AVISTA CORP
Form 10-Q
August 05, 2011
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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**

June 30, 2011 For the quarterly period ended June 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)

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 x 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 July 31, 2011, 57,984,054 shares of Registrant s Common Stock, no par value (the only class of common stock), were outstanding.

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AVISTA CORPORATION

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FORWARD-LOOKING STATEMENTS

From time to time, we make forward-looking statements such as statements regarding projected or future:

financial performance,

cash flows,

capital expenditures,

dividends,

capital structure,

other financial items,

strategic goals and objectives, and

plans for operations.

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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;

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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.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Avista Corporation

For the Three Months Ended June 30

Dollars in thousands, except per share amounts

(Unaudited)

	2011	2010
Operating Revenues:		
Utility revenues	$ 319,973	$ 325,667
Non-utility revenues	40,584	35,066
Total operating revenues	360,557	360,733
Operating Expenses:		
Utility operating expenses:		
Resource costs	155,776	168,184
Other operating expenses	68,700	58,334
Depreciation and amortization	26,407	24,642
Taxes other than income taxes	19,699	17,866
Non-utility operating expenses:		
Other operating expenses	32,609	28,204
Depreciation and amortization	1,842	1,754
Total operating expenses	305,033	298,984
Income from operations	55,524	61,749
Interest expense	(18,272)	(19,113)
Interest expense to affiliated trusts	(152)	(159)
Capitalized interest	814	374
Other expense-net	(803)	(969)
Income before income taxes	37,111	41,882
Income tax expense	13,583	15,835
Net income	23,528	26,047
Less: Net income attributable to noncontrolling interests	(527)	(507)
Net income attributable to Avista Corporation	$ 23,001	$ 25,540
Weighted-average common shares outstanding (thousands), basic	57,787	55,031
Weighted-average common shares outstanding (thousands), diluted	58,143	55,231
Earnings per common share attributable to Avista Corporation:		
Basic	$ 0.40	$ 0.46
Diluted	$ 0.39	$ 0.46

Dividends paid per common share	$	0.275	$	0.25

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Avista Corporation

For the Six Months Ended June 30

Dollars in thousands, except per share amounts

(Unaudited)

	2011	2010
Operating Revenues:		
Utility revenues	$ 757,670	$ 749,248
Non-utility revenues	79,473	67,900
Total operating revenues	837,143	817,148
Operating Expenses:		
Utility operating expenses:		
Resource costs	403,897	427,751
Other operating expenses	128,382	114,083
Depreciation and amortization	52,259	48,972
Taxes other than income taxes	44,692	39,037
Non-utility operating expenses:		
Other operating expenses	63,855	54,162
Depreciation and amortization	3,709	3,570
Total operating expenses	696,794	687,575
Income from operations	140,349	129,573
Interest expense	(36,712)	(38,228)
Interest expense to affiliated trusts	(303)	(305)
Capitalized interest	1,252	694
Other expense-net	(1,435)	(2,668)
Income before income taxes	103,151	89,066
Income tax expense	37,220	33,702
Net income	65,931	55,364
Less: Net income attributable to noncontrolling interests	(1,012)	(1,014)
Net income attributable to Avista Corporation	$ 64,919	$ 54,350
Weighted-average common shares outstanding (thousands), basic	57,565	54,950
Weighted-average common shares outstanding (thousands), diluted	57,780	55,171
Earnings per common share attributable to Avista Corporation:		
Basic	$ 1.13	$ 0.99
Diluted	$ 1.12	$ 0.98

Dividends paid per common share	$ 0.55	$ 0.50

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 June 30

Dollars in thousands

(Unaudited)

	2011	2010
Net income	$ 23,528	$ 26,047
Other Comprehensive Income:		
Change in unfunded benefit obligation for pension and other postretirement benefit plans net of taxes of $33 and $19, respectively	60	36
Total other comprehensive income	60	36
Comprehensive income	23,588	26,083
Comprehensive income attributable to noncontrolling interests	(527)	(507)
Comprehensive income attributable to Avista Corporation	$ 23,061	$ 25,576

For the Six Months Ended June 30

Dollars in thousands

(Unaudited)

	2011	2010
Net income	$ 65,931	$ 55,364
Other Comprehensive Income (Loss):		
Change in unfunded benefit obligation for pension and other postretirement benefit plans net of taxes of $(73) and $38, respectively	(136)	72
Total other comprehensive income (loss)	(136)	72
Comprehensive income	65,795	55,436
Comprehensive income attributable to noncontrolling interests	(1,012)	(1,014)
Comprehensive income attributable to Avista Corporation	$ 64,783	$ 54,422

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

Avista Corporation

Dollars in thousands

(Unaudited)

	June 30, 2011	December 31, 2010
Assets:		
Current Assets:		
Cash and cash equivalents	$ 69,916	$ 69,413
Accounts and notes receivable-less allowances of $44,054 and $44,883	165,317	230,229
Utility energy commodity derivative assets	2,539	2,592
Regulatory asset for utility derivatives	38,269	48,891
Funds held for customers	67,104	100,543
Materials and supplies, fuel stock and natural gas stored	47,683	48,530
Deferred income taxes	25,786	28,822
Income taxes receivable	11,266	19,069
Other current assets	27,468	31,476
Total current assets	455,348	579,565
Net Utility Property:		
Utility plant in service	3,767,321	3,713,885
Construction work in progress	74,107	62,051
Total	3,841,428	3,775,936
Less: Accumulated depreciation and amortization	1,077,153	1,061,699
Total net utility property	2,764,275	2,714,237
Other Non-current Assets:		
Investment in exchange power-net	20,008	21,233
Investment in affiliated trusts	11,547	11,547
Goodwill	26,112	25,935
Long-term energy contract receivable of Spokane Energy	67,450	62,525
Other intangibles, property and investments-net	65,927	74,553
Total other non-current assets	191,044	195,793
Deferred Charges:		
Regulatory assets for deferred income tax	87,500	90,025
Regulatory assets for pensions and other postretirement benefits	190,200	178,985
Other regulatory assets	105,525	112,830
Non-current utility energy commodity derivative assets	13,064	15,261
Non-current regulatory asset for utility derivatives	6,019	15,724
Power deferrals	7,466	18,305
Other deferred charges	22,455	19,370

Total deferred charges	432,229	450,500
Total assets	$ 3,842,896	$ 3,940,095

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)

	June 30, 2011	December 31, 2010
Liabilities and Equity:		
Current Liabilities:		
Accounts payable	$ 128,853	$ 171,707
Customer fund obligations	67,104	100,543
Current portion of long-term debt	7,363	358
Current portion of nonrecourse long-term debt of Spokane Energy	13,052	12,463
Short-term borrowings	75,000	110,000
Utility energy commodity derivative liabilities	40,808	51,483
Natural gas deferrals	13,438	22,074
Other current liabilities	109,331	110,547
Total current liabilities	454,949	579,175
Long-term debt	1,094,978	1,101,499
Nonrecourse long-term debt of Spokane Energy	39,778	46,471
Long-term debt to affiliated trusts	51,547	51,547
Regulatory liability for utility plant retirement costs	225,609	223,131
Pensions and other postretirement benefits	169,557	161,189
Deferred income taxes	493,625	495,474
Other non-current liabilities and deferred credits	92,898	109,703
Total liabilities	2,622,941	2,768,189
Commitments and Contingencies (See Notes to Condensed Consolidated Financial Statements)		
Redeemable Noncontrolling Interests	52,367	46,722
Equity:		
Avista Corporation Stockholders Equity:		
Common stock, no par value; 200,000,000 shares authorized; 57,977,910 and 57,119,723 shares outstanding	842,054	827,592
Accumulated other comprehensive loss	(4,462)	(4,326)
Retained earnings	330,543	302,518
Total Avista Corporation stockholders equity	1,168,135	1,125,784
Noncontrolling Interests	(547)	(600)
Total equity	1,167,588	1,125,184
Total liabilities and equity	$ 3,842,896	$ 3,940,095

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Avista Corporation

For the Six Months Ended June 30

Dollars in thousands

(Unaudited)

	2011	2010
Operating Activities:		
Net income	$ 65,931	$ 55,364
Non-cash items included in net income:		
Depreciation and amortization	55,968	52,542
Provision for deferred income taxes	5,158	8,340
Power and natural gas cost amortizations (deferrals), net	4,149	(15,934)
Amortization of debt expense and premium	2,217	2,181
Equity-related AFUDC	(1,235)	(884)
Other	21,753	25,756
Contributions to defined benefit pension plan	(17,250)	(14,000)
Changes in working capital components:		
Accounts and notes receivable	65,736	45,230
Materials and supplies, fuel stock and natural gas stored	935	(16,179)
Other current assets	2,147	17,519
Accounts payable	(39,034)	(31,976)
Other current liabilities	(3,023)	(13,149)
Net cash provided by operating activities	163,452	114,810
Investing Activities:		
Utility property capital expenditures (excluding equity-related AFUDC)	(98,882)	(80,285)
Other capital expenditures	(1,600)	(950)
Federal grant payments received	6,824	
Cash paid by subsidiary for acquisition, net of cash received	(199)	
Decrease (increase) in funds held for customers	33,439	(3,188)
Other	(3,561)	(794)
Net cash used in investing activities	(63,979)	(85,217)
Financing Activities:		
Net decrease in short-term borrowings	(35,000)	(2,000)
Borrowings from Advantage IQ line of credit		2,300
Repayment of borrowings from Advantage IQ line of credit		(5,100)
Redemption and maturity of long-term debt	(189)	(145)
Maturity of nonrecourse long-term debt of Spokane Energy	(6,104)	(5,570)
Long-term debt and short-term borrowing issuance costs	(2,348)	(62)
Issuance of common stock	15,878	9,510
Cash dividends paid	(31,729)	(27,535)
Purchase of subsidiary noncontrolling interest	(6,054)	(2,571)
Increase (decrease) in customer fund obligations	(33,439)	3,188

Other	15	(113)
Net cash used in financing activities	(98,970)	(28,098)
Net increase in cash and cash equivalents	503	1,495
Cash and cash equivalents at beginning of period	69,413	37,035
Cash and cash equivalents at end of period	$ 69,916	$ 38,530
Supplemental Cash Flow Information:		
Cash paid during the period:		
Interest	$ 34,462	$ 36,653
Income taxes	22,650	5,072
Non-cash financing and investing activities:		
Accounts payable for capital expenditures	4,218	2,746
Utility property acquired under capital leases		5,300
Redeemable noncontrolling interests	6,754	2,823

The Accompanying Notes are an Integral Part of These Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

AND REDEEMABLE NONCONTROLLING INTERESTS

Avista Corporation

For the Six Months Ended June 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	858,187	521,045
Shares outstanding at end of period	57,977,910	55,357,826
Common Stock, Amount:		
Balance at beginning of period	$ 827,592	$ 778,647
Equity compensation expense	1,804	1,518
Issuance of common stock, net of issuance costs	15,878	9,510
Equity transactions of consolidated subsidiaries	(3,220)	(879)
Balance at end of period	$ 842,054	$ 788,796
Accumulated Other Comprehensive Loss:		
Balance at beginning of period	$ (4,326)	$ (2,350)
Other comprehensive income (loss)	(136)	72
Balance at end of period	$ (4,462)	$ (2,278)
Retained Earnings:		
Balance at beginning of period	$ 302,518	$ 274,990
Net income attributable to Avista Corporation	64,919	54,350
Cash dividends paid (common stock)	(31,729)	(27,535)
Valuation adjustments and other noncontrolling interests activity	(5,165)	(2,456)
Balance at end of period	$ 330,543	$ 299,349
Total Avista Corporation stockholders equity	$ 1,168,135	$ 1,085,867
Noncontrolling Interests:		
Balance at beginning of period	$ (600)	$ (673)
Net income attributable to noncontrolling interests	79	10
Other	(26)	6
Balance at end of period	$ (547)	$ (657)

Total equity	$ 1,167,588	$ 1,085,210
Redeemable Noncontrolling Interests:		
Balance at beginning of period	$ 46,722	$ 34,833
Net income attributable to noncontrolling interests	933	1,004
Purchase of subsidiary noncontrolling interests	(6,054)	(2,571)
Valuation adjustments and other noncontrolling interests activity	10,766	4,195
Balance at end of period	$ 52,367	$ 37,461

The Accompanying Notes are an Integral Part of These Statements.

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AVISTA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The accompanying condensed consolidated financial statements of Avista Corporation (Avista Corp. or the Company) for the interim periods ended June 30, 2011 and 2010 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, 2010 (2010 Form 10-K). Please refer to the section Acronyms and Terms in the 2010 Form 10-K for definitions of terms. 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 79.6 percent owned subsidiary as of June 30, 2011. 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 12 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 the following amounts for the three and six months ended June 30 (dollars in thousands):

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Utility taxes	$ 13,158	$ 11,690	$ 31,281	$ 27,711

Other Expense Net

Other expense net consisted of the following items for the three and six months ended June 30 (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Interest income	$ 284	$ 300	$ 573	$ 598
Interest on regulatory deferrals	23	59	68	130
Equity-related AFUDC	392	474	1,235	884
Net gain (loss) on investments	(140)	5	(37)	(629)
Other expense	(1,597)	(2,075)	(3,509)	(4,042)
Other income	235	268	235	391
Total	$ (803)	$ (969)	$ (1,435)	$ (2,668)

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, 2010 for the other businesses and as of December 31, 2010 for Advantage IQ and determined that goodwill was not impaired at that time. The changes in the carrying amount of goodwill are as follows (dollars in thousands):

	Advantage IQ	Other	Accumulated Impairment Losses	Total
Balance as of the December 31, 2010	$ 20,689	$ 12,979	$ (7,733)	$ 25,935
Adjustments	177			177
Balance as of the June 30, 2011	$ 20,866	$ 12,979	$ (7,733)	$ 26,112

Accumulated impairment losses are attributable to the other businesses.

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 12 years), Ecos in 2009 (estimated amortization period of 3 years) and The Loyalton Group in 2010 (estimated amortization period of 6 years), software development costs (estimated amortization period of 5 to 7 years) and other. Other Intangibles are included in other intangibles, property and investments net on the Condensed Consolidated Balance Sheets. Amortization expense related to Other Intangibles was as follows for the three and six months ended June 30 (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Other intangible amortization	$ 1,264	$ 966	$ 2,153	$ 1,907

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):

	2011	2012	2013	2014	2015
Estimated amortization expense	$ 2,277	$ 4,416	$ 3,685	$ 2,941	$ 1,696

The gross carrying amount and accumulated amortization of Other Intangibles as of June 30, 2011 and December 31, 2010 are as follows (dollars in thousands):

	June 30, 2011	December 31, 2010

Client relationships	$ 11,459	$ 11,459
Software development costs	20,500	19,139
Other	1,501	1,450
Total other intangibles	33,460	32,048
Client relationships accumulated amortization	(2,874)	(2,156)
Software development costs accumulated amortization	(10,351)	(8,985)
Other accumulated amortization	(875)	(806)
Total accumulated amortization	(14,100)	(11,947)
Total other intangibles net	$ 19,360	$ 20,101

Derivative Assets and Liabilities

Derivatives are recorded as either assets or liabilities on the Condensed Consolidated Balance Sheets 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 Washington Utilities and Transportation Commission (WUTC) and the Idaho Public Utilities Commission (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.

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

Fair Value Measurements

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. Energy commodity derivative assets and liabilities, funds held for customers, 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. See Note 9 for the Company s fair value disclosures.

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.

Contingencies

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

NOTE 2. NEW ACCOUNTING STANDARDS

Effective January 1, 2010, the Company adopted Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU amends guidance related to the disclosures of fair value measurements. In particular, it amends Accounting Standards Codification (ASC) 820-10 to clarify existing disclosures and provides for further disaggregation within classes of assets and liabilities, and further disclosure about inputs and valuation techniques. It also requires disclosure of significant transfers between Level 1 and Level 2 within the fair value hierarchy and separate disclosure of purchases, sales, issuances and settlements in the reconciliation of Level 3 activity (this is required beginning in 2011). See Note 9 for the Company s fair value disclosures.

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU will require enhanced disclosures for fair value measurements, including quantitative sensitivity analysis of unobservable inputs used in Level 3 fair value measurements. The ASU also clarifies the FASB s intent about the application of existing fair value measurement requirements. The Company will be required to adopt this ASU effective January 1, 2012. The Company is evaluating the impact this ASU will have on its financial condition, results of operations and disclosures.

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NOTE 3. VARIABLE INTEREST ENTITIES

The Company has a power purchase agreement (PPA) for the purchase of all the output of the Lancaster Plant, a 270 MW natural gas-fired combined cycle combustion turbine plant located in Idaho, owned by an unrelated third-party (Rathdrum Power LLC), through 2026. Beginning in July 2007 through the end of 2009, the majority of the rights and obligations under the PPA were conveyed to Shell Energy in connection with the sale of the majority of Avista Energy s contracts and ongoing operations to Shell Energy. These rights and obligations were conveyed to Avista Corp. (Avista Utilities) beginning in January 2010. Effective December 1, 2010, the rights and obligations under the PPA were assigned to Avista Corp.

Avista Corp. has a variable interest in the PPA. Accordingly, 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 Plant and does not provide financial support through liquidity arrangements or other commitments (other than the PPA). Based on its analysis, Avista Corp. does not consider itself to be the primary beneficiary of the Lancaster Plant. Accordingly, neither the Lancaster Plant nor Rathdrum Power LLC is included in Avista Corp. s condensed consolidated financial statements. The Company has a future contractual obligation of approximately $351 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 resulted 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.

Spokane Energy borrowed $145.0 million from a funding trust and paid $143.4 million to Avista Corp. to acquire its rights under the contract. The loan, which matures in January 2015, is structured so that Spokane Energy is the sole obligor. Avista Corp. has no obligation or liability related to this loan.

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.

Pursuant to orders from the WUTC and the IPUC, Avista Corp. fully amortized the $143.4 million received by the end of 2002.

Prior to 2010, Avista Corp. did not consolidate Spokane Energy because Spokane Energy met the definition of a 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.

NOTE 4. REDEEMABLE NONCONTROLLING INTERESTS AND ADVANTAGE IQ ACQUISITIONS

Advantage IQ s acquisition of Cadence Network in July 2008 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. These rights were not exercised during July 2011. 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. 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.

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The following details redeemable noncontrolling interests as of June 30, 2011 and December 31, 2010 (dollars in thousands):

	June 30, 2011	December 31, 2010
Previous owners of Cadence Network	$ 39,355	$ 38,098
Stock options and other outstanding redeemable stock	13,012	8,624
Total redeemable noncontrolling interests	$ 52,367	$ 46,722

In January 2011, Avista Capital purchased shares held by one of the previous owners of Cadence Network for $5.6 million. The presentation of the buyback of Advantage IQ shares was corrected in the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2010 by reclassifying the purchase of subsidiary noncontrolling interest of $2.6 million from investing to financing activities.

On December 31, 2010, Advantage IQ acquired substantially all of the assets and liabilities of The Loyalton Group (Loyalton), a Minneapolis-based energy management firm providing energy procurement and price risk management solutions. The acquisition of Loyalton was funded primarily through available cash at Advantage IQ plus contingent consideration based on revenue targets over the next three years.

The acquired assets and liabilities assumed of Loyalton were recorded at their respective estimated fair values as of the date of acquisition. The results of operations of Loyalton are included in the condensed consolidated financial statements beginning January 1, 2011. Pro forma disclosures reflecting the effects of the acquisition of Loyalton are not presented, as the acquisition is not material to Avista Corp. s condensed consolidated financial condition or results of operations.

In January 2011, Advantage IQ acquired substantially all of the assets and liabilities of Building Knowledge Networks (BKN), a Seattle-based real-time building energy management services provider. The acquisition of BKN was funded through available cash at Advantage IQ. Pro forma disclosures reflecting the effects of the acquisition of BKN are not presented, as the acquisition is not material to Avista Corp. s condensed consolidated financial condition or results of operations.

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 members of 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.

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.

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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 and fuel delivery capacity contracts.

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 including natural gas storage availability. Natural gas resource planning typically includes peak requirements, low and average monthly requirements and delivery constraints from natural gas supply locations to Avista Utilities distribution system. 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 as much as four natural gas operating years (November through October) into the future. Avista Utilities also leaves a significant portion of its natural gas supply requirements unhedged for purchase in short-term and spot markets. Natural gas resource optimization activities include:

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

The following table presents the underlying energy commodity derivative volumes as of June 30, 2011 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
2011	776	730	23,430	49,100	503	258	10,877	50,899
2012	904	1,363	13,195	49,195	324	562	1,528	44,950
2013	398	1,107	6,880	46,018	254	1,013	1,533	34,617
2014	366		2,933	3,480	286	123	1,050	
2015	379		675	450	286			

Thereafter	1,315	1,017

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. Avista Utilities economically hedges a portion of the foreign currency risk by purchasing Canadian currency contracts 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. The following table summarizes the foreign currency hedges that the Company has entered into as of June 30, 2011 and December 31, 2010 (dollars in thousands):

	June 30, 2011	December 31, 2010
Number of contracts	42	29
Notional amount (in United States dollars)	$ 14,107	$ 10,916
Notional amount (in Canadian dollars)	13,736	10,989
Derivative in other current assets	137	116

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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. The following table summarizes the interest rate swaps that the Company has entered into as of June 30, 2011 and December 31, 2010 (dollars in thousands):

Entered	Notional	Number of Contracts	Mandatory Cash Settlement Date
May/June 2010	$ 50,000	2	July 2012

Under the terms of the outstanding interest rate swap agreements, the value of the interest rate swaps is determined based upon Avista Corp. paying a fixed rate and receiving a variable rate based on LIBOR for a term of ten years. Upon settlement of the interest rate swaps, the regulatory asset or liability (included as part of long-term debt) will be amortized as a component of interest expense over the life of the forecasted interest payments.

Derivative Instruments Summary

The following table presents the fair values and locations of derivative instruments recorded on the Condensed Consolidated Balance Sheet as of June 30, 2011 (in thousands):

		Fair Value		
Derivative	Balance Sheet Location	Asset	Liability	Net Asset (Liability)
Foreign currency contracts	Other current assets	$ 137	$	$ 137
Interest rate contracts	Other non-current liabilities and deferred credits		(1,468)	(1,468)
Commodity contracts	Current utility energy commodity derivative assets	13,224	(10,685)	2,539
Commodity contracts	Non-current utility energy commodity derivative assets	27,554	(14,490)	13,064
Commodity contracts	Current utility energy commodity derivative liabilities	5,153	(45,961)	(40,808)
Commodity contracts	Other non-current liabilities and deferred credits	4,012	(23,095)	(19,083)
Total derivative instruments recorded on the balance sheet		$ 50,080	$ (95,699)	$ (45,619)

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

		Fair Value		
Derivative	Balance Sheet Location	Asset	Liability	Net Asset (Liability)
Foreign currency contracts	Other current assets	$ 116	$	$ 116
Interest rate contracts	Other intangibles, property and investments-net	127		127

Interest rate contracts	Other non-current liabilities and deferred credits		(53)	(53)
Commodity contracts	Current utility energy commodity derivative assets	6,293	(3,701)	2,592
Commodity contracts	Non-current utility energy commodity derivative assets	21,249	(5,988)	15,261
Commodity contracts	Current utility energy commodity derivative liabilities	5,934	(57,417)	(51,483)
Commodity contracts	Other non-current liabilities and deferred credits	1,386	(32,371)	(30,985)
Total derivative instruments recorded on the balance sheet		$ 35,105	$ (99,530)	$ (64,425)

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 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.

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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 June 30, 2011 was $70.0 million. If the credit-risk-related contingent features underlying these agreements were triggered on June 30, 2011, the Company would be required to post $38.6 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.

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.

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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 $21 million in cash to the pension plan in 2010. The Company expects to contribute $26 million in cash to the pension plan in 2011 ($17.3 million was contributed in the six months ended June 30, 2011).

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 in the tables included in this Note.

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 and six months ended June 30 (dollars in thousands):

	Pension Benefits		Other Post-retirement Benefits	
	2011	2010	2011	2010
Three months ended June 30:				
Service cost	$ 3,303	$ 2,878	$ 639	$ 219
Interest cost	6,017	5,823	1,091	631
Expected return on plan assets	(5,775)	(5,347)	(357)	(341)
Transition obligation recognition			124	126
Amortization of prior service cost	125	163	(37)	(37)
Net loss recognition	2,298	1,842	1,239	190
Net periodic benefit cost	$ 5,968	$ 5,359	$ 2,699	$ 788
Six months ended June 30:				
Service cost	$ 6,245	$ 5,756	$ 866	$ 421
Interest cost	12,126	11,646	2,010	1,250
Expected return on plan assets	(11,366)	(10,694)	(800)	(682)
Transition obligation recognition			250	252

Amortization of prior service cost	244	326	(74)	(74)
Net loss recognition	4,403	3,633	1,674	528
Net periodic benefit cost	$ 11,652	$ 10,667	$ 3,926	$ 1,695

NOTE 7. SHORT-TERM BORROWINGS

In February 2011, Avista Corp. entered into a new committed line of credit with various financial institutions in the total amount of $400.0 million with an expiration date of February 2015 that replaced its $320.0 million and $75.0 million committed lines of credit.

The committed line of credit is secured by non-transferable First Mortgage Bonds of the Company issued to the agent bank that would only become due and payable in the event, and then only to the extent, that the Company defaults on its obligations under the committed line of credit.

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The committed line of credit agreement contains customary covenants and default provisions. The credit agreement has a covenant which does not permit the ratio of consolidated total debt to consolidated total capitalization of Avista Corp. to be greater than 65 percent at any time. As of June 30, 2011, the Company was in compliance with this covenant.

Balances outstanding under the Company s revolving committed lines of credit were as follows as of June 30, 2011 and December 31, 2010 (dollars in thousands):

	June 30, 2011	December 31, 2010
Balance outstanding at end of period	$ 75,000	$ 110,000
Letters of credit outstanding at end of period	$ 19,023	$ 27,126

Advantage IQ

In April 2011, Advantage IQ entered into a new $40.0 million three-year committed line of credit agreement with a financial institution that replaced its $15.0 million committed credit agreement that had an expiration date of May 2011. The credit agreement is secured by substantially all of Advantage IQ s assets. There were no borrowings outstanding under Advantage IQ s credit agreements as of June 30, 2011 and December 31, 2010.

NOTE 8. LONG-TERM DEBT

The following details long-term debt outstanding as of June 30, 2011 and December 31, 2010 (dollars in thousands):

Maturity Year	Description	Interest Rate	June 30, 2011	December 31, 2010
2012	Secured Medium-Term Notes	7.37%	$ 7,000	$ 7,000
2013	First Mortgage Bonds	1.68%	50,000	50,000
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
2020	First Mortgage Bonds	3.89%	52,000	52,000
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
2040	First Mortgage Bonds	5.55%	35,000	35,000
	Total secured long-term debt		1,178,700	1,178,700
2023	Unsecured Pollution Control Bonds	6.00%	4,100	4,100
	Capital leases and other long-term debt		5,461	5,500
	Settled interest rate swaps		(512)	(951)
	Unamortized debt discount		(1,708)	(1,792)

Total	1,186,041	1,185,557
Secured Pollution Control Bonds held by Avista Corporation (1) (2)	(83,700)	(83,700)
Current portion of long-term debt	(7,363)	(358)
Total long-term debt	$ 1,094,978	$ 1,101,499

(1) In December 2010, $66.7 million of the City of Forsyth, Montana Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project) due 2032, which had been held by Avista Corp. since 2008, were refunded by a new bond issue (Series 2010A). The new bonds were not offered to the public and were purchased by Avista Corp. due to market conditions. The Company expects that at a later date, subject to market conditions, these bonds will be remarketed to unaffiliated investors. So long as Avista Corp. is the holder of these bonds, the bonds will not be reflected as an asset or a liability on Avista Corp. s Condensed Consolidated Balance Sheet.

(2) In December 2010, $17.0 million of the City of Forsyth, Montana Pollution Control Revenue Refunding Bonds, (Avista Corporation Colstrip Project) due 2034, which had been held by Avista Corp. since 2009, were refunded by a new bond issue (Series 2010B). The new bonds were not offered to the public and were purchased by Avista Corp. due to market conditions. The Company expects that at a later date, subject to market conditions, the bonds will be remarketed to unaffiliated investors. So long as Avista Corp. is the holder of these bonds, the bonds will not be reflected as an asset or a liability on Avista Corp. s Condensed Consolidated Balance Sheet.

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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 9. FAIR VALUE

The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and short-term borrowings are reasonable estimates of their fair values. Long-term debt (including current portion, 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 June 30, 2011 and December 31, 2010 (dollars in thousands):

	June 30, 2011		December 31, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-term debt	$ 1,099,100	$ 1,173,289	$ 1,099,100	$ 1,139,765
Nonrecourse long-term debt	52,830	59,029	58,934	64,795
Long-term debt to affiliated trusts	51,547	43,799	51,547	37,114

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.

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).

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.

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

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The following table 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 June 30, 2011 and December 31, 2010 at fair value on a recurring basis (dollars in thousands):

	Level 1	Level 2	Level 3	Counterparty Netting (1)	Total
June 30, 2011					
Assets:					
Energy commodity derivatives	$	$ 32,911	$ 17,032	$ (34,340)	$ 15,603
Foreign currency derivatives		137			137
Funds held for customers (2)	67,104				67,104
Funds held in trust account of Spokane Energy	1,600				1,600
Deferred compensation assets:					
Fixed income securities (3)	2,355				2,355
Equity securities (3)	6,484				6,484
Total	$ 77,543	$ 33,048	$ 17,032	$ (34,340)	$ 93,283
Liabilities:					
Energy commodity derivatives	$	$ 84,544	$ 9,687	$ (34,340)	$ 59,891
Interest rate swaps		1,468			1,468
Energy commodity derivatives	$	$ 86,012	$ 9,687	$ (34,340)	$ 61,359
December 31, 2010					
Assets:					
Energy commodity derivatives	$	$ 15,124	$ 19,739	$ (17,010)	$ 17,853
Interest rate swaps		127			127
Foreign currency derivatives		116			116
Funds held for customers (2)	100,543				100,543
Funds held in trust account of Spokane Energy	1,600				1,600
Deferred compensation assets:					
Fixed income securities (3)	1,854				1,854
Equity securities (3)	6,211				6,211
Total	$ 110,208	$ 15,367	$ 19,739	$ (17,010)	$ 128,304
Liabilities:					
Energy commodity derivatives	$	$ 93,198	$ 6,280	$ (17,010)	$ 82,468
Interest rate swaps		53			53
Total	$	$ 93,251	$ 6,280	$ (17,010)	$ 82,521

(1) The Company is permitted to net derivative assets and derivative liabilities with the same counterparty when a legally enforceable master netting agreement exists.

(2) Represents amounts held in money market funds.

(3) 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 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.

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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 $1.2 million as of June 30, 2011 and December 31, 2010.

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 and six months ended June 30 (dollars in thousands):

	Assets		Liabilities	
	2011	2010	2011	2010
Three months ended June 30:				
Balance as of April 1	$ 20,009	$ 30,788	$ (5,680)	$ (4,896)
Total gains or losses (realized/unrealized):				
Included in net income				
Included in other comprehensive income				
Included in regulatory assets/liabilities (1)	(2,977)	3,116	(592)	434
Purchases				
Issuances				
Settlements		(53)	989	81
Transfers from other categories (2)			(4,404)	
Ending balance as of June 30	$ 17,032	$ 33,851	$ (9,687)	$ (4,381)
Six months ended June 30:				
Balance as of January 1	$ 19,739	$ 57,276	$ (6,280)	$ (7,806)
Total gains or losses (realized/unrealized):				
Included in net income				
Included in other comprehensive income				
Included in regulatory assets/liabilities (1)	(2,707)	(21,076)	(948)	3,344
Purchases				
Issuances				
Settlements		(2,349)	1,945	81
Transfers from other categories (2)			(4,404)	
Ending balance as of June 30	$ 17,032	$ 33,851	$ (9,687)	$ (4,381)

(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.

(2) A derivative contract was reclassified from Level 2 to Level 3 during the three months ended June 30, 2011 due to a particular unobservable input becoming more significant to the fair value measurement.

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NOTE 10. 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 and six months ended June 30 (in thousands, except per share amounts):