. and Portland General Electric Company (PGE). Under the terms of the contract, Peaker, LLC (Peaker) purchases capacity from Avista Corp. and sells capacity to Spokane Energy, who in turn, sells the related capacity to PGE. Peaker acts as an intermediary to fulfill certain regulatory requirements between Spokane Energy and Avista Corp.

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AVISTA CORPORATION

To provide funding to acquire the contract from Avista Corp., Spokane Energy borrowed $145.0 million from a funding trust. The transaction is structured such that Spokane Energy bears full recourse risk for a loan that matures in January 2015. Avista Corp. bears no recourse related to this loan. In December 1998, Spokane Energy acquired the contract from Avista Corp. to supply electric energy capacity to PGE through December 31, 2016. The cost of acquiring the energy contract is being amortized and matched with sales revenue over the life of the contract using the effective interest method. Avista Corp. acts as the servicer under the contract and performs scheduling, billing and collection functions. In exchange for such services, Spokane Energy pays a monthly servicing fee to Avista Corp. The servicing fee is less than $0.1 million per year.

In December 1998, Avista Corp. received $143.4 million of cash from Spokane Energy related to the monetization of the contract. Pursuant to orders from the Washington Utilities and Transportation Commission (WUTC) and the Idaho Public Utilities Commission (IPUC), Avista Corp. fully amortized this amount by the end of 2002.

Avista Corp. did not previously consolidate Spokane Energy because Spokane Energy met the definition of the qualified special purpose entity (QSPE). As the amendments to ASC 810 and 860 eliminated the concept of a QSPE, Avista Corp. evaluated Spokane Energy for consolidation as a variable interest entity and determined that it was required to consolidate the entity. This determination was based primarily on Avista Corp. controlling the activities of Spokane Energy, owning all of the member capital of Spokane Energy, and receiving the majority of the residual benefits upon liquidation of the entity. The consolidation of Spokane Energy resulted in the following effects on the Condensed Consolidated Balance Sheet as of March 31, 2010 (dollars in thousands):

Current assets	$ 2,018
Long-term energy capacity contract receivable	78,889
Other property and investments-net	1,100
Total assets	$ 82,007
Current liabilities	$ (697)
Current portion of nonrecourse long-term debt	11,635
Nonrecourse long-term debt	55,918
Other non-current liabilities and deferred credits (1)	15,151
Total liabilities	$ 82,007

(1) Consists of a regulatory liability recorded for the cumulative retained earnings of Spokane Energy that the Company will flow through regulatory accounting mechanisms in future periods.

Due to the expected impact on regulatory accounting mechanisms in future periods, the consolidation of Spokane Energy did not have any effect on net income for the three months ended March 31, 2010. The consolidation of Spokane Energy increased (decreased) the following line items in the Condensed Consolidated Statements of Income for the three months ended March 31, 2010 (dollars in thousands):

Utility revenues	$ (450)
Non-utility energy revenues	4,676
Non-utility operating expenses - resource costs	2,745
Non-utility operating expenses - other operating expenses	17
Income from operations	1,464

Interest expense	1,466
Other expense - net	(2)

For the three months ended March 31, 2010, the regulatory liability recorded for the operations of Spokane Energy increased by $0.6 million.

The Company also evaluated several low-income housing project investments and determined that it should no longer consolidate these entities based upon the amendments to ASC 810. The Company determined that it was not the primary beneficiary because it lacks the power to direct any of the activities of the entities. The deconsolidation of the low-income housing project entities reduced current assets by $0.9 million, other property and investments-net by $1.7 million and long-term debt by $2.6 million effective January 1, 2010. The deconsolidation did not have any impact on the Company s equity or net income.

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NOTE 3. ADVANTAGE IQ ACQUISITIONS

Effective July 2, 2008, Advantage IQ completed the acquisition of Cadence Network, a privately held, Cincinnati-based energy and expense management company. As consideration, the owners of Cadence Network received a 25 percent ownership interest in Advantage IQ. The total value of the transaction was $37 million.

The acquisition of Cadence Network was funded with the issuance of Advantage IQ common stock. Under the transaction agreement, the previous owners of Cadence Network can exercise a right to have their shares of Advantage IQ common stock redeemed during July 2011 or July 2012 if Advantage IQ is not liquidated through either an initial public offering or sale of the business to a third party. Their redemption rights expire July 31, 2012. The redemption price would be determined based on the fair market value of Advantage IQ at the time of the redemption election as determined by certain independent parties. Based on the estimated fair market value of Advantage IQ common stock held by the previous owners of Cadence Network, redeemable noncontrolling interests were $31.2 million as of March 31, 2010. Additionally, certain minority shareholders and option holders of Advantage IQ have the right to put their shares back to Advantage IQ at their discretion during an annual put window. This redeemable noncontrolling interest was $8.7 million as of March 31, 2010 for the intrinsic value of stock options outstanding, as well as outstanding redeemable stock.

On August 31, 2009, Advantage IQ acquired substantially all of the assets and liabilities of Ecos Consulting, Inc. (Ecos), a Portland, Oregon-based energy efficiency solutions provider. The acquisition of Ecos was funded primarily through borrowings under Advantage IQ s committed credit agreement. Under the terms of the transaction, the assets and liabilities of Ecos were acquired by a wholly owned subsidiary of Advantage IQ.

NOTE 4. ACCOUNTS RECEIVABLE FINANCING FACILITY

Avista Receivables Corporation (ARC) is a wholly owned, bankruptcy-remote subsidiary of Avista Corp. formed for the purpose of acquiring or purchasing interests in certain accounts receivable, both billed and unbilled, of the Company. Avista Corp., ARC and a third-party financial institution are parties to a Receivables Purchase Agreement. Prior to January 1, 2010, transactions under this facility were accounted for as sales of financial assets. Effective January 1, 2010, ASC 860 was amended and the transactions no longer meet the criteria for sales of financial assets and will be accounted for as secured borrowings on a prospective basis. The agreement was amended on March 12, 2010 to, among other things, extend the termination date from March 12, 2010 to March 11, 2011 and to reduce the amount that can be borrowed under the facility to $50.0 million from $85.0 million. The Company reduced the amount of the facility based on its forecasted liquidity needs. ARC is obligated to pay fees that approximate the purchaser s cost of issuing commercial paper equal in value to the interests in receivables sold. The Receivables Purchase Agreement has financial covenants, which are substantially the same as those of Avista Corp. s committed lines of credit (see Note 7). Based on calculations of eligible receivables, ARC had the ability to borrow up to $50.0 million under this revolving agreement as of March 31, 2010 and $85.0 million as of December 31, 2009. The Company did not borrow any funds under this revolving agreement during the three months ended March 31, 2010.

NOTE 5. DERIVATIVES AND RISK MANAGEMENT

Energy Commodity Derivatives

Avista Utilities 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. Market risk may also be influenced by market participants nonperformance of their contractual obligations and commitments, which affects the supply of, or demand for, the commodity. Avista Utilities utilizes derivative instruments, such as forwards, futures, swaps and options in order to manage the various risks relating to these commodity price exposures. The Company has an energy resources risk policy and control procedures to manage these risks. The Company s Risk Management Committee establishes the Company s energy resources risk policy and monitors compliance. The Risk Management Committee is comprised of certain Company officers and other management. The Audit Committee of the Company s Board of Directors periodically reviews and discusses risk assessment and risk management policies, including the Company s material financial and accounting risk exposures and the steps management has undertaken to control them.

As part of its resource procurement and management operations in the electric business, Avista Utilities engages in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve Avista Utilities load obligations and the use of these resources to capture available economic value. Avista Utilities sells and purchases wholesale electric capacity and energy and fuel as part of the process of acquiring and balancing resources to serve its load obligations. These transactions range from terms of one hour up to multiple years.

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Avista Utilities makes continuing projections of:

- electric loads at various points in time (ranging from one hour to multiple years) based on, among other things, estimates of customer usage and weather, historical data and contract terms, and
- resource availability at these points in time based on, among other things, fuel choices and fuel markets, estimates of streamflows, availability of generating units, historic and forward market information, contract terms, and experience.

On the basis of these projections, Avista Utilities makes purchases and sales of electric capacity and energy and fuel to match expected resources to expected electric load requirements. Resource optimization involves generating plant dispatch and scheduling available resources and also includes transactions such as:

- purchasing fuel for generation,
- when economical, selling fuel and substituting wholesale electric purchases, and
- other wholesale transactions to capture the value of generation and transmission resources.

Avista Utilities optimization process includes entering into hedging transactions to manage risks.

As part of its resource procurement and management operations in the natural gas business, Avista Utilities makes continuing projections of its natural gas loads and assesses available natural gas resources. Forward natural gas contracts are typically for monthly delivery periods. However, daily variations in natural gas demand can be significantly different than monthly demand projections. On the basis of these projections, Avista Utilities plans and executes a series of transactions to hedge a significant portion of its projected natural gas requirements through forward market transactions and derivative instruments. These transactions may extend for multiple natural gas operating years (November through October) into the future. Avista Utilities also leaves a significant portion of its gas supply requirements unhedged for purchase in short-term and spot markets. Natural gas resource optimization activities include:

- wholesale market sales of surplus gas supplies,
- optimization of interstate pipeline transportation capacity not needed to serve daily load, and
- optimization of available storage capacity.

Derivatives are recorded as either assets or liabilities on the balance sheet measured at estimated fair value. In certain defined conditions, a derivative may be specifically designated as a hedge for a particular exposure. The accounting for derivatives depends on the intended use of the derivatives and the resulting designation.

The WUTC and the IPUC issued accounting orders authorizing Avista Utilities to offset 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 settlement. The orders provide for Avista Utilities to not recognize the unrealized gain or loss on utility derivative commodity instruments in the Condensed Consolidated Statements of Income. Realized gains or losses are recognized in the period of settlement, subject to approval for recovery through retail rates. Realized gains and losses, subject to regulatory approval, result in adjustments to retail rates through purchased gas cost adjustments, the Energy Recovery Mechanism (ERM) in Washington, the Power Cost Adjustment (PCA) mechanism in Idaho, and periodic general rates cases. Regulatory assets are assessed regularly and are probable for recovery through future rates.

Substantially all forward contracts to purchase or sell power and natural gas are recorded as assets or liabilities at market value with an offsetting regulatory asset or liability. Contracts that are not considered derivatives are generally 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.

The following table presents the underlying energy commodity derivative volumes as of March 31, 2010 that are expected to settle in each respective year (in thousands of MWhs and mmBTUs):

	Purchases				**Sales**			
	Electric Derivatives		**Gas Derivatives**		**Electric Derivatives**		**Gas Derivatives**	
Year	**Physical MWH**	**Financial MWH**	**Physical mmBTUs**	**Financial mmBTUs**	**Physical MWH**	**Financial MWH**	**Physical mmBTUs**	**Financial mmBTUs**
2010	582	377	28,813	2,525	1,864	218	5,322	1,990
2011	517	376	18,278	3,318	286	31	2,215	4,443
2012	489	465	6,352	1,593	287		1,525	1,593
2013	368		2,330		286		1,500	
2014	366		450		286		1,475	
Thereafter	1,694				1,303			

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Foreign Currency Exchange Contracts

A significant portion of Avista Utilities 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 Utilities short-term natural gas transactions and long-term Canadian transportation contracts are committed based on Canadian currency prices and settled within sixty days with U.S. dollars. In early 2009, Avista Utilities implemented a process to economically hedge a portion of the foreign currency risk by purchasing Canadian currency when such commodity transactions are initiated. This risk has not had a material effect on the Company s financial condition, results of operations or cash flows and these differences in cost related to currency fluctuations were included with natural gas supply costs for ratemaking. As of March 31, 2010, the Company had a current derivative asset for foreign currency hedges of less than $0.1 million included in other current assets on the Condensed Consolidated Balance Sheet. As of March 31, 2010, the Company had entered into 28 Canadian currency forward contracts with a notional amount of $8.6 million ($8.7 million Canadian). As of December 31, 2009, the Company had a current derivative liability for foreign currency hedges of less than $0.1 million included in other current liabilities on the Condensed Consolidated Balance Sheet. As of December 31, 2009, the Company had entered into 24 Canadian currency forward contracts with a notional amount of $10.2 million ($10.6 million Canadian).

Interest Rate Swap Agreements

Avista Corp. enters into forward-starting interest rate swap agreements to manage the risk associated with changes in interest rates and the impact on future interest payments. These interest rate swap agreements relate to the interest payments for anticipated debt issuances. These interest rate swap agreements are considered economic hedges against fluctuations in future cash flows associated with changes in interest rates. Settlements of the interest rate swaps are deferred as a regulatory asset or liability (included as part of long-term debt) and are amortized as a component of interest expense over the life of the associated debt issued in accordance with regulatory accounting practices. The Company did not have any interest rate swap contracts outstanding as of March 31, 2010 and December 31, 2009.

Derivative Instruments Summary

The following table presents the fair values and locations of derivative instruments recorded on the Condensed Consolidated Balance Sheet as of March 31, 2010 (in thousands):

		Fair Value		
Derivative	**Balance Sheet Location**	**Asset**	**Liability**	**Net Asset (Liability)**
Foreign currency contracts	Other current assets	$ 19	$	$ 19
Commodity contracts	Current utility energy commodity derivative assets	14,643	(4,445)	10,198
Commodity contracts	Non-current utility energy commodity derivative assets	29,273	(5,290)	23,983
Commodity contracts	Current utility energy commodity derivative liabilities	7,443	(51,996)	(44,553)
Commodity contracts	Other non-current liabilities and deferred credits	759	(23,083)	(22,324)
Total derivative instruments recorded on the balance sheet		$ 52,137	$ (84,814)	$ (32,677)

The following table presents the fair values and locations of derivative instruments recorded on the Condensed Consolidated Balance Sheet as of December 31, 2009 (in thousands):

		Fair Value	
Derivative	**Balance Sheet Location**	**Asset**	**Liability**

				Net Asset (Liability)
Foreign currency contracts	Other current liabilities	$	$ (50)	$ (50)
Commodity contracts	Current utility energy commodity derivative assets	8,976	(1,219)	7,757
Commodity contracts	Non-current utility energy commodity derivative assets	53,765	(8,282)	45,483
Commodity contracts	Current utility energy commodity derivative liabilities	5,783	(21,870)	(16,087)
Commodity contracts	Other non-current liabilities and deferred credits	650	(3,521)	(2,871)
Total derivative instruments recorded on the balance sheet		$ 69,174	$ (34,942)	$ 34,232

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Exposure to Demands for Collateral

The Company 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 the Company s credit ratings or adverse changes in market prices. In periods of price volatility, the level of exposure can change significantly. As a result, sudden and significant demands may be made against the Company s credit facilities and cash. The Company actively monitors the exposure to possible collateral calls and takes steps to minimize capital requirements.

Certain of the Company s derivative instruments contain provisions that require the Company to maintain an investment grade credit rating from the major credit rating agencies. If the Company 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 aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position as of March 31, 2010 was $37.7 million. If the credit-risk-related contingent features underlying these agreements were triggered on March 31, 2010, the Company would be required to post $19.8 million of collateral to its counterparties.

Credit Risk

Credit risk relates to the potential losses that the Company would incur as a result of non-performance by counterparties of their contractual obligations to deliver energy or make financial settlements. The Company often extends credit to counterparties and customers and is exposed to the risk that it may not be able to collect amounts owed to the Company. Changes in market prices may dramatically alter the size of credit risk with counterparties, even when conservative credit limits are established.

Credit risk includes potential counterparty default due to circumstances:

- relating directly to it,
- caused by market price changes, and
- relating to other market participants that have a direct or indirect relationship with such counterparty.

Should a counterparty, customer or supplier fail to perform, the Company may be required to honor the underlying commitment or to replace existing contracts with contracts at then-current market prices. The Company seeks to mitigate credit risk by:

- entering into bilateral contracts that specify credit terms and protections against default,
- applying credit limits and duration criteria to existing and prospective counterparties,
- actively monitoring current credit exposures, and

conducting some of its transactions on exchanges with clearing arrangements that essentially eliminate counterparty default risk. These credit policies include an evaluation of the financial condition and credit ratings of counterparties, collateral requirements or other credit enhancements, such as letters of credit or parent company guarantees. The Company also uses standardized agreements that allow for the netting or offsetting of positive and negative exposures associated with a single counterparty or affiliated group.

The Company has concentrations of suppliers and customers in the electric and natural gas industries including:

- electric utilities,
- electric generators and transmission providers,
- natural gas producers and pipelines,
- financial institutions, and
- energy marketing and trading companies.

In addition, the Company has concentrations of credit risk related to geographic location as it operates in the western United States and western Canada. These concentrations of counterparties and concentrations of geographic location may impact the Company s overall exposure to credit risk, either positively or negatively, because the counterparties may be similarly affected by changes in conditions.

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As is common industry practice, Avista Utilities maintains margin agreements with certain counterparties. Margin calls are triggered when exposures exceed predetermined contractual limits or when there are changes in a counterparty s creditworthiness. Price movements in electricity and natural gas can generate exposure levels in excess of these contractual limits. Margin calls are periodically made and/or received by Avista Utilities. Negotiating for collateral in the form of cash, letters of credit, or performance guarantees is common industry practice.

Cash deposits from counterparties totaled $3.2 million at each of March 31, 2010 and December 31, 2009. These funds were held by Avista Utilities to mitigate the potential impact of counterparty default risk. These amounts are subject to return if conditions warrant because of continuing portfolio value fluctuations with those parties or substitution of non-cash collateral.

NOTE 6. PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company has a defined benefit pension plan covering substantially all regular full-time employees at Avista Utilities. Individual benefits under this plan are based upon the employee s years of service, date of hire and average compensation as specified in the plan. 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 $48 million in cash to the pension plan in 2009. The Company expects to contribute $21 million to the pension plan in 2010 ($7 million was contributed in the first quarter of 2010).

The Company also has a Supplemental Executive Retirement Plan (SERP) that provides additional pension benefits to executive officers of the Company. The SERP is intended to provide benefits to executive officers whose benefits under the pension plan are reduced due to the application of Section 415 of the Internal Revenue Code of 1986 and the deferral of salary under deferred compensation plans. The liability and expense for this plan are included as pension benefits.

The Company provides certain health care and life insurance benefits for substantially all of its retired employees. The Company accrues the estimated cost of postretirement benefit obligations during the years that employees provide services.

The Company established a Health Reimbursement Arrangement to provide employees with tax-advantaged funds to pay for allowable medical expenses upon retirement. The amount earned by the employee is fixed on the retirement date based on the employee s years of service and the ending salary. The liability and expense of this plan are included as other postretirement benefits.

The Company provides death benefits to beneficiaries of executive officers who die during their term of office or after retirement. Under the plan, an executive officer s designated beneficiary will receive a payment equal to twice the executive officer s annual base salary at the time of death (or if death occurs after retirement, a payment equal to twice the executive officer s total annual pension benefit). The liability and expense for this plan are included as other postretirement benefits.

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

	Pension Benefits		Other Post-retirement Benefits	
	2010	**2009**	**2010**	**2009**
Service cost	$ 2,878	$ 2,673	$ 202	$ 202
Interest cost	5,823	5,404	619	571
Expected return on plan assets	(5,347)	(4,238)	(341)	(341)
Transition obligation recognition			126	126
Amortization of prior service cost	163	164	(37)	(37)
Net loss recognition	1,791	2,055	338	263

Net periodic benefit cost	$ 5,308	$ 6,058	$ 907	$ 784

NOTE 7. SHORT-TERM BORROWINGS

Avista Corp. has a committed line of credit agreement with various banks in the total amount of $320.0 million with an expiration date of April 5, 2011. Under the credit agreement, the Company can borrow or request the issuance of letters of credit in any combination up to $320.0 million. The Company had $70.0 million in borrowings

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outstanding under this committed line of credit as of March 31, 2010 and $87.0 million as of December 31, 2009. Total letters of credit outstanding were $27.9 million as of March 31, 2010 and $28.4 million as of December 31, 2009. The committed line of credit is secured by $320.0 million of 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.

Additionally, the Company has a committed line of credit agreement with various banks in the total amount of $75.0 million with an expiration date of April 5, 2011. Avista Corp. may elect to increase the committed line of credit by up to $25.0 million under the same agreement. As of March 31, 2010 and December 31, 2009, the Company did not have any borrowings outstanding under this committed line of credit. The committed line of credit is secured by $75.0 million of 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.

The committed line of credit agreements contain customary covenants and default provisions, including a covenant requiring the ratio of earnings before interest, taxes, depreciation and amortization to interest expense of Avista Utilities for the preceding twelve-month period at the end of any fiscal quarter to be greater than 1.6 to 1. As of March 31, 2010, the Company was in compliance with this covenant with a ratio of 4.16 to 1. The committed line of credit agreements also have a covenant which does not permit the ratio of consolidated total debt to consolidated total capitalization of Avista Corp. to be greater than 70 percent at any time. As of March 31, 2010, the Company was in compliance with this covenant with a ratio of 54.4 percent.

Advantage IQ

Advantage IQ has a $15.0 million committed credit agreement with an expiration date of February 2011. Advantage IQ may elect to increase the credit facility to $25.0 million under the same agreement. The credit agreement is secured by substantially all of Advantage IQ s assets. Advantage IQ had $5.3 million of borrowings outstanding under the credit agreement as of March 31, 2010, and $5.7 million as of December 31, 2009.

NOTE 8. LONG-TERM DEBT

The following details long-term debt outstanding as of March 31, 2010 and December 31, 2009 (dollars in thousands):

Maturity Year	Description	Interest Rate	March 31, 2010	December 31, 2009
2010	Secured Medium-Term Notes	6.67%-8.02%	$ 35,000	$ 35,000
2012	Secured Medium-Term Notes	7.37%	7,000	7,000
2013	First Mortgage Bonds	6.13%	45,000	45,000
2013	First Mortgage Bonds	7.25%	30,000	30,000
2018	First Mortgage Bonds	5.95%	250,000	250,000
2018	Secured Medium-Term Notes	7.39%-7.45%	22,500	22,500
2019	First Mortgage Bonds	5.45%	90,000	90,000
2022	First Mortgage Bonds	5.13%	250,000	250,000
2023	Secured Medium-Term Notes	7.18%-7.54%	13,500	13,500
2028	Secured Medium-Term Notes	6.37%	25,000	25,000
2032	Secured Pollution Control Bonds (1)	(1)	66,700	66,700
2034	Secured Pollution Control Bonds (2)	(2)	17,000	17,000
2035	First Mortgage Bonds	6.25%	150,000	150,000
2037	First Mortgage Bonds	5.70%	150,000	150,000

	Total secured long-term debt		1,151,700	1,151,700
2023	Unsecured Pollution Control Bonds	6.00%	4,100	4,100
	Other long-term debt and capital leases		5,727	3,018
	Interest rate swaps		(1,611)	(1,844)
	Unamortized debt discount		(1,890)	(1,936)
	Total		1,158,026	1,155,038
	Secured Pollution Control Bonds held by Avista Corporation (1) (2)		(83,700)	(83,700)
	Current portion of long-term debt		(35,316)	(35,189)
	Total long-term debt		$ 1,039,010	$ 1,036,149

(1) In December 2008, $66.7 million of the City of Forsyth, Montana Pollution Control Revenue Refunding Bonds, Series 1999A (Avista Corporation Colstrip Project) due 2032 were remarketed. Avista Corp. purchased these Pollution Control Bonds and expects that at a later date, subject to market conditions, these bonds will be refunded or remarketed to unaffiliated investors or refunded by a new issue. Although Avista Corp. is now the holder of these Pollution Control Bonds, the bonds will not be cancelled but will remain outstanding under the City of Forsyth s indenture. However, so long as Avista Corp. is the holder, the bonds will not be reflected as an asset or a liability on Avista Corp. s Condensed Consolidated Balance Sheet.

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(2) In December 2008, the City of Forsyth, Montana issued $17.0 million of its Pollution Control Revenue Refunding Bonds, Series 2008 (Avista Corp. Colstrip Project) due 2034 on behalf of Avista Corp. The proceeds of the Bonds were used to refund $17.0 million of Pollution Control Revenue Refunding Bonds, Series 1999B (Avista Corp. Colstrip Project) issued by the City of Forsyth, Montana on behalf of Avista Corp., which were subject to remarketing or refunding on December 31, 2008. In December 2009, Avista Corp. purchased the Bonds and expects that at a later date, subject to market conditions, the bonds will be refunded or remarketed to unaffiliated investors. Although Avista Corp. is now the holder of these Pollution Control Bonds, the bonds will not be cancelled but will remain outstanding under the City of Forsyth s indenture. However, so long as Avista Corp. is the holder, the bonds will not be reflected as an asset or a liability on Avista Corp. s Condensed Consolidated Balance Sheet.

NOTE 9. NONRECOURSE LONG-TERM DEBT

Nonrecourse long-term debt (including current portion) represents the long-term debt of Spokane Energy. To provide funding to acquire a long-term fixed rate electric capacity contract from Avista Corp., Spokane Energy borrowed $145.0 million from a funding trust in December 1998. The long-term debt has scheduled monthly installments and interest at a fixed rate of 8.45 percent with the final payment due in January 2015. Spokane Energy bears full recourse risk for the debt, which is secured by the fixed rate electric capacity contract and $1.6 million of funds held in a trust account.

NOTE 10. FAIR VALUE

Fair value represents the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The carrying values of cash and cash equivalents, restricted cash, accounts and notes receivable, accounts payable and short-term borrowings are reasonable estimates of their fair values. Long-term debt (including current portion, but excluding capital leases), nonrecourse long-term debt and long-term debt to affiliated trusts are reported at carrying value on the Condensed Consolidated Balance Sheets.

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 March 31, 2010 and December 31, 2009 (dollars in thousands):

	March 31, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt	$ 1,072,100	$ 1,098,113	$ 1,072,100	$ 1,079,857
Nonrecourse long-term debt	67,553	79,504		
Long-term debt to affiliated trusts	51,547	43,627	51,547	43,534

These estimates of fair value of long-term debt and long-term debt to affiliated trusts were primarily based on available market information. Due to the unique nature of the long-term fixed rate electric capacity contract securing the long-term debt of Spokane Energy (nonrecourse long-term debt), the estimated fair value of nonrecourse long-term debt was determined based on a discounted cash flow model using available market information.

Energy commodity derivative assets and liabilities, deferred compensation assets, as well as derivatives related to interest rate swap agreements and foreign currency exchange contracts, are reported at estimated fair value on the Condensed Consolidated Balance Sheets. U.S. GAAP defines a fair value hierarchy that 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 unobservable inputs (Level 3 measurement).

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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, 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. Level 3 instruments include those that may be more structured or otherwise tailored to the Company s needs.

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.

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 March 31, 2010 and December 31, 2009 at fair value on a recurring basis (dollars in thousands):

	Level 1	Level 2	Level 3	Counterparty Netting (1)	Total
March 31, 2010					
Assets:					
Energy commodity derivatives	$	$ 21,331	$ 30,788	$ (17,938)	$ 34,181
Foreign currency derivatives		19			19
Deferred compensation assets:					
Fixed income securities (2)	954				954
Equity securities (2)	8,581				8,581
Total	$ 9,535	$ 21,350	$ 30,788	$ (17,938)	$ 43,735
Liabilities:					
Energy commodity derivatives	$	$ 79,919	$ 4,896	$ (17,938)	$ 66,877
December 31, 2009					
Assets:					
Energy commodity derivatives	$	$ 11,898	$ 57,276	$ (15,934)	$ 53,240
Deferred compensation assets:					
Fixed income securities (2)	2,011				2,011
Equity securities (2)	5,863				5,863

Total	$ 7,874	$ 11,898	$ 57,276	$ (15,934)	$ 61,114
Liabilities:					
Energy commodity derivatives	$	$ 27,086	$ 7,806	$ (15,934)	$ 18,958
Foreign currency derivatives		50			50
Total	$	$ 27,136	$ 7,806	$ (15,934)	$ 19,008

(1) The Company is permitted to net derivative assets and derivative liabilities when a legally enforceable master netting agreement exists.
(2) These assets are trading securities.

Avista Utilities enters into forward contracts to purchase or sell a specified amount of energy at a specified time, or during a specified period, in the future. These contracts are entered into as part of Avista Utilities management of loads and resources and certain contracts are considered derivative instruments. The difference between the amount of derivative assets and liabilities disclosed in respective levels and the amount of derivative assets and liabilities

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disclosed on the Condensed Consolidated Balance Sheets is due to netting arrangements with certain counterparties. The Company uses quoted market prices and forward price curves to estimate the fair value of utility derivative commodity instruments included in Level 2. In particular, electric derivative valuations are performed using broker quotes, adjusted for periods in between quotable periods. Natural gas derivative valuations are estimated using New York Mercantile Exchange (NYMEX) pricing for similar instruments, adjusted for basin differences, using broker quotes. Where observable inputs are available for substantially the full term of the contract, the derivative asset or liability is included in Level 2. The Company also has certain contracts that, primarily due to the length of the respective contract, require the use of internally developed forward price estimates, which include significant inputs that may not be observable or corroborated in the market. These derivative contracts are included in Level 3. Refer to Note 5 for further discussion of the Company s energy commodity derivative assets and liabilities.

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 in the table above excludes cash and cash equivalents of $0.1 million as of March 31, 2010 and $1.6 million as of December 31, 2009.

The following table presents activity for energy commodity derivative assets and (liabilities) measured at fair value using significant unobservable inputs (Level 3) for the three months ended March 31 (dollars in thousands):

	Assets		Liabilities	
	2010	**2009**	**2010**	**2009**
Balance as of January 1	$ 57,276	$ 68,047	$ (7,806)	$ (16,085)
Total gains or losses (realized/unrealized):				
Included in net income				
Included in other comprehensive income				
Included in regulatory assets/liabilities (1)	(24,192)	(18,220)	2,910	3,190
Purchases, issuances, and settlements, net	(2,296)	(1,152)		28
Transfers to other categories				
Ending balance as of March 31	$ 30,788	$ 48,675	$ (4,896)	$ (12,867)

(1) The WUTC and the IPUC issued accounting orders authorizing Avista Utilities to offset 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 settlement. The orders provide for Avista Utilities to not recognize the unrealized gain or loss on utility derivative commodity instruments in the Condensed Consolidated Statements of Income. Realized gains or losses are recognized in the period of settlement, subject to approval for recovery through retail rates. Realized gains and losses, subject to regulatory approval, result in adjustments to retail rates through purchased gas cost adjustments, the ERM in Washington, the PCA mechanism in Idaho, and periodic general rates cases. Regulatory assets are assessed regularly and are probable for recovery through future rates.

NOTE 11. EARNINGS PER COMMON SHARE ATTRIBUTABLE TO AVISTA CORPORATION

The following table presents the computation of basic and diluted earnings per common share attributable to Avista Corporation for the three months ended March 31 (in thousands, except per share amounts):

	2010	**2009**
Numerator:		
Net income attributable to Avista Corporation	$ 28,810	$ 31,026

Subsidiary earnings adjustment for dilutive securities	(35)	(34)
Adjusted net income attributable to Avista Corporation for computation of diluted earnings per common share	$ 28,775	$ 30,992
Denominator:		
Weighted-average number of common shares outstanding-basic	54,869	54,616
Effect of dilutive securities:		
Contingent stock awards	162	25
Stock options	84	81
Weighted-average number of common shares outstanding-diluted	55,115	54,772
Earnings per common share attributable to Avista Corporation:		
Basic	$ 0.53	$ 0.57
Diluted	$ 0.52	$ 0.57

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Total stock options outstanding excluded in the calculation of diluted earnings per common share attributable to Avista Corporation were 207,250 for the three months ended March 31, 2010 and 355,350 for the three months ended March 31, 2009. These stock options were excluded from the calculation because they were antidilutive based on the fact that the exercise price of the stock options was higher than the average market price of Avista Corp. common stock during the respective period.

NOTE 12. 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. 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 operations, the Company intends to seek, to the extent appropriate, recovery of incurred costs through the ratemaking process.

Federal Energy Regulatory Commission Inquiry

In April 2004, the Federal Energy Regulatory Commission (FERC) approved the contested Agreement in Resolution of Section 206 Proceeding (Agreement in Resolution) between Avista Corp. doing business as Avista Utilities, Avista Energy and the FERC s Trial Staff which stated that there was: (1) no evidence that any executives or employees of Avista Utilities or Avista Energy knowingly engaged in or facilitated any improper trading strategy during 2000 and 2001; (2) no evidence that Avista Utilities or Avista Energy engaged in any efforts to manipulate the western energy markets during 2000 and 2001; and (3) no finding that Avista Utilities or Avista Energy withheld relevant information from the FERC s inquiry into the western energy markets for 2000 and 2001 (Trading Investigation). The Attorney General of the State of California (California AG), the California Electricity Oversight Board, California Parties and the City of Tacoma, Washington challenged the FERC s decisions approving the Agreement in Resolution, which are now pending before the United States Court of Appeals for the Ninth Circuit (Ninth Circuit).

In May 2004, the FERC provided notice that Avista Energy was no longer subject to an investigation reviewing certain bids above $250 per MW in the short-term energy markets operated by the California Independent System Operator (CalISO) and the California Power Exchange (CalPX) from May 1, 2000 to October 2, 2000 (Bidding Investigation). That matter is also pending before the Ninth Circuit, after the California AG, Pacific Gas & Electric (PG&E), Southern California Edison Company (SCE) and the California Public Utilities Commission (CPUC) filed petitions for review in 2005.

Based on the FERC s order approving the Agreement in Resolution and the FERC s denial of rehearing requests, the Company does not expect that this proceeding will have any material adverse effect on its financial condition, results of operations or cash flows. Furthermore, based on information currently known to the Company regarding the Bidding Investigation and the fact that the FERC Staff did not find any evidence of manipulative behavior, the Company does not expect that this matter will have a material adverse effect on its financial condition, results of operations or cash flows. The Company has not accrued a liability related to this matter.

California Refund Proceeding

In July 2001, the FERC ordered an evidentiary hearing to determine the amount of refunds due to California energy buyers for purchases made in the spot markets operated by the CalISO and the CalPX during the period from October 2, 2000 to June 20, 2001 (Refund Period). Proposed refunds are based on the calculation of mitigated market clearing prices for each hour. The FERC ruled that if the refunds required by the formula would cause a seller to recover less than its actual costs for the Refund Period, sellers may document these costs and limit their refund liability commensurately. In September 2005, Avista Energy submitted its cost filing claim pursuant to the FERC s August 2005 order. That filing was accepted in orders issued by the FERC in January 2006 and November 2006. In June 2009, the FERC reversed, in part, its previous decision and ordered a compliance filing requiring an adjustment to the return on investment component of Avista Energy s cost filing. That compliance filing was made in July 2009. In March 2010, the California AG, the CPUC, PG&E, and SCE filed a protest and comments on Avista Energy s compliance filing. In April 2010, Avista Energy filed a response and corrected a technical error from its July 2009 filing that increased its cost filing claim. The California AG, CPUC, PG&E and SCE filed an answer and protest to this filing in April 2010. The revised

compliance filing is pending before the FERC.

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The CalISO continues to work on its compliance filing for the Refund Period, which will show who owes what to whom. In March 2010, the CalISO filed its 44th status report on the California recalculation process confirming that the preparatory and the FERC refund recalculations are complete (as are calculations related to fuel cost allowance offsets, emission offsets, cost-recovery offsets, and certain interest calculations). In April 2010, the CalISO filed an updated compliance report concerning preparatory re-run activity. The CalISO stated in its March 2010 status report that it is in the process of making adjustments to the CalISO data to remove refunds associated with sales made by non-jurisdictional entities. In addition, the CalISO says that it will need to work with parties to the various global settlements to make appropriate adjustments to the CalISO s data in order to properly reflect those adjustments. After completing these calculations, the CalISO states that it intends to make a compliance filing with the FERC that presents the final financial position of each party that participated in its markets during the Refund Period. In a separate filing made in March 2010, the CalISO stated that it does not intend to make any compliance filing until, *inter alia*, the FERC resolves issues related to the Ninth Circuit s remand regarding possible remedies for alleged tariff violations pursuant to Federal Power Act (FPA) section 309, prior to the refund effective date in this proceeding (discussed below). In May 2010, the CalPX made a compliance filing in response to the FERC s order directing it to complete refund calculations. That filing included current balances for all market participants and requested guidance from the FERC on issues related to completing the final determination of who owes what to whom.

The 2001 bankruptcy of PG&E resulted in a default on its payment obligations to the CalPX. As a result, Avista Energy has not been paid for all of its energy sales during the Refund Period. Those funds are now in escrow accounts and will not be released until the FERC issues an order directing such release in the California refund proceeding. As of March 31, 2010, Avista Energy s accounts receivable outstanding related to defaulting parties in California were fully offset by reserves for uncollected amounts and funds collected from defaulting parties.

Many of the orders that the FERC has issued in the California refund proceedings were appealed to the Ninth Circuit. In October 2004, the Ninth Circuit ordered that briefing proceed in two rounds. The first round was limited to three issues: (1) which parties are subject to the FERC s refund jurisdiction in light of the exemption for government-owned utilities in section 201(f) of the FPA; (2) the temporal scope of refunds under section 206 of the FPA; and (3) which categories of transactions are subject to refunds. The second round of issues and their corresponding briefing schedules have not yet been set by the Ninth Circuit.

In September 2005, the Ninth Circuit held that the FERC did not have the authority to order refunds for sales made by municipal utilities in the California refund proceeding. In August 2006, the Ninth Circuit upheld October 2, 2000 as the refund effective date for the FPA section 206 refund proceeding, but remanded to the FERC its decision not to consider an FPA section 309 remedy for tariff violations prior to that date. Petitions for rehearing were denied in April 2009. In July 2009, Avista Energy and Avista Utilities filed a motion at the FERC, asking that the companies be dismissed from any further proceedings arising under section 309 pursuant to the remand. The filing pointed out that section 309 relief is based on tariff violations of the seller, and as to Avista Energy and Avista Utilities, these allegations had already been fully adjudicated in the proceeding that gave rise to the Agreement in Resolution, discussed above. There, the FERC absolved both companies of all allegations of market manipulation or wrongdoing that would justify or permit FPA sections 206 or 309 remedies during 2000 and 2001. In November 2009, the FERC issued an order establishing an evidentiary hearing before an administrative law judge to address the issues remanded by the Ninth Circuit without addressing the Company s pending motion. In December 2009, the Company again brought the issue to the FERC s attention but its motion remains pending.

Because the resolution of the California refund proceeding remains uncertain, legal counsel cannot express an opinion on the extent of the Company s liability, if any. However, based on information currently known, the Company does not expect that the refunds ultimately ordered for the Refund Period will have a material adverse effect on its financial condition, results of operations or cash flows. This is primarily due to the fact that the FERC orders have stated that any refunds will be netted against unpaid amounts owed to the respective parties and the Company does not believe that refunds would exceed unpaid amounts owed to the Company. As such, the Company has not accrued a liability related to this matter.

Pacific Northwest Refund Proceeding

In July 2001, the FERC initiated a preliminary evidentiary hearing to develop a factual record as to whether prices for spot market sales of wholesale energy in the Pacific Northwest between December 25, 2000 and June 20, 2001 were just and reasonable. In June 2003, the FERC terminated the Pacific Northwest refund proceedings, after finding that the equities do not justify the imposition of refunds. In August 2007, the Ninth Circuit found that the FERC, in denying the request for refunds, had failed to take into account new evidence of market manipulation in

the California energy market and its potential ties to the Pacific Northwest energy market and that such failure was arbitrary and capricious and, accordingly, remanded the case to the FERC, stating that the FERC s findings must be reevaluated in light of the evidence. In addition, the Ninth Circuit concluded that the FERC abused its discretion in denying potential relief for transactions involving energy that was purchased by the California Department of Water Resources (CERS) in the Pacific Northwest and ultimately consumed in California. The Ninth Circuit expressly declined to direct the FERC to grant refunds. Requests for rehearing were denied in April 2009.

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In May 2009, the California AG filed a complaint against both Avista Energy and Avista Utilities seeking refunds on sales made to CERS during the period January 18, 2001 to June 20, 2001 under section 309 of the FPA (the Brown Complaint). The sales at issue are limited in scope and are duplicative of claims already at issue in the Pacific Northwest proceeding, discussed above. In August 2009, the City of Tacoma and the Port of Seattle filed a motion asking the FERC to summarily re-price sales of energy in the Pacific Northwest during 2000 and 2001. In October 2009, Avista Corp. filed, as part of the Transaction Finality Group, an answer to that motion and, in addition, made its own recommendations for further proceedings in this docket. Those pleadings are pending before the FERC.

Both Avista Utilities and Avista Energy were buyers and sellers of energy in the Pacific Northwest energy market during the period between December 25, 2000 and June 20, 2001 and, if refunds were ordered by the FERC, could be liable to make payments, but also could be entitled to receive refunds from other FERC-jurisdictional entities. The opportunity to make claims against non-jurisdictional entities may be limited based on existing law. The Company cannot predict the outcome of this proceeding or the amount of any refunds that Avista Utilities or Avista Energy could be ordered to make or could be entitled to receive. Therefore, the Company cannot predict the potential impact the outcome of this matter could ultimately have on the Company s results of operations, financial condition or cash flows. The Company has not accrued a liability related to this matter.

California Attorney General Complaint (the Lockyer Complaint)

In May 2002, the FERC conditionally dismissed a complaint filed in March 2002 by the California AG that alleged violations of the FPA by the FERC and all sellers (including Avista Corp. and its subsidiaries) of electric power and energy into California. The complaint alleged that the FERC s adoption and implementation of market-based rate authority was flawed and, as a result, individual sellers should refund the difference between the rate charged and a just and reasonable rate. In May 2002, the FERC issued an order dismissing the complaint but directing sellers to re-file certain transaction summaries. It was not clear that Avista Corp. and its subsidiaries were subject to this directive but the Company took the conservative approach and re-filed certain transaction summaries in June and July of 2002. In September 2004, the Ninth Circuit upheld the FERC s market-based rate authority, but held that the FERC erred in ruling that it lacked authority to order refunds for violations of its reporting requirement. The Court remanded the case for further proceedings, but did not order any refunds, leaving it to the FERC to consider appropriate remedial options.

In March 2008, the FERC issued an order establishing a trial-type hearing to address whether any individual public utility seller s violation of the FERC s market-based rate quarterly reporting requirement led to an unjust and unreasonable rate for that particular seller in California during the 2000-2001 period. Purchasers in the California markets will be allowed to present evidence that any seller that violated the quarterly reporting requirement failed to disclose an increased market share sufficient to give it the ability to exercise market power and thus cause its market-based rates to be unjust and unreasonable. In particular, the parties are directed to address whether the seller at any point reached a 20 percent generation market share threshold, and if the seller did reach a 20 percent market share, whether other factors were present to indicate that the seller did not have the ability to exercise market power. The California AG, CPUC, PG&E, and SCE filed their testimony in July 2009. Avista Utilities and Avista Energy s answering testimony was filed in September 2009. On the same day, the FERC staff filed its answering testimony taking the position that, using the test the FERC directed to be applied in this proceeding, neither Avista Utilities nor Avista Energy had market power for the period in question. Cross answering testimony and rebuttal testimony were filed in November 2009. In January 2010, Avista Utilities and Avista Energy filed a motion for summary disposition, as did other parties to the proceeding. In March 2010, the Presiding Administrative Law Judge (ALJ) granted the motions for summary disposition and found that a hearing was unnecessary because the California AG, CPUC, PG&E and SCE failed to apply the appropriate test to determine market power during the relevant time period. The judge determined that [w]ithout a proper showing of market power, the California Parties failed to establish a prima facie case. Briefs on exceptions were filed in April 2010 and briefs opposing exceptions are due in May 2010.

Based on information currently known to the Company s management, the fact that neither Avista Utilities nor Avista Energy ever reached a 20 percent generation market share during 2000 or 2001 and the ALJ s granting of Avista Utilities and Avista Energy s summary disposition motion, the Company does not expect that this matter will have a material adverse effect on its financial condition, results of operations or cash flows. The Company has not accrued any liability related to this matter.

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Colstrip Generating Project Complaints

In March 2007, two families that own property near the holding ponds from Units 3 & 4 of the Colstrip Generating Project (Colstrip) filed a complaint against the owners of Colstrip and Hydrometrics, Inc. in Montana District Court. Avista Corp. owns a 15 percent interest in Units 3 & 4 of Colstrip. The plaintiffs allege that the holding ponds and remediation activities have adversely impacted their property. They allege contamination, decrease in water tables, reduced flow of streams on their property and other similar impacts to their property. They also seek punitive damages, attorney s fees, an order by the court to remove certain ponds, and the forfeiture of profits earned from the generation of Colstrip. The trial is set to begin in May 2011. Because the resolution of this complaint remains uncertain, legal counsel cannot express an opinion on the extent, if any, of the Company s liability. However, based on information currently known to the Company s management, the Company does not expect this complaint will have a material adverse effect on its financial condition, results of operations or cash flows. The Company has not accrued a liability related to this matter.

Harbor Oil Inc. Site

Avista Corp. used Harbor Oil Inc. (Harbor Oil) for the recycling of waste oil and non-PCB transformer oil in the late 1980s and early 1990s. In June 2005, the Environmental Protection Agency (EPA) Region 10 provided notification to Avista Corp. and several other parties, as customers of Harbor Oil, that the EPA had determined that hazardous substances were released at the Harbor Oil site in Portland, Oregon and that Avista Corp. and several other parties may be liable for investigation and cleanup of the site under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly referred to as the federal Superfund law, which provides for joint and several liability. The initial indication from the EPA is that the site may be contaminated with PCBs, petroleum hydrocarbons, chlorinated solvents and heavy metals. Six potentially responsible parties, including Avista Corp., signed an Administrative Order on Consent with the EPA on May 31, 2007 to conduct a remedial investigation and feasibility study (RI/FS). The total cost of the RI/FS is estimated to be $1.5 million and it is expected that it will be completed by early 2011. The actual cleanup, if any, will not occur until the RI/FS is complete. Based on the review of its records related to Harbor Oil, the Company does not believe it is a major contributor to this potential environmental contamination based on the small volume of waste oil it delivered to the Harbor Oil site. However, there is currently not enough information to allow the Company to assess the probability or amount of a liability, if any, being incurred. Other than its share of the RI/FS, the Company has not accrued a liability related to this matter.

Spokane River Licensing

The Company owns and operates six hydroelectric plants on the Spokane River. Five of these (Long Lake, Nine Mile, Upper Falls, Monroe Street, and Post Falls, which have a total present capability of 144.1 MW) are under one FERC license and are referred to as the Spokane River Project. The sixth, Little Falls, is operated under separate Congressional authority and is not licensed by the FERC. The FERC issued a new single 50-year license for the Spokane River Project on June 18, 2009.

The license incorporated the 4(e) conditions that were included in the December 2008 Settlement Agreement with the DOI and the Tribe, as well as the mandatory conditions that were agreed to in the Idaho 401 Water Quality Certifications and in the amended Washington 401 Water Quality Certification. Various issues that were appealed under the Washington 401 Water Quality Certification were subsequently resolved through settlement.

As part of the Settlement Agreement with the Washington Department of Ecology (DOE), the Company is currently engaged with the DOE and the EPA Total Maximum Daily Load (TMDL) process for the Spokane River and Lake Spokane, the reservoir created by Long Lake Dam. On February 12, 2010, the DOE submitted the TMDL for the EPA s review and approval. A number of parties, including the Company, requested that the DOE clarify and resolve issues through a dispute resolution process, which was completed on May 5, 2010. Through this process the DOE clarified a number of issues and left others to be resolved during implementation. However, it did not revise the February 12, 2010 TMDL. Once the TMDL process is completed, and the Company s level of responsibility related to low dissolved oxygen in Lake Spokane is established, the Company will identify potential mitigation measures. It is not possible to provide cost estimates at this time because the mitigation measures have not been fully indentified or approved by the DOE. It is also possible the TMDL will be appealed by one or more parties if it is approved by the EPA.

The Company is in the early stage of implementing the environmental and operational conditions required in the license for the Spokane River Project. The estimated cost to implement the license conditions, which is the result of more than a dozen separate settlements, is $334 million over the 50-year license term. This will increase the Spokane River Project s cost of power by about 40 percent, while decreasing annual generation by approximately one-half of one percent. Costs to implement mitigation measures related to the TMDL are not included in these cost estimates.

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The IPUC and the WUTC approved the recovery of licensing costs through the general rate case settlements in 2009. The Company will continue to seek recovery, through the ratemaking process, of all operating and capitalized costs related to the licensing of the Spokane River Project.

Cabinet Gorge Total Dissolved Gas Abatement Plan

Dissolved atmospheric gas levels in the Clark Fork River exceed state of Idaho and federal water quality standards downstream of the Cabinet Gorge Hydroelectric Generating Project (Cabinet Gorge) during periods when excess river flows must be diverted over the spillway. In 2002, the Company submitted a Gas Supersaturation Control Program (GSCP) to the Idaho Department of Environmental Quality (Idaho DEQ) and U.S. Fish and Wildlife Service (USFWS). This submission was part of the Clark Fork Settlement Agreement for licensing the use of Cabinet Gorge. The GSCP provided for the opening and modification of possibly two diversion tunnels around Cabinet Gorge to allow streamflow to be diverted when flows are in excess of powerhouse capacity. In 2007, engineering studies determined that the tunnels would not sufficiently reduce Total Dissolved Gas (TDG). In consultation with the Idaho DEQ and the USFWS, the Company developed an addendum to the GSCP. The GSCP addendum abandons the existing concept to reopen the two diversion tunnels and requires the Company to evaluate a variety of smaller capacity options to abate TDG over the next several years. In March 2010, the FERC approved the GSCP addendum preliminary design of alternative abatement measures, which will commence in May 2010.

Fish Passage at Cabinet Gorge and Noxon Rapids

In 1999, the USFWS listed bull trout as threatened under the Endangered Species Act. The Clark Fork Settlement Agreement describes programs intended to restore bull trout populations in the project area. Using the concept of adaptive management and working closely with the USFWS, the Company is evaluating the feasibility of fish passage at Cabinet Gorge and Noxon Rapids. The results of these studies will help the Company and other parties determine the best use of funds toward continuing fish passage efforts or other bull trout population enhancement measures. In the fall of 2009, the Company selected a contractor to design a permanent upstream passage facility at Cabinet Gorge. The Company anticipates that the design will be completed by the end of 2011.

In January 2010, the USFWS proposed to revise its 2005 designation of critical habitat for the bull trout. The proposed revisions include the lower Clark Fork River as critical habitat. In April 2010, the Company submitted comments recommending the lower Clark Fork River be excluded from critical habitat designation based in part on the extensive bull trout recovery efforts the Company is already undertaking.

Aluminum Recycling Site

In October 2009, the Company (through its subsidiary Pentzer Corporation) received notice from the DOE proposing to find Pentzer liable for a release of hazardous substances under the Model Toxics Control Act, under Washington state law. The subject property adjoins land owned by the Union Pacific Railroad (UPR). UPR leased their property to operators of a facility designated by DOE as Aluminum Recycling Trentwood. Operators of that property maintained piles of aluminum black dross, which can be designated as a state-only dangerous waste in Washington State. Operators placed a portion of the aluminum dross pile on the site owned by Pentzer Corporation. The Company does not believe it is a contributor to any environmental contamination associated with the dross pile, and submitted a response to the DOE s proposed findings in November 2009. In December 2009, the Company received notice from the DOE that it had been designated as a potentially liable party for any hazardous substances located on this site. There is currently not enough information to allow the Company to assess the probability or amount of a liability, if any, being incurred. The Company has not accrued a liability related to this matter.

Collective Bargaining Agreements

The Company s collective bargaining agreement with the International Brotherhood of Electrical Workers represents approximately 45 percent of all of Avista Utilities employees. The agreement with the local union in Washington and Idaho representing the majority (approximately 90 percent) of the bargaining unit employees expired on March 26, 2010. Two local agreements in Oregon, which cover approximately 50 employees, expired in April 2010. Negotiations are currently ongoing with respect to the expired labor agreements and the Company does not expect any disruption to its operations.

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 adverse 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.

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NOTE 13. 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. Avista Utilities business is managed based on the total regulated utility operation. Advantage IQ is a provider of facility information and cost management services for multi-site customers throughout North America. The Other category, which is not a reportable segment, includes the remaining activities of Avista Energy, Spokane Energy, other investments and operations of various subsidiaries, as well as certain other operations of Avista Capital. The following table presents information for each of the Company s business segments (dollars in thousands):

	Avista Utilities	Advantage IQ	Other	Total Non-Utility	Intersegment Eliminations (1)	Total
For the three months ended March 31, 2010:						
Operating revenues	$ 424,031	$ 23,942	$ 15,074	$ 39,016	$ (6,632)	$ 456,415
Resource costs	259,567		9,377	9,377	(6,632)	262,312
Other operating expenses	55,749	19,257	3,956	23,213		78,962
Depreciation and amortization	24,330	1,524	292	1,816		26,146
Income from operations	63,214	3,161	1,449	4,610		67,824
Interest expense (2)	17,828	27	1,466	1,493	(60)	19,261
Income taxes	16,960	1,144	(237)	907		17,867
Net income (loss) attributable to						
Avista Corporation	27,776	1,447	(413)	1,034		28,810
Capital expenditures	42,552	268	197	465		43,017
For the three months ended March 31, 2009:						
Operating revenues	$ 460,864	$ 17,340	$ 9,266	$ 26,606	$	$ 487,470
Resource costs	289,692		5,728	5,728		295,420
Other operating expenses	57,732	13,690	3,603	17,293		75,025
Depreciation and amortization	22,923	1,026	336	1,362		24,285
Income (loss) from operations	63,622	2,624	(401)	2,223		65,845
Interest expense (2)	16,848	116	14	130	(32)	16,946
Income taxes	17,001	879	(412)	467		17,468
Net income (loss) attributable to						
Avista Corporation	30,583	1,167	(724)	443		31,026
Capital expenditures	41,510	982	6	988		42,498
Total Assets:						
As of March 31, 2010	$ 3,373,848	$ 153,484	$ 142,904	$ 296,388	$	$ 3,670,236
As of December 31, 2009	$ 3,400,384	$ 143,060	$ 63,515	$ 206,575	$	$ 3,606,959

(1) Intersegment eliminations reported as operating revenues and resource costs represent intercompany purchases and sales of electric capacity and energy. Intersegment eliminations reported as interest expense represent intercompany interest.

(2) Including interest expense to affiliated trusts.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Avista Corporation

Spokane, Washington

We have reviewed the accompanying condensed consolidated balance sheet of Avista Corporation and subsidiaries (the Corporation) as of March 31, 2010, and the related condensed consolidated statements of income, comprehensive income, equity, and cash flows for the three-month periods ended March 31, 2010 and 2009. These interim financial statements are the responsibility of the Corporation s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 Public Company Accounting Oversight Board (United States), 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.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them 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), the consolidated balance sheet of Avista Corporation and subsidiaries as of December 31, 2009, 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 26, 2010, 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, 2009 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

Seattle, Washington
May 7, 2010

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

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, and
- plans for operations.

These statements have 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, p expressions.

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

- weather conditions (temperatures and precipitation levels) and their effects on energy demand and electric generation, including the effect of precipitation and temperatures on the availability of hydroelectric resources, the effect of temperatures on customer demand, and similar impacts on supply and demand in the wholesale energy markets;

the effect of state and federal regulatory decisions on our ability to recover costs and earn a reasonable return including, but not limited to, the disallowance of costs and investments, and delay in the recovery of capital investments and operating costs;

changes in wholesale energy prices that can affect, among other things, the cash requirements to purchase electricity and natural gas, the value received for sales in the wholesale energy market, the necessity to request changes in rates that are subject to regulatory approval, collateral required of us by counterparties on wholesale energy transactions and credit risk to us from such transactions, and the market value of derivative assets and liabilities;

global financial and economic conditions (including the impact on capital markets) and their effect on our ability to obtain funding at a reasonable cost;

our ability to obtain financing through the issuance of debt and/or equity securities, which can be affected by various factors including our credit ratings, interest rates and other capital market conditions;

economic conditions in our service areas, including the effect on the demand for, and customers payment for, our utility services;

the potential effects of legislation or administrative rulemaking, including the possible adoption of national or state laws requiring resources to meet certain standards and placing restrictions on greenhouse gas emissions to mitigate concerns over global climate changes;

changes in actuarial assumptions, interest rates and the actual return on plan assets for our pension plan, which can affect future funding obligations, pension expense and pension plan liabilities;

volatility and illiquidity in wholesale energy markets, including the availability of willing buyers and sellers, and prices of purchased energy and demand for energy sales;

unplanned outages at any of our generating facilities or the inability of facilities to operate as intended;

the outcome of pending regulatory and legal proceedings arising out of the western energy crisis of 2000 and 2001, including possible refunds;

the outcome of legal proceedings and other contingencies;

changes in, and compliance with, environmental and endangered species laws, regulations, decisions and policies, including present and potential environmental remediation costs;

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wholesale and retail competition including, but not limited to, alternative energy sources, suppliers and delivery arrangements;

the ability to comply with the terms of the licenses for our hydroelectric generating facilities at cost-effective levels;

natural disasters that can disrupt energy generation, transmission and distribution, as well as the availability and costs of materials, equipment, supplies and support services;

blackouts or disruptions of interconnected transmission systems;

disruption to information systems, automated controls and other technologies that we rely on for operations, communications and customer service;

the potential for terrorist attacks or other malicious acts, particularly for our utility assets;

delays or changes in construction costs, and our ability to obtain required permits and materials for present or prospective facilities;

changes in the long-term climate of the Pacific Northwest, which can affect, among other things, customer demand patterns and the volume and timing of streamflows to our hydroelectric resources;

changes in industrial, commercial and residential growth and demographic patterns in our service territory or the loss of significant customers;

the loss of key suppliers for materials or services;

default or nonperformance on the part of any parties from which we purchase and/or sell capacity or energy;

deterioration in the creditworthiness of our customers and counterparties;

the effect of any potential decline in our credit ratings, including impeded access to capital markets, higher interest costs, and certain covenants with ratings triggers in our financing arrangements and wholesale energy contracts;

increasing health care costs and the resulting effect on health insurance provided to our employees and retirees;

increasing costs of insurance, more restricted coverage terms and our ability to obtain insurance;

work force issues, including changes in collective bargaining unit agreements, strikes, work stoppages or the loss of key executives, availability of workers in a variety of skill areas, and our ability to recruit and retain employees;

the potential effects of negative publicity regarding business practices, whether true or not, which could result in, among other things, costly litigation and a decline in our common stock price;

changes in technologies, possibly making some of the current technology obsolete;

changes in tax rates and/or policies; and

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.

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. However, 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 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.

In this Form 10-Q, we discuss our credit ratings. A security rating is not a recommendation to buy, sell or hold securities. Each security rating is subject to revision or withdrawal at any time by the assigning rating organization. Each security rating agency has its own methodology for assigning ratings, and, accordingly, each rating should be considered independently of all other ratings.

The following discussion and analysis is provided for the consolidated financial condition and results of operations of Avista Corp. and its subsidiaries and should be read along with the condensed consolidated financial statements.

Business Segments

We have two reportable business segments as follows:

Avista Utilities an operating division of Avista Corp. that comprises our regulated utility operations. Avista Utilities generates, transmits and distributes electricity and distributes natural gas. The utility also engages in wholesale purchases and sales of electricity and natural gas.

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Advantage IQ an indirect subsidiary of Avista Corp. (approximately 74 percent owned as of March 31, 2010) that provides sustainable utility expense management solutions to its customers that are generally multi-site companies across North America to assess and manage utility costs and usage. Advantage IQ s primary product lines include processing, payment and auditing of energy, telecom, waste, water/sewer and lease bills, as well as strategic management services.

We have other businesses, including sheet metal fabrication, venture fund investments and real estate investments, Spokane Energy (which was consolidated effective January 1, 2010) as well as certain natural gas storage facilities held by Avista Energy. These activities do not represent a reportable business segment and are conducted by various direct and indirect subsidiaries of Avista Corp., including Advanced Manufacturing and Development (AM&D), doing business as METALfx.

The following table presents net income (loss) attributable to Avista Corporation for each of our business segments (and the other businesses) for the three months ended March 31 (dollars in thousands):

	2010	2009
Avista Utilities	$ 27,776	$ 30,583
Advantage IQ	1,447	1,167
Other	(413)	(724)
Net income attributable to Avista Corporation	$ 28,810	$ 31,026

Executive Level Summary

Overall

Our operating results and cash flows are primarily from:

- regulated utility operations (Avista Utilities), and
- facility information and cost management services for multi-site customers (Advantage IQ).

Net income attributable to Avista Corporation was $28.8 million for the three months ended March 31, 2010, a decrease from $31.0 million for the three months ended March 31, 2009. This decrease was primarily due to decreased earnings at Avista Utilities (primarily due to warmer weather, partially offset by the implementation of general rate increases in Washington and Idaho). This was partially offset by an increase in earnings at Advantage IQ and a decrease in the net loss from the other businesses.

We have an investment grade corporate credit rating from each of the three major rating agencies. See further discussion at Credit Ratings. It is important to note that we are at the lower end of the investment grade category. We are working to continuously strengthen our credit ratings by improving earnings and operating cash flows, controlling costs and reducing our debt ratio.

Employment has declined in most of our service area due to cutbacks in the construction, forest products, mining and manufacturing sectors. Non-farm employment contraction for March 2010 as compared to March 2009 was 1.7 percent in Spokane, Washington and 1.4 percent in Medford, Oregon, but expanded 0.8 percent in Coeur d Alene, Idaho, compared to the national average decline of 1.7 percent. Unemployment rates in March 2010 were 10.5 percent in Spokane, Washington, 10.0 percent in Coeur d Alene, Idaho and 13.6 percent in Medford, Oregon, compared to the national average of 10.2 percent. The housing markets in Coeur d Alene, Idaho and Medford, Oregon have had a higher foreclosure rate than the national average; the March 2010 annual foreclosure rate was 0.36 percent in Kootenai County (the county that includes

Coeur d Alene, Idaho), and 0.38 percent in Jackson County (the county that includes Medford, Oregon) compared to the national foreclosure rate of 0.28 percent; the housing market in Spokane County had a foreclosure rate of only 0.05 percent.

Avista Utilities

Avista Utilities is our most significant business segment. Our utility operating and financial performance is dependent upon, among other things:

- weather conditions,
- regulatory decisions, allowing our utility to recover costs, including purchased power and fuel costs, on a timely basis, and to earn a fair return on investment,
- the price of natural gas in the wholesale market, including the effect on the price of fuel for generation,
- the price of electricity in the wholesale market, including the effects of weather conditions, natural gas prices and other factors affecting supply and demand, and
- the ability to obtain financing through the issuance of debt and/or equity securities, which can be affected by various factors including our credit ratings, interest rates and other capital market conditions.

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In our utility operations, we continue to execute our regulatory strategy to recover costs and capital investments in our generation, transmission and distribution infrastructure. We have reset general rates in all of our jurisdictions since the middle of 2009 and we filed new general rate increase requests in Washington and Idaho in March 2010.

Our utility net income was $27.8 million for the three months ended March 31, 2010, a decrease from $30.6 million for the three months ended March 31, 2009 partially due to a decrease in gross margin (operating revenues less resource costs). The decrease in gross margin was primarily due to warmer weather and lower retail loads (particularly for natural gas), partially offset by the implementation of the general rate increases. In addition, our power supply costs were more than the amount included in retail rates in Washington. This was due to below normal hydroelectric generation, partially offset by lower wholesale electric and natural gas fuel prices. The decrease in gross margin was partially offset by a decrease in other operating expenses and taxes other than income taxes.

We are continuing to invest in generation, transmission and distribution systems to enhance service reliability for our customers. Utility capital expenditures were $42.6 million for the three months ended March 31, 2010. We expect utility capital expenditures to be about $210 million for the full year of 2010. These estimates of capital expenditures are subject to continuing review and adjustment and do not include costs for projects associated with stimulus funding (see discussion at Avista Utilities Capital Expenditures).

Advantage IQ

Advantage IQ had net income attributable to Avista Corporation of $1.4 million for the three months ended March 31, 2010, an increase from $1.2 million for the three months ended March 31, 2009. The increase for 2010 as compared to 2009 was primarily due to the acquisition of Ecos Consulting, Inc. (Ecos) effective August 31, 2009. Advantage IQ s earnings continue to be moderated by low short-term interest rates (which limits interest revenue on funds held for customers) and economic conditions that have limited organic growth.

On August 31, 2009, Advantage IQ acquired substantially all of the assets and liabilities of Ecos, a Portland, Oregon-based energy efficiency solutions provider. The acquisition of Ecos was funded primarily through borrowings under Advantage IQ s committed credit agreement. Under the terms of the transaction, the assets and liabilities of Ecos were acquired by a wholly owned subsidiary of Advantage IQ.

Effective July 2, 2008, Advantage IQ acquired Cadence Network, a Cincinnati, Ohio-based energy and expense management company. As consideration, the owners of Cadence Network received a 25 percent ownership interest in Advantage IQ. The acquisition of Cadence Network was funded with the issuance of Advantage IQ common stock, which is subject to redemption. Under the transaction agreement, the previous owners of Cadence Network can exercise a right to have their shares of Advantage IQ stock redeemed during July 2011 or July 2012 if Advantage IQ is not liquidated through either an initial public offering or sale of the business to a third party. Their redemption rights expire July 31, 2012. The redemption price would be determined based on the fair market value of Advantage IQ at the time of the redemption election as determined by certain independent parties.

We may monetize all or part of our investment in Advantage IQ in the future, regardless of Advantage IQ s minority owner redemption rights. The value of a potential monetization depends on future market conditions, growth of the business and other factors. This may provide access to public market capital and provide potential liquidity to Avista Corp. and the other owners of Advantage IQ. There can be no assurance that we will be able to complete such a transaction.

Other Businesses

The net loss for these operations was $0.4 million for the three months ended March 31, 2010 compared to a net loss of $0.7 million for the three months ended March 31, 2009. The net loss for both periods was primarily due to losses on long-term venture fund investments.

Liquidity and Capital Resources

We need to access long-term capital markets from time to time to finance capital expenditures, repay maturing long-term debt and obtain additional working capital. Our ability to access capital on reasonable terms is subject to numerous factors, many of which, including market

conditions, are beyond our control. If we are unable to obtain capital on reasonable terms, it may limit or prohibit our ability to finance capital expenditures and repay maturing long-term debt. Our liquidity needs could exceed our short-term credit availability and lead to defaults on various financing arrangements. We would also likely be prohibited from paying dividends on our common stock.

We have a committed line of credit in the total amount of $320.0 million with an expiration date of April 5, 2011 that had $70.0 million of cash borrowings and $27.9 million in letters of credit outstanding as of March 31, 2010.

We also have a committed line of credit in the total amount of $75.0 million with an expiration date of April 5, 2011 that had no borrowings outstanding as of March 31, 2010.

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In March 2010, we amended our accounts receivable financing facility to extend the termination date to March 2011 and reduce the amount of the facility to $50.0 million from $85.0 million. We reduced the amount of the facility based on our forecasted liquidity needs. Based upon calculations of our eligible accounts receivable under this agreement, we had the ability to borrow up to $50.0 million as of March 31, 2010. We had not borrowed any funds under this facility as of March 31, 2010.

As of March 31, 2010, we had a combined $347.1 million of available liquidity under our $320.0 million committed line of credit, $75.0 million committed line of credit, and $50.0 million revolving accounts receivable financing facility.

In December 2009, we purchased $17.0 million of our Pollution Control Bonds. We are planning, subject to market conditions, to refund these bonds in 2010 along with $66.7 million of our Pollution Control Bonds we purchased in December 2008.

In addition to the refunding of $83.7 million of our Pollution Control Bonds, we are planning to issue up to $45 million of common stock in 2010 in order to maintain our capital structure at an appropriate level for our business. After considering the refunding of our Pollution Control Bonds and issuances of common stock during 2010, we expect net cash flows from operating activities, our committed line of credit agreements and accounts receivable financing facility (total of $445.0 million) to provide adequate resources to fund:

- capital expenditures,
- dividends, and
- other contractual commitments.

In December 2009, we entered into an amended and restated sales agency agreement with a sales agent to issue up to 1.25 million shares of our common stock from time to time. We originally entered into a sales agency agreement to issue up to 2 million shares of our common stock in December 2006. In 2008, we issued 750,000 shares of our common stock under this sales agency agreement. We did not issue any common stock under this agreement in 2009 or the first quarter of 2010.

Avista Utilities 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 will continue to file for rate adjustments to:

- provide for recovery of operating costs and capital investments, and
- more closely align earned returns with those 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. We filed general rate cases in Washington and Idaho in March 2010 and expect to file a general rate case in Oregon by the end of the third quarter of 2010 to more closely al