

**AFFILIATED INTEREST AND SUBSIDIARY
TRANSACTIONS REPORT
OF
AVISTA CORPORATION
d/b/a AVISTA UTILITIES**

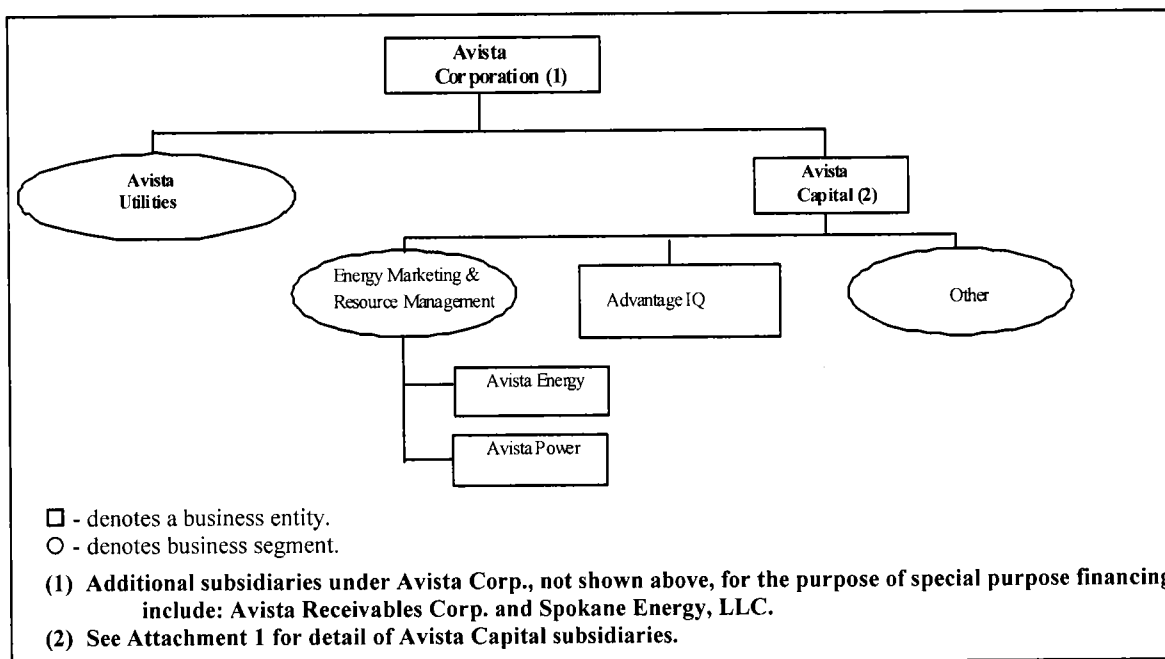
FOR THE YEAR ENDED DECEMBER 31, 2011

Pursuant to WAC 480-100-264 and WAC 480-90-264 Affiliated Interest and Subsidiary Transactions Report, the following report summarizes all transactions, except transactions provided at tariff rates, that occurred between Avista Corporation (hereinafter Avista or Company) and its subsidiaries and affiliates. The Company operates in its utility service territories as Avista Utilities.

Avista Utilities is a combination utility that provides service to approximately 360,000 electric customers and 225,000 natural gas customers in a 26,000-square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves approximately 96,000 natural gas customers in Oregon. The largest community served in the area is Spokane, Washington, which is the location of the corporate headquarters.

I. ORGANIZATION INFORMATION

1. Organizational Chart



Included in **Attachment 1** is additional detail of Avista Capital subsidiaries.

2. Directors and/or Officers

See **Attachment 2** for Officer and Director Listings for Avista Corporation and all wholly owned subsidiaries.

3. Narrative Descriptions of Subsidiaries

Avista Capital, Inc., is a wholly owned subsidiary of Avista Corp. and is the parent corporation of Avista Corporation's non-regulated subsidiary investments and operations.¹ As of December 31, 2011, Avista Capital had the following non-utility subsidiary investments:

- **Ecova, Inc.** (formerly Advantage IQ, Inc.) (79.20% ownership) Provides consolidated billing and resource accounting service and related services. Effective December 31, 2011, Ecos IQ, Inc., merged with Ecova, Inc. Ecos IQ, Inc. provides energy efficiency and related consulting services.
 - * **Prenova, Inc.** (100% ownership) is an energy management firm, which focuses on expense management and energy procurement solutions.
- **Avista Energy, Inc. and Avista Energy Canada, Ltd.** (100% ownership–inactive), were energy marketing and resource management companies. On June 30, 2007, Avista completed the sale of the operations of Avista Energy to Coral Energy Holding, L.P., and certain of its subsidiaries, a subsidiary of Shell (Coral).
- **Avista Ventures, Inc.** (100% ownership-no employees, passive income), was formed to manage and market investments.
- **Avista Development, Inc.** (100% ownership-no employees, passive income) was established to manage real estate investments including:
 - * **Steam Plant Square, LLC** (85% ownership) Manages and operates the Steam Plant Square in Spokane, Washington.
 - **Steam Plant Brew Pub, LLC** (100% ownership) Manages and operates the Steam Plant Grill in Spokane, Washington.
 - * **Court Yard Office Center, LP** (100% ownership) Owns and operates commercial office space rentals.
- **Pentzer Corporation** is a wholly owned private investment company that serves as parent of the non-utility businesses listed below (no employees, passive income):
 - * **Advanced Manufacturing and Development, Inc., dba METALfx**, (82.95% ownership), located in Willits, California, is a manufacturer and turnkey assembler of electronic enclosures, parts, and systems primarily for the computer and instrumentation industries. This company is held by **Bay Area Manufacturing, Inc.** (100% ownership)

¹ The only exceptions relate to Avista Receivables, Inc., a special purpose subsidiary formed in connection with the sale of accounts receivable, and Spokane Energy, LLC, which was formed for the purpose of implementing a long-term capacity contract between Avista Utilities and Portland General Electric Company. At present, these entities are directly owned by Avista Corporation. See page 3 for a further description of Spokane Energy, LLC.

- * **Pentzer Venture Holdings II, Inc.** (100% ownership) Holding company for an inactive sewage treatment plant near Spokane Industrial Park.
- **Avista Power, LLC** (100% ownership), was created to develop and own generation assets in North America. In 2001, Avista Power ceased active development of additional non-regulated generation projects. Subsidiaries of Avista Power, LLC include:
 - * **Coyote Springs 2, LLC** (50% ownership-inactive), created to develop and own generation assets. No current assets.
- **Avista Turbine Power, Inc.** (100% ownership-ceased active development of additional projects) was created to receive assignments of power purchase agreements (PPAs).
- **Avista Northwest Resources, LLC** (100% ownership) was formed for the purpose of holding investment in the energy industry.

Spokane Energy, LLC (Spokane Energy) is a special purpose limited liability company and has 100% of its membership owned by Avista Corp. Spokane Energy was formed on December 30, 1998 to assume ownership of a fixed rate electric capacity contract between Avista and Portland General Electric Company (PGE). Under this contract, Peaker, LLC (Peaker) purchases capacity from Avista Utilities and sells capacity to Spokane Energy. Spokane Energy sells the related capacity to PGE. Peaker acts as an intermediary to fulfill certain regulatory requirements between Spokane Energy and Avista Corp. The transaction is structured such that Spokane Energy bears full recourse risk for a loan (balance of \$46.5 million as of December 31, 2011) that matures in January 2015. Avista has no recourse related to this loan. Peaker makes monthly payments of approximately \$150,000 to Avista for its capacity purchase.

4. Narrative Descriptions of Affiliates

As of December 31, 2011, Avista Capital had the following affiliates:

- **GreenVolts, Inc.** (ownership by Avista Development, Inc.)
- **Inland Northwest Investors, L.P.** (16.50% ownership by Avista Development, Inc.)
- **Pivotal Investment Partners I, L.P.** (30.80% ownership by Avista Northwest Resources, LLC)
- **ReliOn, Inc.** (5.84% ownership by Avista Capital, Inc.)
- **EnerTech II** (2.29% ownership by Avista Development, Inc.)
- **Woodside IV** (4.14% ownership by Avista Development, Inc.)
- **Inland Empire Oilseeds** (1.8% ownership by Avista Development, Inc.)

- **Inland TechStart Fund, LLC** (14.93% ownership by Avista Development, Inc.)

II. TRANSACTIONS BETWEEN AVISTA AND SUBSIDIARIES AND AFFILIATES

1. Transactions with subsidiaries and affiliates totaling less than \$100,000 for the reporting period ended December 31, 2011:

| <u>Subsidiary Name</u> | <u>Account No. & Description</u> | <u>Amount</u> |
|------------------------------------|--------------------------------------|---------------|
| (2) Avista Capital, Inc. (Nucleus) | 557 Amortization Exp. | \$ 1,028 |
| (2) Avista Capital, Inc. (Nucleus) | 813 Other Gas Supply Exp. | \$ 441 |
| (3) Spokane Energy, LLC | 456 Other Electric Revenue | \$ 48,875 |
| (5) Avista Development, Inc. | 146 Accts Rec. | \$ 15,705 |
| (5) Avista Energy, Inc. | 146 Accts Rec. | \$ 35,172 |

See descriptions below, Section II.2. (b), (2) – (6), pages 5 through 8.

2. Transactions with subsidiaries and affiliates totaling or exceeding \$100,000 for the reporting period ended December 31, 2011:

| <u>Subsidiary Name</u> | <u>Account No. & Description</u> | <u>Amount</u> |
|-------------------------------|--------------------------------------|---------------|
| (1) Avista Capital II (Trust) | 419 Interest Exp. | \$ 622,739 |
| (5) Ecova | 146 Accts Rec. | \$ 389,907 |
| (5) Avista Capital, Inc. | 146 Accts Rec. | \$ 121,396 |
| (4) Steam Plant Square, LLC | 107 CWIP | \$ 80,534 |
| (4) Steam Plant Square, LLC | 540 Rents | \$ 4,137 |
| (4) Steam Plant Square, LLC | 550 Rents | \$ 2,038 |
| (4) Steam Plant Square, LLC | 931 Rents | \$ 53,273 |

See descriptions below, Section II.2. (b), (1) – (6), pages 5 through 8.

(a) Financial Statements:

A Balance Sheet and Income Statement for the subsidiaries listed above whose transactions exceeded \$100,000 is included as **Attachment 3**. See descriptions below in section II.2 (b).

CONFIDENTIALITY REQUEST

In accordance with WAC 480-07-160, Avista Corporation requests confidential treatment of all statements provided under this section of the Subsidiary Transaction Report. All such statements are marked "CONFIDENTIAL."

(b) Description of Services or Transactions:

(1) Avista Capital II (Trust) Expenses

In 1997, the Company issued Floating Rate Junior Subordinated Deferrable Interest Debentures, Series B, with principle amount of \$51.5 million to Avista Capital II, an affiliated business trust formed by the Company. Avista Capital II issued \$50.0 million of Preferred Trust Securities. The interest charges for the trust carried on Avista's books for 2011 totaled \$622,739 and were recorded in FERC Account No. 419 (interest expense). There are no other costs associated with this trust.

(2) Avista Capital, Inc. – Nucleus Software Application

Nucleus is a software application used to record energy transactions by Avista Utilities and Avista Energy. During 2007, Avista Utilities and Avista Energy used the Nucleus software application independent from one another with completely separate databases. Therefore, no access to data between companies was possible. After the sale of Avista Energy in 2007, Avista Utilities is the sole user of this application.

The Nucleus asset was transferred from Avista Energy's books to Avista Capital's books on December 31, 2003. The asset transferred was of mutual benefit to both Avista Utilities and Avista Energy. Avista Capital paid and recorded all shared costs on its books related to the development of the application and charged a monthly amortization expense to both Avista Utilities and Avista Energy for the original asset transferred and for any development of the application. In November 2004, a software sublicense agreement was entered into between Avista Corporation dba Avista Utilities and Avista Capital, Inc., which granted Avista Utilities a non-exclusive sublicense to the Nucleus software. A copy of this agreement was provided to the WUTC in September 2004.

Avista Utilities' portion of the asset held by Capital was fully amortized at March 31, 2011. In 2011, amortization expense of \$1,028 and \$441 were recorded in FERC Account Nos. 557 and 813, respectively. Electric and gas charges allocated to the Washington jurisdiction are allocated based on the Company's four-factor allocation methodology. *(Please refer to **Attachment 4** for the allocation factors.)*

(3) Spokane Energy, LLC Transactions

Avista acts as the servicer of Spokane Energy's commodity contracts. Annual service fees paid by Spokane Energy to Avista were approximately \$48,875 in 2011.

Spokane Energy is required to maintain in trust \$1.6 million. All funds in excess of this amount are transferred to Avista for cash management purposes. During 2011, the amount transferred was \$0. At December 31, 2011 Avista has a liability of \$705,946 payable to Spokane Energy for these funds.

(4) Steam Plant Square, LLC Lease

Avista Utilities leases office space (two spaces under separate Multi-Tenant Lease Agreements) from Steam Plant Square, LLC. For the first space, Avista Corporation assumed a lease in May 2003 from Avista Capital, Inc. that was renewed May 1, 2010. The basic terms of this lease (i.e. square footage, monthly rents, etc.) remained the same. A copy of the lease agreement was provided in Docket No. UE-110067. The second space was leased in August 2010. A copy of the lease agreement was provided in Docket No. UE-101859.

Lease payments in 2011 totaled \$139,982 (\$80,534 recorded in FERC Account No. 107, \$4,137 recorded in FERC Account No. 540, \$2,038 recorded in FERC Account No. 550 and \$53,273 recorded in FERC Account No. 931).

(5) Non-Service Transactions

Avista Corporation Corporate Services:

On a regular basis, general office employees of Avista Corporation spend time on corporate service support, such as accounting, federal income tax filing, planning, graphic services, etc. for subsidiaries. Their time is charged to suspense accounts (Deferred Debit

Account No. 186), loaded for benefits and then established as a receivable (FERC Account No. 146) when billed to the subsidiary. If other resources are expended during the course of this work such as travel or consulting services, these costs are also charged to suspense accounts and billed to the subsidiary.

All corporate services provided, and costs incurred, are direct billed to subsidiaries at cost. No additional margin or profit is included and no assets are allocated. Suspense and capture of Avista Corporation employee costs, which are then billed back to the subsidiary at cost, serve to reduce the utility expenses.

Such transactions can be generally categorized as corporate support. Specific examples include labor, benefits, postage, supplies, copier and graphic services, legal, travel, lodging, and food.

(c) Description of pricing basis or costing method for allocating costs, and amounts and accounts charged during the year:

See individual descriptions above Section II.2, pages 5 through 8.

(d) Inter-Company Loans:

During 2011, Avista Corp. recorded short-term note payables to Avista Capital, Inc. The year-end note payable amount at December 31, 2011 was \$1,866,383. The maximum note payable amount outstanding during the year, owed to Avista Capital was \$7,374,317 at January 1, 2011. There were no notes receivable amount outstanding during the year owed to Avista Corp.

This revolving short-term cash borrowing between the parties helps to reduce external cash requirements. According to the policy, investment/borrowing rates between Avista Corporation and Avista Capital that were in effect during 2011 were:

- a. Upon receiving appropriate approvals, excess Avista Capital cash may be invested with (loaned to) Avista Corp. at a rate equal to Avista Corp.'s avoided short-term borrowing cost, currently estimated at the one-month LIBOR plus 130 basis points. The rate will be reset monthly with the LIBOR rate in effect on the second business day of each month, as reported in the money rate section of the Wall Street Journal.
- b. Avista Capital may borrow from Avista Corp., subject to board-approved limits, at a rate equal to the Prime rate plus 30 basis points. This rate will be reset at such time as the Agent bank on the Avista Corp. Revolving Credit Agreement changes the Prime rate.

Avista Corp. updated its Cash management Guidelines and Procedures in April 2011, upon entering into a new four-year line of credit in February 2011. Upon regulatory approval and in accordance with the updated policy, investment/borrowing rates between Avista Corporation and Avista Capital will be:

- a. Upon receiving appropriate approvals, excess Avista Capital cash may be invested with (loaned to) Avista Corp. at a rate equal to Avista Corp.'s avoided short-term borrowing cost currently estimated at the one-month LIBOR plus 130 basis points (this is the short-term borrowing rate related to Avista Corp.'s credit facility). The rate will be reset monthly with the LIBOR rate in effect on the second business day of each month.

At times Avista Corp may have no outstanding borrowings under the credit facility. If there are no outstanding borrowings under the credit facility, excess cash should be utilized to pay down borrowings on other short-term borrowing instruments (if any) and the borrowing rate should be adjusted to the avoided short-term borrowing rate applicable to the borrowings that were re-paid.

At times, Avista Corp may have no outstanding cash borrowings on the credit facility or other short-term borrowing facilities. If there are no cash borrowings under any facility, excess cash should be invested at the subsidiary until the funds can be utilized.

- b. Avista Capital may borrow from Avista Corp., subject to board-approved limits, at a rate equal to at least the Prime rate plus 30 basis points. This rate will be reset at such time as the Agent bank on the Avista Corp. credit agreement changes the Prime rate or the margin is changed per the credit facility pricing grid. If an Alternate Base Rate (as defined in the credit facility) is in effect, the borrowing rate would be adjusted accordingly.

On January 3, 2012, Avista Corp entered into a note agreement with Ecova. The note agreement is structured so that Avista Corporation would pay the same rate as would have been incurred under the credit facility (i.e. Avista Corporation's avoided short-term borrowing rate). The avoided short-term borrowing rate is currently 87.5 bps plus LIBOR. Avista Corporation may borrow up to \$50 million in principal under the note agreement. Additionally, Avista Corporation will be required to retain liquidity under its credit facility to repay the outstanding principal balance in whole at any time. The Commission approved this transaction in Docket No. UG-111770 and on November 10, 2011. The note payable amount as of April 27, 2012 was \$35,000,000.

(e) Description of Parent Guaranteed Debt:

Avista Corporation does not guarantee debt of its subsidiaries. However, there are payment guarantees as noted below in Section III. Miscellaneous Agreements, page 9.

(f) Description of Activities of Subsidiaries:

See Section I.3 at pages 2 through 3.

(g) List of all common officers and directors:

See Section I.2 at page 1.

III. MISCELLANEOUS AGREEMENTS AND TRANSACTIONS

1. Conveyance Agreement

The Company has a “Conveyance Agreement” between Avista Corp. and Avista Energy that was entered into on October 5, 1998 and amended on October 30, 2002. Under this agreement, Avista conveyed for a term through October 31, 2009 its ownership interest in the Jackson Prairie Expansion Capacity and related withdrawal and injection capacity to Avista Energy. As consideration, Avista Energy paid Avista’s share of capital costs associated with the construction of the Jackson Prairie Expansion Capacity and pays Avista’s share of operating, maintenance and general and administrative expenses associated with the Jackson Prairie Expansion Capacity. In April 2007, in conjunction with the previously discussed sale of Avista Energy, Inc., the term of the Conveyance Agreement was extended to April 30, 2011. A confidential copy of the “Agreement to Extend Agreement to Convey Ownership Interest in Jackson Prairie Storage Project Expansion” was provided to the WUTC in the 2006 Subsidiary Transaction Report.

In addition, the Company filed with the WUTC on March 2, 2010 the “Confirmation Agreement” between Avista Corp. and Avista Energy related to the reconveyance of the JP storage capacity (and deliverability) to the utility on May 1, 2011. For additional information on the reconveyance of the Jackson Prairie Storage to Avista Corporation, see Docket No. UG-100370 (Affiliated Interest Agreement).

2. GreenVolts, Inc. Investment and Property Lease and Conditional Use Agreement

In May 2007, Avista Development loaned \$200,000 to GreenVolts, Inc. under a convertible promissory note and executed a Property Lease and Conditional Use Agreement, by and between Avista and GreenVolts. The Agreement allows GreenVolts access to Avista's Clean Energy Test Site (CETS) on the grounds of its Rathdrum Combustion Turbine property in north Idaho. GreenVolts, a San Francisco based solar photovoltaic energy firm, will test new solar technology that is expected to deliver electricity at a cost that is potentially competitive with peak natural gas alternatives.

In November 2007, Avista Development invested \$500,000 in Series A Preferred Stock in GreenVolts and converted the \$200,000 promissory note to Series A Preferred Stock. This investment represents approximately 3% ownership in GreenVolts. Based on this, GreenVolts is not an affiliated interest of Avista, however, for informational purposes, a copy of the Property Lease and Conditional Use Agreement was provided in the 2007 Subsidiary Transaction Report.