

Avista Corporation Natural Gas Decoupling Mechanism
Washington Jurisdiction
Quarterly Report for 2nd Quarter 2013

AVISTA UTILITIES
Washington - Gas
Approved Decoupling Mechanism per Order No. 10 Docket No. UG-090135
2012 Actual compared to 2010 Test Year (UG-110877 Settlement)
2013 Actual compared to 2011 Test Year (UG-120437 Settlement)
Adjusted for Actual New Customer Usage and Schedule Shifting
Period July 2012 - June 2013

| | 2012 July | 2012 August | 2012 September | 2012 October | 2012 November | 2012 December | 2013 January | 2013 February | 2013 March | 2013 April | 2013 May | 2013 June | Period to Date Total |
|--|-------------------|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|-------------------|--------------------|-------------------|------------------|-------------------------|
| 12 Months Ended June 2013 Actual Schedule 101 | | | | | | | | | | | | | |
| Schedule 101 Billed Therms | 2,891,517 | 1,968,467 | 2,118,366 | 3,134,468 | 8,101,674 | 14,671,902 | 20,307,726 | 20,355,015 | 15,326,447 | 11,144,122 | 7,232,104 | 3,936,374 | 111,188,182 |
| Deduct New Customer Usage(1) | (45,841) | (26,926) | (31,301) | (52,994) | (155,626) | (299,967) | (441,559) | (461,268) | (352,339) | (236,047) | (158,313) | (80,791) | (2,342,972) |
| Schedule Shifting Adjustment (2) | 67,880 | 59,359 | 54,444 | 65,006 | 98,180 | 150,986 | 169,754 | 135,963 | 153,351 | 96,456 | 87,691 | 49,447 | 1,188,517 |
| Deduct Prior Month Unbilled Therms | (2,262,676) | (1,531,667) | (1,559,475) | (1,754,476) | (5,155,795) | (9,689,477) | (13,047,089) | (14,822,525) | (11,091,331) | (8,583,637) | (6,156,707) | (3,158,908) | (78,813,763) |
| Add Current Month Unbilled Therms | 1,531,667 | 1,559,475 | 1,754,476 | 5,155,795 | 9,689,477 | 13,047,089 | 14,822,525 | 11,091,331 | 8,583,637 | 6,156,707 | 3,158,908 | 2,038,665 | 78,589,752 |
| Add Weather Adjustment | - | - | - | 686,288 | 1,610,719 | 2,223,188 | (2,164,879) | 710,311 | 726,028 | (121,452) | 667,866 | - | 4,338,069 |
| Weather Adj Calendar Therms | 2,182,547 | 2,028,708 | 2,336,510 | 7,234,087 | 14,188,629 | 20,103,721 | 19,646,478 | 17,008,827 | 13,345,793 | 8,456,149 | 4,831,549 | 2,784,787 | 114,147,785 |
| Weather Adj Calendar Therms | 2,182,547 | 2,028,708 | 2,336,510 | 7,234,087 | 14,188,629 | 20,103,721 | 19,646,478 | 17,008,827 | 13,345,793 | 8,456,149 | 4,831,549 | 2,784,787 | 114,147,785 |
| Less Test Year Therms | 2,485,506 | 2,292,317 | 2,800,829 | 7,769,516 | 14,571,786 | 21,490,622 | 20,593,808 | 16,811,997 | 13,669,721 | 9,595,265 | 5,122,806 | 2,401,308 | 119,605,481 |
| Therm Difference | (302,959) | (263,609) | (464,319) | (535,429) | (383,157) | (1,386,901) | (947,330) | 196,830 | (323,928) | (1,139,116) | (291,257) | 383,479 | (5,457,696) |
| Times Current Margin Rate per Therm | 0.29592 | 0.29592 | 0.29592 | 0.29592 | 0.29592 | 0.29592 | 0.29638 | 0.29638 | 0.29638 | 0.29638 | 0.29638 | 0.29638 | 0.29638 |
| Revenue Excess (Shortfall) | (\$9,852) | (\$78,007) | (\$137,401) | (\$158,444) | (\$113,384) | (\$410,412) | (\$282,664) | \$66,730 | (\$96,654) | (\$339,869) | (\$86,905) | \$114,422 | (\$1,620,260) |
| 45% Limitation | 45% | 45% | 45% | 45% | 45% | 45% | 45% | 45% | 45% | 45% | 45% | 45% | 45% |
| Deferred Revenue Account Entry | (\$40,343) | (\$35,103) | (\$61,831) | (\$71,300) | (\$51,023) | (\$184,685) | (\$127,199) | \$26,429 | (\$43,494) | (\$152,950) | (\$39,107) | \$51,490 | (\$729,116) |
| 407328 or (407428) | | | | | | | | | | | | | |
| General Ledger Impairment Recorded December 2012 (3) | | | | | | 444,285 | | | | | | | 444,285 |
| General Ledger Impairment Recorded May and June 2013 (3) | | | | | | | | | | | 336,321 | (51,490) | 284,831 |
| General Ledger Balance | | | | | | | | | | | | | |

(1) Per monthly reports - current month usage for new services opened since that month of the test year.
 (2) The schedule shifting adjustment adds back test year usage of customers that have shifted away from Schedule 101 and deducts the current month usage of customers that were on a different schedule during the test year and have shifted to Schedule 101.
 (3) The Company recorded a general ledger impairment against the deferred revenue surcharge balance at December 2012 and again at May and June 2013 due to no opportunity to collect this balance from our customers through future revenues.

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**2011 Test Year Factors, 2012 - 2013 Actual Weather and Unbilled
12 Months Ended December 2011 Test Year Monthly Data**

| | | Jan-13 | Feb-13 | Mar-13 | Apr-13 | May-13 | Jun-13 | Jul-12 | Aug-12 | Sep-12 | Oct-12 | Nov-12 | Dec-12 | Total |
|--|----------------|-------------|---------|---------|-----------|---------|---------|------------|------------|------------|-----------|-----------|-----------|-----------|
| Weather Normalization | | | | | | | | | | | | | | |
| Normal Degree Days (30 Year Average 1982 - 2011) | | 1,109 | 913 | 775 | 551 | 327 | 140 | 36 | 33 | 184 | 546 | 885 | 1,172 | 6,671 |
| Actual Degree Days | | 1,243 | 869 | 730 | 561 | 272 | 140 | 36 | 33 | 184 | 546 | 885 | 1,172 | 6,671 |
| Degree Day Adjustment (7) | | (134) | 44 | 45 | (10) | 55 | - | - | - | - | - | - | - | - |
| Monthly | | | | | | | | | | | | | | |
| Res 101 | Use/DD/Cust(7) | 0.0980 | 0.0980 | 0.0980 | 0.0760 | 0.0760 | 0.0760 | 0.0000 | 0.0000 | 0.0000 | 0.0760 | 0.0760 | 0.0980 | |
| Com 101 | Use/DD/Cust(7) | 0.2520 | 0.2520 | 0.2520 | 0.1663 | 0.1663 | 0.1663 | 0.0000 | 0.0000 | 0.0000 | 0.1663 | 0.1663 | 0.2520 | |
| Ind 101 | Use/DD/Cust(7) | 0.4123 | 0.4123 | 0.4123 | 0.2742 | 0.2742 | 0.2742 | 0.0000 | 0.0000 | 0.0000 | 0.2742 | 0.2742 | 0.4123 | |
| Sch. 101 | | | | | | | | | | | | | | |
| Res 101 | | (1,757,666) | 576,480 | 589,485 | (101,444) | 557,792 | - | - | - | - | - | - | - | (135,353) |
| Com 101 | | (402,683) | 132,380 | 135,059 | (19,783) | 108,807 | - | - | - | - | - | - | - | (46,220) |
| Ind 101 | | (4,530) | 1,451 | 1,484 | (225) | 1,267 | - | - | - | - | - | - | - | (553) |
| Total 101 | | (2,164,879) | 710,311 | 726,028 | (121,452) | 667,866 | - | - | - | - | - | - | - | (182,126) |
| Revenue Run Customers (Meters Billed) | | | | | | | | | | | | | | |
| Residential 101 | Class | 133,846 | 133,692 | 133,670 | 133,479 | 133,443 | 133,197 | 133,325 | 133,519 | 133,444 | 133,732 | 134,277 | 134,611 | 1,604,235 |
| Commercial 101 | | 11,925 | 11,939 | 11,910 | 11,896 | 11,896 | 11,884 | 11,825 | 11,854 | 11,878 | 11,889 | 11,867 | 11,890 | 142,653 |
| Industrial 101 | | 82 | 80 | 80 | 82 | 84 | 85 | 83 | 86 | 83 | 86 | 89 | 88 | 1,008 |
| Interdepartmental 101 | | 29 | 32 | 31 | 30 | 32 | 30 | 30 | 30 | 30 | 30 | 30 | 29 | 360 |
| Total | | 145,882 | 145,743 | 145,691 | 145,487 | 145,452 | 145,196 | 145,263 | 145,489 | 145,435 | 145,737 | 146,263 | 146,618 | 1,748,256 |
| Current Monthly Unbilled Calculation | | | | | | | | | | | | | | |
| Unbilled Sch 101 per Books | | | | | | | | | | | | | | |
| Rev Run Customers (Meters Billed) | | 1 | 1 | 1 | 1 | 1 | 1 | 13,199,087 | 15,027,770 | 11,258,070 | 8,707,951 | 6,253,784 | 3,204,581 | 2,088,502 |
| Average Unbilled per Customer | | | | | | | | 147,536 | 147,902 | 147,934 | 147,801 | 147,781 | 147,555 | 147,321 |
| Test Year Customer Current Unbilled | | | | | | | | 89.46 | 101.61 | 76.10 | 58.92 | 42.32 | 21.72 | 14.04 |
| Test Year Customer Current Unbilled | | | | | | | | 13,047,089 | 14,822,525 | 11,091,331 | 8,583,637 | 6,156,707 | 3,158,908 | 2,038,665 |

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Balance Sheet Accounts

GL Account Balance Accounting Period : '201304, 201305, 201306'

| Ferc Acct:186328 Ferc Acct Desc:REG ASSET-DECOUPLING DEFERRED Service:GD Jurisdiction:WA | | | |
|--|-------------------|------------------|----------------|
| Accounting Period | Beginning Balance | Monthly Activity | Ending Balance |
| 201304 | 144,264.00 | 152,950.00 | 297,214.00 |
| 201305 | 297,214.00 | -297,214.00 | 0.00 |
| 201306 | 0.00 | 0.00 | 0.00 |
| Sum: -144,264.00 | | | |

Note 1
Note 2

GL Account Balance Accounting Period : '201304, 201305, 201306'

| Ferc Acct:182329 Ferc Acct Desc:REG ASSET- DECOUPLING PRIOR YE Service:GD Jurisdiction:WA | | | |
|---|-------------------|------------------|----------------|
| Accounting Period | Beginning Balance | Monthly Activity | Ending Balance |
| 201304 | 0.00 | 0.00 | 0.00 |
| 201305 | 0.00 | 0.00 | 0.00 |
| 201306 | 0.00 | 0.00 | 0.00 |
| Sum: 0.00 | | | |

GL Account Balance Accounting Period : '201304, 201305, 201306'

| Ferc Acct:182328 Ferc Acct Desc:REG ASSET- DECOUPLING SURCHARG Service:GD Jurisdiction:WA | | | |
|---|-------------------|------------------|----------------|
| Accounting Period | Beginning Balance | Monthly Activity | Ending Balance |
| 201304 | 7,382.62 | 19.99 | 7,402.61 |
| 201305 | 7,402.61 | 20.05 | 7,422.66 |
| 201306 | 7,422.66 | 20.10 | 7,442.76 |
| Sum: 60.14 | | | |

GL Account Balance Accounting Period : '201304, 201305, 201306'

| Ferc Acct:254328 Ferc Acct Desc:REG LIABILITY DECOUPLING REBAT Service:GD Jurisdiction:WA | | | |
|---|-------------------|------------------|----------------|
| Accounting Period | Beginning Balance | Monthly Activity | Ending Balance |
| 201304 | -3,506.70 | 338.57 | -3,168.13 |
| 201305 | -3,168.13 | 158.97 | -3,009.16 |
| 201306 | -3,009.16 | 104.01 | -2,905.15 |
| Sum: 601.55 | | | |

GL Account Balance Accounting Period : '201304, 201305, 201306'

| Ferc Acct:283328 Ferc Acct Desc:ADFIT DECOUPLING DEFERRED REV Service:GD Jurisdiction:WA | | | |
|--|-------------------|------------------|----------------|
| Accounting Period | Beginning Balance | Monthly Activity | Ending Balance |
| 201304 | -51,849.02 | -53,658.00 | -105,507.02 |
| 201305 | -105,507.02 | 103,962.24 | -1,544.78 |
| 201306 | -1,544.78 | -43.44 | -1,588.22 |
| Sum: 50,260.80 | | | |

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Income Statement Accounts

GL Account Balance Accounting Period : '201304, 201305, 201306'

| Ferc Acct:407428 Ferc Acct Desc:REG CREDIT DECOUPLING DEF REV Service:GD Jurisdiction:WA | | | |
|--|-------------------|------------------|----------------|
| Accounting Period | Beginning Balance | Monthly Activity | Ending Balance |
| 201304 | -170,693.00 | -152,950.00 | -323,643.00 |
| 201305 | -323,643.00 | -39,107.00 | -362,750.00 |
| 201306 | -362,750.00 | 0.00 | -362,750.00 |
| Sum: -192,057.00 | | | |

Note 1
Note 2

GL Account Balance Accounting Period : '201304, 201305, 201306'

| Ferc Acct:407328 Ferc Acct Desc:REG DEBIT DECOUPLING DEF REV Service:GD Jurisdiction:WA | | | |
|---|-------------------|------------------|----------------|
| Accounting Period | Beginning Balance | Monthly Activity | Ending Balance |
| 201304 | 26,429.00 | 0.00 | 26,429.00 |
| 201305 | 26,429.00 | 336,321.00 | 362,750.00 |
| 201306 | 362,750.00 | 0.00 | 362,750.00 |
| Sum: 336,321.00 | | | |

Note 1
Note 2

GL Account Balance Accounting Period : '201304, 201305, 201306'

| Ferc Acct:407329 Ferc Acct Desc:REG DEBIT AMT DECOUPLING SURCH Service:GD Jurisdiction:WA | | | |
|---|-------------------|------------------|----------------|
| Accounting Period | Beginning Balance | Monthly Activity | Ending Balance |
| 201304 | 0.00 | 0.00 | 0.00 |
| 201305 | 0.00 | 0.00 | 0.00 |
| 201306 | 0.00 | 0.00 | 0.00 |
| Sum: 0.00 | | | |

GL Account Balance Accounting Period : '201304, 201305, 201306'

| Ferc Acct:407429 Ferc Acct Desc:REG CREDIT AMT DECOUPLING REBA Service:GD Jurisdiction:WA | | | |
|---|-------------------|------------------|----------------|
| Accounting Period | Beginning Balance | Monthly Activity | Ending Balance |
| 201304 | -2,059.92 | -347.60 | -2,407.52 |
| 201305 | -2,407.52 | -167.32 | -2,574.84 |
| 201306 | -2,574.84 | -112.01 | -2,686.85 |
| Sum: -626.93 | | | |

Note 1 As noted in the 4th quarter 2012 WA Decoupling Report, the Company recorded an impairment of this balance per books at December 31, 2012 resulting in the \$0 beginning balance. The 2013 cumulative value was impaired in May as the 3rd party report on 2012 DSM savings was received, confirming that no surcharge balance would be recoverable from customers.

Note 2 No deferral entry was made on the general ledger in June, as the calculated rebate entry did not exceed the cumulative period to date surcharge and therefore would have immediately been impaired. Also see Note 3 on Page 1 of this quarterly report regarding the impairments.

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Avista Utilities
Calculation of Decoupling Rebate/Amortization Rate
Effective November 1, 2012 - October 31, 2013

Avista Utilities
Decoupling Rebate/Amortization Actual
Effective November 1, 2012 - October 31, 2013

| | Unamortized Balance(1) | Interest(2) | Forecast Sch. 101 Use | Deferral Balance(5) | Amortization | Interest | Actual Interest Rates | Actual Forecast Sch. 101 Use | Difference from Forecast |
|--------------|------------------------|-------------|-----------------------|---------------------|--------------|----------|-----------------------|------------------------------|--------------------------|
| Nov-12 | \$ (0.00004) | 3.25%(3) | 14,481,079 | \$ (0.00004) | | 3.25% | | | |
| Dec-12 | -\$4,736 | -\$12 | 20,462,590 | -\$6,676 | \$477 | -\$17 | 3.25% | 11,930,588 | (2,550,491) |
| Jan-13 | -\$3,340 | -\$10 | 20,078,978 | -\$6,216 | \$701 | -\$16 | 3.25% | 17,528,479 | (2,934,111) |
| Feb-13 | -\$2,538 | -\$8 | 16,681,775 | \$1,792 | \$885 | \$6 | 3.25% | 22,136,409 | 2,057,431 |
| Mar-13 | -\$1,871 | -\$6 | 13,671,554 | \$2,684 | \$663 | \$8 | 3.25% | 16,585,315 | (96,460) |
| Apr-13 | -\$1,325 | -\$4 | 9,398,907 | \$3,355 | \$511 | \$10 | 3.25% | 12,776,328 | (895,226) |
| May-13 | -\$949 | -\$3 | 5,460,040 | \$3,876 | \$348 | \$11 | 3.25% | 8,689,955 | (708,952) |
| Jun-13 | -\$731 | -\$2 | 3,311,845 | \$4,235 | \$167 | \$12 | 3.25% | 4,182,901 | (1,277,139) |
| Jul-13 | -\$599 | -\$2 | 2,459,549 | \$4,414 | \$112 | \$12 | 3.25% | 2,800,295 | (511,550) |
| Aug-13 | -\$501 | -\$1 | 2,395,128 | \$4,538 | \$98 | \$12 | 3.25% | 2,459,549 | - |
| Sep-13 | -\$405 | -\$1 | 2,971,220 | \$4,648 | \$96 | \$13 | 3.25% | 2,395,128 | - |
| Oct-13 | -\$286 | -\$1 | 7,160,855 | \$4,757 | \$119 | \$13 | 3.25% | 2,971,220 | - |
| Nov-13 | \$0 | \$0 | | \$4,889 | \$286 | \$14 | 3.25% | 7,160,855 | - |
| Total | | -\$52 | 118,533,518 | | | | | | |

| | |
|--|------------------|
| Incremental Rate to Recover Est. Interest | (\$0.00000) |
| Est. Rate to Recover Deferral Balance | (\$0.00004) |
| Rate before Gross-up for Revenue-related items | (\$0.00004) |
| Times: Gross-up for Revenue-related items(4) | 1.045782 |
| Proposed decoupling rate | (0.00004) |

| | Total | Actual through June / Forecast | Actual through June / Forecast |
|--|------------------|--------------------------------|--------------------------------|
| Est. Rate to Recover Deferral Balance | -\$4,659 | \$4,465 | \$77 |
| Rate before Gross-up for Revenue-related items | \$5,383 | \$5,189 | \$194 |
| Times: Gross-up for Revenue-related items(4) | 1.045782 | | |
| Proposed decoupling rate | (0.00004) | | |

(1) Deferral balance at beginning of the month / Rate of -\$0.00004 is rate to rebate deferral balance of -\$4,736 over 12 months
(2) Interest computed on average balance between beginning and end of month.
(3) FERC rate @ July 12 - changes quarterly (<http://ferc.gov/legal/acct-matts/interest-rates.asp>)
(4) From page 2 of Exh. 2

(5) November and December 2012 balances exclude rollover to prevent double-counting interest calculated on the prior Surcharge unbilled true-ups. Beginning in January 2013 these values represent the combined surcharge and rebate balances as if the surcharge had been rolled over into the rebate creating a net surcharge balance.

| | |
|----------------------------------|----------|
| Current Period Rebate Balance | -\$6,676 |
| Prior Surcharge Rollover Balance | \$1,940 |
| Total Unamortized Balance | -\$4,736 |

The August 2012 filing supporting this rate included the assumption that the 2011-2012 surcharge would have been reduced to \$1,940, however the actual amount remaining at the conclusion of that surcharge rate was \$7,323 causing a net surcharge balance that continues to rebate through October 2013. The June 30, 2013 net surcharge balance is \$4,538 and is estimated to be a net surcharge rollover amount of \$5,189 at October 31, 2013.