

AVISTA CORP
Form 10-Q
November 04, 2011

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, 2011

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)

Edgar Filing: AVISTA CORP - Form 10-Q

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

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

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

As of October 31, 2011, 58,215,534 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

AVISTA CORPORATION

Index

	Page No.
Part I. Financial Information:	
Item 1. Condensed Consolidated Financial Statements	
<u>Condensed Consolidated Statements of Income - Three Months Ended September 30, 2011 and 2010</u>	5
<u>Condensed Consolidated Statements of Income - Nine Months Ended September 30, 2011 and 2010</u>	6
<u>Condensed Consolidated Statements of Comprehensive Income - Three and Nine Months Ended September 30, 2011 and 2010</u>	7
<u>Condensed Consolidated Balance Sheets - September 30, 2011 and December 31, 2010</u>	8
<u>Condensed Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2011 and 2010</u>	10
<u>Condensed Consolidated Statements of Equity and Redeemable Noncontrolling Interests- Nine Months Ended September 30, 2011 and 2010</u>	11
<u>Notes to Condensed Consolidated Financial Statements</u>	12
<u>Report of Independent Registered Public Accounting Firm</u>	33
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	57
Item 4. <u>Controls and Procedures</u>	58
Part II. Other Information:	
Item 1. <u>Legal Proceedings</u>	58
Item 1A. <u>Risk Factors</u>	58
Item 6. <u>Exhibits</u>	58
<u>Signature</u>	59

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 our 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;

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;

explosions, fires, accidents, or mechanical breakdowns that may occur while operating and maintaining our generation, transmission and distribution systems;

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, cyber security attacks or other malicious acts, that cause damage to our utility assets, as well as the national economy in general; including the impact of acts of terrorism, cyber security attacks or vandalism that damage or disrupt information technology systems;

delays or changes in construction costs, and/or 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.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Avista Corporation

For the Three Months Ended September 30

Dollars in thousands, except per share amounts

(Unaudited)

	2011	2010
Operating Revenues:		
Utility revenues	\$ 301,551	\$ 331,092
Non-utility revenues	42,159	36,080
Total operating revenues	343,710	367,172
Operating Expenses:		
Utility operating expenses:		
Resource costs	171,393	201,113
Other operating expenses	60,579	59,961
Depreciation and amortization	26,341	24,918
Taxes other than income taxes	16,829	15,842
Non-utility operating expenses:		
Other operating expenses	31,726	25,862
Depreciation and amortization	1,964	1,732
Total operating expenses	308,832	329,428
Income from operations	34,878	37,744
Interest expense	18,703	18,830
Interest expense to affiliated trusts	152	175
Capitalized interest	(957)	(432)
Other expense-net	1,626	807
Income before income taxes	15,354	18,364
Income tax expense	3,717	5,030
Net income	11,637	13,334
Less: Net income attributable to noncontrolling interests	(935)	(988)
Net income attributable to Avista Corporation	\$ 10,702	\$ 12,346
Weighted-average common shares outstanding (thousands), basic	58,057	55,616
Weighted-average common shares outstanding (thousands), diluted	58,232	55,801
Earnings per common share attributable to Avista Corporation:		
Basic	\$ 0.18	\$ 0.22
Diluted	\$ 0.18	\$ 0.22
Dividends paid per common share	\$ 0.275	\$ 0.25

The Accompanying Notes are an Integral Part of These Statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Avista Corporation

For the Nine Months Ended September 30

Dollars in thousands, except per share amounts

(Unaudited)

	2011	2010
Operating Revenues:		
Utility revenues	\$ 1,059,221	\$ 1,080,340
Non-utility revenues	121,632	103,980
Total operating revenues	1,180,853	1,184,320
Operating Expenses:		
Utility operating expenses:		
Resource costs	575,290	628,864
Other operating expenses	188,961	174,044
Depreciation and amortization	78,600	73,890
Taxes other than income taxes	61,521	54,879
Non-utility operating expenses:		
Other operating expenses	95,581	80,024
Depreciation and amortization	5,673	5,302
Total operating expenses	1,005,626	1,017,003
Income from operations	175,227	167,317
Interest expense	55,415	57,058
Interest expense to affiliated trusts	455	480
Capitalized interest	(2,209)	(1,126)
Other expense-net	3,061	3,475
Income before income taxes	118,505	107,430
Income tax expense	40,937	38,732
Net income	77,568	68,698
Less: Net income attributable to noncontrolling interests	(1,947)	(2,002)
Net income attributable to Avista Corporation	\$ 75,621	\$ 66,696
Weighted-average common shares outstanding (thousands), basic	57,731	55,175
Weighted-average common shares outstanding (thousands), diluted	57,934	55,384
Earnings per common share attributable to Avista Corporation:		
Basic	\$ 1.31	\$ 1.21
Diluted	\$ 1.30	\$ 1.20
Dividends paid per common share	\$ 0.825	\$ 0.75

The Accompanying Notes are an Integral Part of These Statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Avista Corporation

For the Three Months Ended September 30

Dollars in thousands

(Unaudited)

	2011	2010
Net income	\$ 11,637	\$ 13,334
Other Comprehensive Income:		
Change in unfunded benefit obligation for pension and other postretirement benefit plans - net of taxes of \$66 and \$19, respectively	123	36
Total other comprehensive income	123	36
Comprehensive income	11,760	13,370
Comprehensive income attributable to noncontrolling interests	(935)	(988)
Comprehensive income attributable to Avista Corporation	\$ 10,825	\$ 12,382

For the Nine Months Ended September 30

Dollars in thousands

(Unaudited)

	2011	2010
Net income	\$ 77,568	\$ 68,698
Other Comprehensive Income (Loss):		
Change in unfunded benefit obligation for pension and other postretirement benefit plans - net of taxes of \$(7) and \$58, respectively	(13)	108
Total other comprehensive income (loss)	(13)	108
Comprehensive income	77,555	68,806
Comprehensive income attributable to noncontrolling interests	(1,947)	(2,002)
Comprehensive income attributable to Avista Corporation	\$ 75,608	\$ 66,804

The Accompanying Notes are an Integral Part of These Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

Avista Corporation

Dollars in thousands

(Unaudited)

	September 30, 2011	December 31, 2010
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 78,103	\$ 69,413
Accounts and notes receivable-less allowances of \$43,750 and \$44,883	155,072	230,229
Utility energy commodity derivative assets	489	2,592
Regulatory asset for utility derivatives	52,784	48,891
Investments and funds held for customers	104,521	100,543
Materials and supplies, fuel stock and natural gas stored	64,878	48,530
Deferred income taxes	23,470	28,822
Income taxes receivable	34,376	19,069
Other current assets	34,560	31,476
Total current assets	548,253	579,565
Net Utility Property:		
Utility plant in service	3,832,705	3,713,885
Construction work in progress	67,393	62,051
Total	3,900,098	3,775,936
Less: Accumulated depreciation and amortization	1,098,579	1,061,699
Total net utility property	2,801,519	2,714,237
Other Non-current Assets:		
Investment in exchange power-net	19,396	21,233
Investment in affiliated trusts	11,547	11,547
Goodwill	26,112	25,935
Long-term energy contract receivable of Spokane Energy	65,013	62,525
Other intangibles, property and investments-net	64,585	74,553
Total other non-current assets	186,653	195,793
Deferred Charges:		
Regulatory assets for deferred income tax	86,586	90,025
Regulatory assets for pensions and other postretirement benefits	185,412	178,985
Other regulatory assets	116,093	112,830
Non-current utility energy commodity derivative assets	5,595	15,261
Non-current regulatory asset for utility derivatives	16,802	15,724
Power deferrals	593	18,305
Other deferred charges	21,080	19,370
Total deferred charges	432,161	450,500
Total assets	\$ 3,968,586	\$ 3,940,095

The Accompanying Notes are an Integral Part of These Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

Avista Corporation

Dollars in thousands

(Unaudited)

	September 30, 2011	December 31, 2010
Liabilities and Equity:		
Current Liabilities:		
Accounts payable	\$ 154,249	\$ 171,707
Customer fund obligations	104,521	100,543
Current portion of long-term debt	7,370	358
Current portion of nonrecourse long-term debt of Spokane Energy	13,357	12,463
Short-term borrowings	96,500	110,000
Utility energy commodity derivative liabilities	53,267	51,483
Natural gas deferrals	8,036	22,074
Other current liabilities	139,252	110,547
Total current liabilities	576,552	579,175
Long-term debt	1,084,661	1,101,499
Nonrecourse long-term debt of Spokane Energy	36,319	46,471
Long-term debt to affiliated trusts	51,547	51,547
Regulatory liability for utility plant retirement costs	226,206	223,131
Pensions and other postretirement benefits	162,548	161,189
Deferred income taxes	516,300	495,474
Other non-current liabilities and deferred credits	91,995	109,703
Total liabilities	2,746,128	2,768,189
Commitments and Contingencies (See Notes to Condensed Consolidated Financial Statements)		
Redeemable Noncontrolling Interests	52,070	46,722
Equity:		
Avista Corporation Stockholders' Equity:		
Common stock, no par value; 200,000,000 shares authorized; 58,200,997 and 57,119,723 shares outstanding	848,709	827,592
Accumulated other comprehensive loss	(4,339)	(4,326)
Retained earnings	326,548	302,518
Total Avista Corporation stockholders' equity	1,170,918	1,125,784
Noncontrolling Interests	(530)	(600)
Total equity	1,170,388	1,125,184
Total liabilities and equity	\$ 3,968,586	\$ 3,940,095

The Accompanying Notes are an Integral Part of These Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Avista Corporation

For the Nine Months Ended September 30

Dollars in thousands

(Unaudited)

	2011	2010
Operating Activities:		
Net income	\$ 77,568	\$ 68,698
Non-cash items included in net income:		
Depreciation and amortization	84,273	79,192
Provision for deferred income taxes	30,783	10,490
Power and natural gas cost amortizations (deferrals), net	9,470	(16,804)
Amortization of debt expense and premium	3,186	3,214
Equity-related AFUDC	(1,655)	(1,436)
Other	32,958	36,524
Contributions to defined benefit pension plan	(26,000)	(21,000)
Changes in working capital components:		
Accounts and notes receivable	76,285	50,944
Materials and supplies, fuel stock and natural gas stored	(16,260)	(19,146)
Other current assets	(28,167)	13,746
Accounts payable	(11,994)	(10,064)
Other current liabilities	9,977	7,351
Net cash provided by operating activities	240,424	201,709
Investing Activities:		
Utility property capital expenditures (excluding equity-related AFUDC)	(169,598)	(138,083)
Other capital expenditures	(2,730)	(1,300)
Federal grant payments received	13,398	4,634
Cash paid by subsidiary for acquisition, net of cash received	(199)	
Decrease (increase) in funds held for customers	43,321	(16,366)
Purchase of securities available for sale	(47,299)	
Other	(4,604)	(1,296)
Net cash used in investing activities	(167,711)	(152,411)
Financing Activities:		
Net decrease in short-term borrowings	(13,500)	(12,000)
Borrowings from Ecova line of credit		2,300
Repayment of borrowings from Ecova line of credit		(8,000)
Redemption and maturity of long-term debt	(204)	(10,236)
Maturity of nonrecourse long-term debt of Spokane Energy	(9,258)	(8,447)
Long-term debt and short-term borrowing issuance costs	(2,362)	(258)
Cash paid for settlement of interest rate swap agreements	(10,557)	
Issuance of common stock	21,216	34,677
Cash dividends paid	(47,685)	(41,385)
Purchase of subsidiary noncontrolling interest	(6,179)	(2,593)
Increase in customer fund obligations	3,978	16,366
Other	528	(75)
Net cash used in financing activities	(64,023)	(29,651)

Edgar Filing: AVISTA CORP - Form 10-Q

Net increase in cash and cash equivalents	8,690	19,647
Cash and cash equivalents at beginning of period	69,413	37,035
Cash and cash equivalents at end of period	\$ 78,103	\$ 56,682
Supplemental Cash Flow Information:		
Cash paid during the period:		
Interest	\$ 41,582	\$ 44,985
Income taxes	24,506	11,161
Non-cash financing and investing activities:		
Accounts payable for capital expenditures	2,642	6,279
Utility property acquired under capital leases		5,300
Redeemable noncontrolling interests	5,147	7,458

The Accompanying Notes are an Integral Part of These Statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

AND REDEEMABLE NONCONTROLLING INTERESTS

Avista Corporation

For the Nine Months Ended September 30

Dollars in thousands

(Unaudited)

	2011	2010
Common Stock, Shares:		
Shares outstanding at beginning of period	57,119,723	54,836,781
Issuance of common stock		