

AVISTA UTILITIES

Commission Basis Report Washington Electric Adjustment Descriptions Twelve Months Ended December 31, 2019

1.00 Per Results of Operation (ROO) Report

ROO Report amounts are for the twelve months ended December 31, 2019. Amounts agree to the Company's financial general ledger records with the removal of certain prior period costs. Rate base was computed using the average-of-monthly-averages method. Rate base includes all rate base components, including net plant (costs, less accumulated depreciation, net of ADFIT), working capital, and all other regulatory deferred debits and credits.

1.01 Accumulated Deferred FIT (ADFIT) Rate Base

ADFIT arises from accelerated tax depreciation in excess of book depreciation expense, bond refinancing premiums, and contributions in aid of construction. ADFIT that was included in ROO report were included in column (1.00). The adjustment was necessary to adjust the ROO balances to actual. The primary difference between ADFIT per ROO and the Commission Basis amounts relates to the allocation of common ADFIT amounts.

1.02 Deferred Debits and Credits

Deferred debits and credits that were included in the ROO Reports were included in column 1.00. This adjustment corrects the amounts as shown in ROO Reports. The Deferred Debits and Credits include the following regulatory deferrals:

- Colstrip 3 AFUDC Elimination
This deferral reflects a reallocation of rate base and depreciation expense between jurisdictions. In Cause Nos. U-81-15 and U-82-10, the WUTC allowed the Company a return on a portion of Colstrip Unit 3 construction work in progress (CWIP). A much smaller amount of Colstrip Unit 3 CWIP was allowed in rate base in Case No. U-1008-144 by the IPUC. The Company eliminated the AFUDC associated with the portion of CWIP allowed in rate base in each jurisdiction. Since production facilities are allocated on the production/transmission percentages, the allocation is reversed and a direct assignment is made. The ROO balance was appropriate; therefore, no Commission Basis Report (CBR) adjustment was needed. This regulatory deferral was fully amortized in 2019.
- Colstrip Common AFUDC
Differing amounts of Colstrip common facilities were excluded from rate base by the WUTC and IPUC until Colstrip Unit No. 4 was placed in service. The Company was allowed to accrue AFUDC on the Colstrip common facilities during the time that they were excluded from rate base. It is necessary to directly assign the AFUDC because of the differing amounts of common facilities excluded from rate base by the WUTC and IPUC. In September 1988, an entry was made to comply with a FERC Audit Exception, which transferred Colstrip common AFUDC from the plant accounts to account 186. This deferral reflects a

AVISTA UTILITIES

Commission Basis Report Washington Electric Adjustment Descriptions Twelve Months Ended December 31, 2019

direct assignment of rate base for the appropriate average of monthly averages amounts of Colstrip common AFUDC to the Washington and Idaho jurisdictions. Amortization expense associated with the Colstrip common AFUDC is charged directly to the Washington and Idaho jurisdictions through Account 406. The ROO balance was appropriate; therefore, no CBR adjustment was needed. This regulatory deferral will be fully amortized in 2021.

- Kettle Falls Disallowance

This deferral reflects the Kettle Falls disallowance ordered by the WUTC in Cause No. U-83-26. The WUTC disallowed both a return of and a return on a certain portion of the investment in Kettle Falls. The disallowed investment and related depreciation expense, FIT expense, accumulated depreciation and deferred FIT are removed. The ROO balance was correct; therefore, no CBR adjustment was needed. During 2019, a small expense correction was recorded of approximately \$6,000, however, this regulatory deferral was fully amortized in 2018.

- Settlement Exchange Power

This deferral reflects the rate base associated with the recovery of 64.1% of the Company's investment in Settlement Exchange Power. The 64.1% recovery level was approved by the Commission's Second Supplemental Order in Cause No. U-86-99 dated February 24, 1987. Amortization expense and deferred FIT expense recorded during the test period are appropriately reflected in results of operations, therefore for CBR, no adjustment was needed. This regulatory deferral was fully amortized in 2019.

- CDA Settlement Deferral

This deferral reflects the December 31, 2019 AMA net assets, net of ADFIT, associated with the 2008/2009 past storage and §10(e) charges, and CDA/SRR CDR (CDA Tribe Settlement 4(e) Spokane River Relicensing conditions) deferred for future recovery as approved in Docket No. UE-100467. The ROO balance was appropriate; therefore, no CBR adjustment was needed. This regulatory deferral will be fully amortized in 2020.

- Restating CDA/SRR (Spokane River Relicensing) CDR Deferral

This deferral reflects the net assets and ADFIT balances for the CDA Tribe settlement 4(e) Spokane River relicensing conditions deferred for future recovery. A ten-year amortization expense of the CDA/SRR CDR Deferral, as approved in Docket No. UE-100467 is accurately reflected in results of operations. This regulatory deferral will be fully amortized in 2020.

AVISTA UTILITIES

Commission Basis Report Washington Electric Adjustment Descriptions Twelve Months Ended December 31, 2019

- Spokane River Deferral
This deferral reflects the December 31, 2019 AMA net asset, net of ADFIT, related to the Spokane River relicensing and PM&E costs deferred for future recovery, as approved in Docket No. UE-100467. The ROO balance was appropriate; therefore, no CBR adjustment was needed. This regulatory deferral will be fully amortized in 2020.
- Restating Spokane River PM&E Deferral
This deferral reflects the December 31, 2019 AMA net asset, net of ADFIT, related to the Spokane River deferred PM&E costs deferred for future recovery. A ten-year amortization expense of the Spokane River PM&E Deferral, as approved in Docket No. UE-100467 is accurately reflected in results of operations. The ROO balance was appropriate; therefore, no CBR adjustment was needed. This regulatory deferral will be fully amortized in 2020.
- Customer Advances
These amounts decrease rate base for customer advances, as they will most likely be recorded as contributions in aid of construction at some future time. These amounts are a component of actual ROO. The ROO rate base liability was overstated by approximately \$1,000 and therefore adjusted.
- Customer Deposits
These amounts decrease rate base for the average-of-monthly averages of customer deposits held by the Company. The ROO rate base balance is correct; therefore, no adjustment was made. The corresponding interest paid on customer deposits is recorded to an operating expense, at the UTC interest rate during 2019 of 2.57%. This adjustment is consistent with Docket No. UE-090134.

1.03 Working Capital

The working capital rate base balance reflected in ROO as of December 31, 2019 is calculated using the Investor Supplied Working Capital (ISWC) method using an average of monthly averages basis. This method is consistent with the method originally approved in the Company's electric general rate case, Docket No. UE-150204 and updated for minor changes approved in Docket Nos. UE-170485 and UE-190334. The actual ROO balance recorded in 2019 was adjusted to reflect the agreed upon changes in Docket No. UE-190334, reducing working capital \$3,752,000.

AVISTA UTILITIES

Commission Basis Report Washington Electric Adjustment Descriptions Twelve Months Ended December 31, 2019

1.04 AMI Rate Base

This adjustment removes the net rate base of the Company's investment in AMI (Advanced Metering Infrastructure). In Docket Nos. UE-170327 and UG-170328, the Commission authorized the Company to defer the depreciation expense associated with this investment until such plant is included in retail rates in a future general rate case. The Company proposed and the Commission approved that Avista would not earn a return on this investment during the deferral period, therefore, the net rate base of this investment is removed for Commission Basis reporting until such time the investment is included in retail rates.

2.01 Eliminate B & O Taxes

This adjustment removes the revenues and expenses associated with local business and occupation taxes. The adjustment eliminates any timing mismatch that exists between the revenues and expenses by eliminating the revenues and expenses in their entirety. This restating adjustment is consistent with prior dockets (including Docket No. UE-991606 forward).

2.02 Restate Property Tax

This adjustment restates the test period accrued levels of property taxes to reflect the actual amounts. This restating adjustment is consistent with prior dockets (including Docket No. UE-991606 forward).

2.03 Uncollectible Expense

This adjustment restates the accrued expense to the actual level of net write-offs for the test period. This restating adjustment is consistent with prior dockets (including Docket No. UE-991606 forward).

2.04 Regulatory Expenses

This adjustment restates regulatory expense to reflect the WUTC assessment rates applied to revenues for the test period and the actual levels of FERC fees paid during the test period. This restating adjustment is consistent with prior dockets (including Docket No. UE-991606 forward).

2.05 Injuries and Damages

As a result of the Commission's Order in Docket No. U-88-2380-T the Company changed to the reserve method of accounting for injuries and damages not covered by insurance. This restating adjustment replaces the accrual with actuals to adjust to the six-year rolling average of injuries and damages payments not covered by insurance. This restating adjustment is consistent with prior dockets (including Docket No. UE-991606 forward).

AVISTA UTILITIES

Commission Basis Report Washington Electric Adjustment Descriptions Twelve Months Ended December 31, 2019

2.06 FIT and DFIT Expenses

This adjustment adjusts the level of Schedule M items and jurisdictional allocation of Schedule M items as necessary to reflect the appropriate level of Washington electric FIT expense and DFIT expense. This restating adjustment is consistent with prior dockets (including Docket No. UE-991606 forward).

2.07 Office Space Charges to Subsidiaries

This adjustment removes a portion of the office space costs (including, but not limited to office building operating and fixed costs, utilities, administrative, security, HVAC, depreciation and property taxes, as well as other costs related to employee use of phones, laptops, etc.) related to non-utility space, using the percentage of labor dollars charged to subsidiary/non-utility activities by employee compared to total labor dollars by employee. These percentages are applied to the employees' office space (expressed in square feet) and multiplied by office space costs/per square foot. This restating adjustment is made as a result of the Commission's Third Supplemental Order in Docket No. U-88-2380-T, which required the company to perform a space utilization study to allocate costs to subsidiaries. This restating adjustment is consistent with prior dockets (including Docket No. UE-991606 forward).

2.08 Restate Excise and Franchise Taxes

This adjustment removes the effect of a one-month accrual lag in actual results to reflect the actual level of taxes paid. This restating adjustment is consistent with prior dockets (including Docket No. UE-991606 forward).

2.09 Net Gains/Losses

This adjustment reflects a ten-year amortization of net gains realized from the sale of real property disposed of between 2010 and December 31, 2019. This restating adjustment is made as a result of the Commission's Order in Docket No. UE-050842/UG-050483, and is consistent with prior general rate case dockets starting with Docket No. UE-050842/UG-050483.

2.10 Weather Normalization

This adjustment normalizes weather sensitive electric kWh sales by eliminating the effect of temperature deviations above or below historical normals. This restating adjustment is required per WAC 480-100-208.

AVISTA UTILITIES

Commission Basis Report Washington Electric Adjustment Descriptions Twelve Months Ended December 31, 2019

2.11 Eliminate Adder Schedules

This adjustment removes the impact of the adder schedule revenues and related expenses, including Schedule 59 Residential Exchange Credit, Schedule 74 Tax Reform Temporary Rebate, Schedule 75 Decoupling (Rebate) Surcharge, Schedules 89, 90 and 91 Tariff Rider (DSM and LIRAP), and Schedule 98 Renewable Energy Credit Revenue (Rebate) Surcharge, since these items are recovered/rebated by separate tariffs and therefore not part of base rates. In addition, the contra-decoupling deferral was eliminated, since this revenue was earned in the test period.

2.12 Miscellaneous restating

This adjustment removes a number of non-operating or non-utility expenses included in error in the test period actual results, and removes or restates other expenses incorrectly charged between service and or jurisdiction. The Company also removed 50% of director meeting expenses and director fees.

2.13 Restate Incentives

This adjustment restates O&M incentive compensation expense recorded in 2019 to reflect a six-year average of the actual expense as approved in Docket Nos. UE-170485 and UG-170486.

2.14 Restate Debt Interest

This adjustment reflects debt interest using the Company's weighted average cost of debt, based on rate base as reported in column (1.00), resulting in the level of tax deductible interest expense on actual test period rate base. For each Commission Basis adjustment to rate base, the FIT expense is reflected on that adjustment for the impact of the restated debt interest.

2.15 Eliminate WA Power Cost Deferral

This adjustment eliminates all power supply deferral and amortization entries, including net REC revenues, recorded in results of operations pursuant to the deferral and recovery mechanisms authorized in Docket No. UE-000972. This restating adjustment is consistent with prior general rate case dockets (including Docket No. UE-011595 forward.)

2.16 Nez Perce Settlement Accounting Adjustment

This adjustment directly assigns the Nez Perce Settlement expenses to the Washington and Idaho jurisdictions. This is necessary due to differing regulatory treatment in Idaho Case No. WWP-E-98-11 and Washington Docket No. UE-991606/UG-991607.

AVISTA UTILITIES

Commission Basis Report Washington Electric Adjustment Descriptions Twelve Months Ended December 31, 2019

2.17 Normalize CS2/Colstrip Major Maintenance

This adjustment normalizes major maintenance associated with Avista's Colstrip/Coyote Springs II (CS2) thermal projects. In Order 05, page 56, paragraph 153 of Docket No. UE-150204, the Commission ordered the Company, for regulatory purposes, to normalize and recover its major maintenance expense associated with these plants over a period to match the major maintenance cycles for each plant.

2.18 Authorized Power Supply

This adjustment normalizes power supply costs to reflect the authorized level of net power supply costs for the twelve month period. The Energy Recovery Mechanism (ERM), approved by the Commission, is designed to share all differences in actual versus authorized net power supply costs within the ERM between customers and the Company based on the pre-determined deadband and sharing bands embedded within the ERM. The customer portion of the difference between actual versus authorized net power supply costs (higher or lower) is deferred and set aside for future rebate or surcharge to customers. The Company portion of the deadband and sharing bands (higher or lower) is absorbed by the Company. By normalizing power supply costs to reflect the authorized level, the Commission Basis Report reflects Company results after removing the agreed-upon treatment of differences in actual versus authorized net power supply costs.