

AVISTA CORP
Form 10-Q
November 02, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2007

OR

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

Commission file number 1-3701

AVISTA CORPORATION

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

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

1411 East Mission Avenue, Spokane, Washington
(Address of principal executive offices)

99202-2600
(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

No

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Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

As of October 19, 2007, 52,864,428 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 31-32. 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, 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.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(Unaudited)

Avista Corporation

For the Three Months Ended September 30

Dollars in thousands, except per share amounts

	2007	2006
Operating Revenues:		
Utility revenues	\$ 243,798	\$ 229,335
Non-utility energy marketing and trading revenues	6,314	47,711
Other non-utility revenues	17,550	15,955
Total operating revenues	267,662	293,001
Operating Expenses:		
Utility operating expenses:		
Resource costs	144,059	129,246
Other operating expenses	50,126	45,864
Depreciation and amortization	21,551	20,394
Taxes other than income taxes	15,012	15,170
Non-utility operating expenses:		
Resource costs	6,259	29,798
Other operating expenses	13,865	17,218
Depreciation and amortization	1,054	1,220
Total operating expenses	251,926	258,910
Income from operations	15,736	34,091
Other Income (Expense):		
Interest expense	(19,547)	(22,467)
Interest expense to affiliated trusts	(1,836)	(1,817)
Capitalized interest	1,326	840
Regulatory disallowance of unamortized debt repurchase costs	(3,850)	
Other income-net	2,156	2,736
Total other income (expense)-net	(21,751)	(20,708)
Income (loss) before income taxes	(6,015)	13,383
Income taxes	(2,140)	3,310
Net income (loss)	\$ (3,875)	\$ 10,073
Weighted-average common shares outstanding (thousands), basic	52,834	49,098
Weighted-average common shares outstanding (thousands), diluted	52,834	49,902
Total earnings (loss) per common share, basic (Note 12)	\$ (0.07)	\$ 0.21
Total earnings (loss) per common share, diluted (Note 12)	\$ (0.07)	\$ 0.20
Dividends paid per common share	\$ 0.150	\$ 0.145

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Avista Corporation

For the Nine Months Ended September 30

Dollars in thousands, except per share amounts

	2007	2006
Operating Revenues:		
Utility revenues	\$ 926,061	\$ 910,701
Non-utility energy marketing and trading revenues	55,121	123,568
Other non-utility revenues	49,672	45,328
Total operating revenues	1,030,854	1,079,597
Operating Expenses:		
Utility operating expenses:		
Resource costs	549,565	522,937
Other operating expenses	149,358	139,809
Depreciation and amortization	63,939	61,485
Taxes other than income taxes	54,057	55,559
Non-utility operating expenses:		
Resource costs	62,372	98,121
Other operating expenses	53,173	50,098
Depreciation and amortization	3,499	3,981
Total operating expenses	935,963	931,990
Income from operations	94,891	147,607
Other Income (Expense):		
Interest expense	(60,154)	(66,821)
Interest expense to affiliated trusts	(5,463)	(5,286)
Capitalized interest	3,700	2,010
Regulatory disallowance of unamortized debt repurchase costs	(3,850)	
Other income-net	9,414	7,289
Total other income (expense)-net	(56,353)	(62,808)
Income before income taxes	38,538	84,799
Income taxes	14,136	29,695
Net income	\$ 24,402	\$ 55,104
Weighted-average common shares outstanding (thousands), basic	52,769	48,951
Weighted-average common shares outstanding (thousands), diluted	53,267	49,633
Total earnings per common share, basic (Note 12)	\$ 0.46	\$ 1.13
Total earnings per common share, diluted (Note 12)	\$ 0.45	\$ 1.11
Dividends paid per common share	\$ 0.445	\$ 0.425

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

Avista Corporation

For the Three Months Ended September 30

Dollars in thousands

	2007	2006
Net income (loss)	\$ (3,875)	\$ 10,073
Other Comprehensive Income (Loss):		
Foreign currency translation adjustment		1
Unrealized losses on interest rate swap agreements - net of taxes of \$(1,557) and \$(2,687)	(2,892)	(4,990)
Change in unfunded benefit obligation for pensions and other postretirement benefit plans, net of taxes of \$109	202	
Unrealized losses on derivative commodity instruments - net of taxes of \$(730)		(1,356)
Reclassification adjustment for realized losses on derivative commodity instruments included in net income - net of taxes of \$163		304
Reclassification adjustment for realized losses on investment securities included in net income - net of taxes of \$43		80
Unrealized investment gains		1
Total other comprehensive loss	(2,690)	(5,960)
Comprehensive income (loss)	\$ (6,565)	\$ 4,113

For the Nine Months Ended September 30

Dollars in thousands

	2007	2006
Net income	\$ 24,402	\$ 55,104
Other Comprehensive Income (Loss):		
Foreign currency translation adjustment	1,010	411
Reclassification adjustment for foreign currency translation adjustment included in loss on sale of contracts	(2,379)	
Unrealized gains on interest rate swap agreements - net of taxes of \$77 and \$779	143	1,446
Change in unfunded benefit obligation for pensions and other postretirement benefit plans, net of taxes of \$264	491	
Unrealized losses on derivative commodity instruments - net of taxes of \$(324) and \$(500)	(602)	(929)
Reclassification adjustment for realized gains on derivative commodity instruments included in net income - net of taxes of \$(136) and \$(328)	(253)	(608)
Reclassification adjustment for realized losses on derivative commodity instruments included in loss on sale of contracts, net of taxes of \$464	862	
Reclassification adjustment for realized losses on investment securities included in net income - net of taxes of \$43		80
Unrealized investment losses - net of taxes of \$(9)		(16)
Total other comprehensive income (loss)	(728)	384
Comprehensive income	\$ 23,674	\$ 55,488

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

Avista Corporation

Dollars in thousands

	September 30, 2007	December 31, 2006 (as restated see Note 15)
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 5,190	\$ 28,242
Restricted cash	1,318	29,903
Accounts and notes receivable-less allowances of \$42,206 and \$42,360	112,718	286,150
Energy commodity derivative assets		343,726
Utility energy commodity derivative assets	9,388	10,828
Regulatory asset for utility derivatives	27,713	62,650
Funds held for customers	90,259	90,134
Deposits with counterparties	1,265	79,477
Materials and supplies, fuel stock and natural gas stored	37,572	42,425
Deferred income taxes	19,969	10,932
Other current assets	56,824	47,807
Total current assets	362,216	1,032,274
Net Utility Property:		
Utility plant in service	3,062,726	2,938,456
Construction work in progress	115,313	103,226
Total	3,178,039	3,041,682
Less: Accumulated depreciation and amortization	872,244	826,645
Total net utility property	2,305,795	2,215,037
Other Property and Investments:		
Investment in exchange power-net	29,196	31,033
Non-utility properties and investments-net	57,881	60,301
Non-current energy commodity derivative assets		313,300
Investment in affiliated trusts	13,403	13,403
Other property and investments-net	17,293	15,594
Total other property and investments	117,773	433,631
Deferred Charges:		
Regulatory assets for deferred income taxes	112,336	105,935
Regulatory assets for pensions and other postretirement benefits	52,124	54,192
Other regulatory assets	36,927	31,752
Non-current utility energy commodity derivative assets	42,531	25,575
Power and natural gas deferrals	87,486	97,792
Unamortized debt expense	37,972	46,554
Other deferred charges	4,962	13,766
Total deferred charges	374,338	375,566

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Total assets	\$ 3,160,122	\$ 4,056,508
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The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED BALANCE SHEETS (continued)

(Unaudited)

Avista Corporation

Dollars in thousands

	September 30, 2007	December 31, 2006 (as restated see Note 15)
Liabilities and Stockholders Equity:		
Current Liabilities:		
Accounts payable	\$ 75,083	\$ 286,099
Energy commodity derivative liabilities		313,499
Customer fund obligations	90,259	90,134
Deposits from counterparties	19,490	41,493
Current portion of long-term debt	307,608	26,605
Current portion of preferred stock-cumulative		26,250
Short-term borrowings		4,000
Interest accrued	24,794	11,595
Utility energy commodity derivative liabilities	37,101	73,478
Other current liabilities	76,716	72,056
Total current liabilities	631,051	945,209
Long-term debt	655,207	949,854
Long-term debt to affiliated trusts	113,403	113,403
Other Non-Current Liabilities and Deferred Credits:		
Non-current energy commodity derivative liabilities		309,990
Regulatory liability for utility plant retirement costs	205,974	197,712
Non-current regulatory liability for utility derivatives	36,645	15,400
Pensions and other postretirement benefits	93,705	103,604
Deferred income taxes	440,008	459,756
Other non-current liabilities and deferred credits	71,233	47,055
Total other non-current liabilities and deferred credits	847,565	1,133,517
Total liabilities	2,247,226	3,141,983
Commitments and Contingencies (See Notes to Consolidated Financial Statements)		
Stockholders Equity:		
Common stock, no par value; 200,000,000 shares authorized; 52,858,878 and 52,514,326 shares outstanding	723,054	715,620
Accumulated other comprehensive loss	(18,544)	(17,816)
Retained earnings	208,386	216,721
Total stockholders equity	912,896	914,525
Total liabilities and stockholders equity	\$ 3,160,122	\$ 4,056,508

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Avista Corporation

For the Nine Months Ended September 30

Dollars in thousands

	2007	2006
Operating Activities:		
Net income	\$ 24,402	\$ 55,104
Non-cash items included in net income:		
Depreciation and amortization	67,438	65,466
Benefit for deferred income taxes	(10,032)	(14,785)
Power and natural gas cost amortizations, net of deferrals	13,879	40,580
Amortization of debt expense	4,822	5,792
Unrealized loss (gain) on energy commodity derivatives	24,594	(1,440)
Regulatory disallowance of unamortized debt repurchase costs	3,850	
Impairment of utility generation asset	2,290	
Loss on sale of Avista Energy assets	4,254	
Other	(8,601)	(17,680)
Changes in working capital components:		
Accounts and notes receivable	173,586	315,751
Materials and supplies, fuel stock and natural gas stored	1,935	(963)
Deposits with counterparties	78,212	(19,892)
Other current assets	(6,685)	(44,121)
Accounts payable	(206,332)	(303,562)
Deposits from counterparties	(22,003)	30,870
Other current liabilities	17,984	60,356
Net cash provided by operating activities	163,593	171,476
Investing Activities:		
Utility property capital expenditures (excluding equity-related AFUDC)	(148,947)	(116,591)
Proceeds from sale of utility property claim		5,484
Other capital expenditures	(2,596)	(2,852)
Purchase of auction rate investment securities	(130,000)	
Sale of auction rate investment securities	130,000	
Decrease (increase) in restricted cash	28,585	(1,069)
Changes in other property and investments	(3,118)	(1,016)
Proceeds from property sales	492	7,965
Net cash used in investing activities	(125,584)	(108,079)
Financing Activities:		
Decrease in short-term borrowings	(4,000)	(1,494)
Redemption and maturity of long-term debt	(12,610)	(39,663)
Premiums paid for the redemption of long-term debt		(355)
Redemption of preferred stock	(26,250)	(1,750)
Cash dividends paid	(23,510)	(20,782)
Issuance of common stock	4,032	7,109
Equity transactions of consolidated subsidiaries	1,440	
Long-term debt and short-term borrowing issuance costs	(163)	(779)

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Net cash used in financing activities	(61,061)	(57,714)
Net increase (decrease) in cash and cash equivalents	(23,052)	5,683
Cash and cash equivalents at beginning of period	28,242	25,917
Cash and cash equivalents at end of period	\$ 5,190	\$ 31,600
Supplemental Cash Flow Information:		
Cash paid during the period:		
Interest	\$ 47,788	\$ 58,641
Income taxes	28,847	47,599
Non-cash financing and investing activities:		
Liability to subsidiary minority shareholders	12,649	

The Accompanying Notes are an Integral Part of These Statements.

AVISTA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Avista Corporation (Avista Corp. or the Company) for the interim periods ended September 30, 2007 and 2006 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 consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The Consolidated Statements of Income (Loss) for the interim periods are not necessarily indicative of the results to be expected for the full year. These 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, 2006 (2006 Form 10-K). Please refer to the section "Acronyms and Terms" in the 2006 Form 10-K for definitions of terms such as capacity, energy and therm.

The Company has restated its Consolidated Balance Sheet as of December 31, 2006 for immaterial adjustments as described in Note 15.

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 western 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 business segments, including Avista Energy, Inc. (Avista Energy) and Advantage IQ, Inc. (Advantage IQ). Avista Energy was an electricity and natural gas marketing, trading and resource management business. On June 30, 2007, Avista Energy completed the sale of substantially all of its contracts and ongoing operations. See Note 3 for further information. Advantage IQ is a provider of facility information and cost management services for multi-site customers throughout North America. See Note 16 for business segment information.

The Company's operations are exposed to risks including, but not limited to:

market prices and supply of wholesale energy, which the Company purchases and sells, including power, fuel and natural gas,

regulatory allowance of the recovery of power and natural gas costs, operating costs and capital investments,

streamflow and weather conditions,

the effects of changes in legislative and governmental regulations, including restrictions on emissions from generating plants and requirements for the acquisition of new resources,

changes in regulatory requirements,

availability of generation facilities,

competition,

technology, and

availability of funding.

Also, like other utilities, the Company's facilities and operations are exposed to terrorism risks or other malicious acts. In addition, the energy business exposes the Company to the financial, liquidity, credit and price risks associated with wholesale purchases and sales of energy commodities.

Basis of Reporting

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

AVISTA CORPORATION**Other Income-Net**

Other income-net consisted of the following items for the three and nine months ended September 30 (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Interest income	\$ 1,177	\$ 2,310	\$ 7,563	\$ 6,493
Interest on power and natural gas deferrals	1,059	1,579	3,287	5,073
Equity-related AFUDC	1,076	667	3,004	1,593
Net gain (loss) on investments		(131)	445	(521)
Other expense	(1,250)	(1,865)	(5,036)	(5,829)
Other income	94	176	151	480
Total	\$ 2,156	\$ 2,736	\$ 9,414	\$ 7,289

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss), net of tax, consisted of the following as of September 30, 2007 and December 31, 2006 (dollars in thousands):

	September 30, 2007	December 31, 2006
Foreign currency translation adjustment	\$	\$ 1,369
Unfunded benefit obligation for pensions and other postretirement benefit plans	(15,341)	(15,832)
Unrealized loss on interest rate swap agreements	(3,203)	(3,346)
Unrealized loss on derivative commodity instruments		(7)
Total accumulated other comprehensive loss	\$ (18,544)	\$ (17,816)

Assets Held for Sale

Assets held for sale are recorded at the lower of their carrying amount or fair value less cost to sell. As of September 30, 2007, assets held for sale of \$9.5 million primarily included turbines and related equipment at Avista Utilities, which is included in other current assets on the Consolidated Balance Sheets. See Note 4 regarding the impairment of a turbine in the third quarter of 2007. There were not any liabilities held for sale as of September 30, 2007. See Note 3 regarding the sale of substantially all of the contracts and ongoing operations of Avista Energy in 2007.

Regulatory Deferred Charges and Credits

The Company prepares its consolidated financial statements in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation. The Company prepares its financial statements in accordance with SFAS No. 71 because:

rates for regulated services are established by or subject to approval by independent third-party regulators,

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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.

SFAS No. 71 requires the Company to reflect the impact of regulatory decisions in its financial statements. SFAS No. 71 requires that certain costs and/or obligations (such as incurred power and natural gas costs not currently recovered through rates, but expected to be recovered in the future) are reflected as deferred charges or credits on the Consolidated Balance Sheets. These costs and/or obligations are not reflected in the statement 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 SFAS No. 71 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.

The Company's primary regulatory assets include:

power and natural gas deferrals,

investment in exchange power,

regulatory asset for deferred income taxes,

unamortized debt expense,

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assets offsetting net utility energy commodity derivative liabilities (see Note 6 for further information),

demand side management programs,

conservation programs, and

unfunded pensions and other postretirement benefits.

Those items without a specific line on the Consolidated Balance Sheets are included in other regulatory assets.

Regulatory liabilities include:

utility plant retirement costs,

liabilities created when the Centralia Power Plant was sold,

liabilities offsetting net utility energy commodity derivative assets (see Note 6 for further information), and

the gain on the general office building sale/leaseback.

Those items without a specific line on the Consolidated Balance Sheets are included in other current liabilities and other non-current liabilities and deferred credits.

NOTE 2. NEW ACCOUNTING STANDARDS

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109, (FIN 48) which provides guidance for the recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires the evaluation of a tax position as a two-step process. First, the Company is required to determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more likely than not recognition threshold, it is then measured and recorded at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company adopted FIN 48 in the first quarter of 2007 (effective January 1, 2007). The adoption of FIN 48 did not have a cumulative effect on the Company's financial statements. See Note 9 for further information.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which provides enhanced guidance for using fair value to measure assets and liabilities. This statement also expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. However, the statement does not require any new fair value measurements. This statement emphasizes that fair value is a market-based measurement and not an entity-specific measurement. Therefore a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. The statement establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The Company will be required to adopt SFAS No. 157 in 2008. The Company is evaluating the impact SFAS No. 157 will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected would be reported in net income. The Company will be required to adopt SFAS No. 159 in 2008. The Company is

evaluating the impact SFAS No. 159 will have on its financial condition and results of operations.

NOTE 3. DISPOSITION OF AVISTA ENERGY

On June 30, 2007, Avista Energy and Avista Energy Canada, Ltd. (Avista Energy Canada) completed the sale of substantially all of their contracts and ongoing operations to Coral Energy Holding, L.P. (Coral Energy), a subsidiary of the Shell Group of Companies, as well as to certain other subsidiaries of Coral Energy.

The transaction was completed through the purchase and sale agreement and certain other ancillary agreements. As consideration for the assets acquired (net of liabilities assumed), the purchase price paid by Coral Energy was calculated on the closing date as the sum of the following:

the net trade book value of contracts acquired,

the market value of the natural gas inventory, and

the net book value of the tangible fixed assets acquired.

AVISTA CORPORATION

Proceeds from the transaction included cash consideration for the net assets acquired by Coral Energy and the liquidation of the remaining net current assets of Avista Energy not sold to Coral Energy (primarily receivables, restricted cash and deposits with counterparties, the majority of which have been liquidated as of September 30, 2007). Total proceeds from the sale of the contracts, natural gas inventory and tangible fixed assets were \$26.5 million. The pre-tax net loss on the transaction was \$4.3 million, which is included in non-utility other operating expenses in the Consolidated Statements of Income for the nine months ended September 30, 2007.

In addition to the cash proceeds received from Coral Energy, Avista Energy has liquidated substantially all of its remaining net current assets as of September 30, 2007. In September 2007, Avista Energy paid a cash dividend of \$169 million to Avista Capital and Avista Capital paid a cash dividend of \$155 million to Avista Corp. The remaining funds were utilized by Avista Capital to repay outstanding borrowings due to Avista Corp. and the extension of an intercompany loan to Avista Corp.

Assets and liabilities excluded from the sale and retained or liquidated by Avista Energy include:

cash,

certain agreements, including electric transmission, natural gas transportation and a power purchase agreement, related to a 270 MW natural gas-fired combined cycle combustion turbine plant located in Idaho (Lancaster Plant), for periods after December 31, 2009 through 2026,

storage rights at a natural gas facility located in Washington (Jackson Prairie) for periods after April 30, 2011,

accounts receivable,

certain software, hardware, licenses and permits,

accounts payable,

tax obligations,