BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-11________

DOCKET NO. UG-11________

EXHIBIT NO._____(EMA-5)

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

Internal Review of Accounting Practices:

I. Review of Policies/Procedures Regarding Cost Allocations

II. Internal Audit of Certain Accounting Practices Regarding Allocations

III. Employee Training

Attachments

A. Regulatory Accounting Guidelines and Policies Manual
B. Internal Audit Report of 2010 Avista Utility Expenditures
C. Internal Audit Report of the 2010 LIRAP Expenditures
D. Regulatory Accounting Guidelines and Policies Training Slides
E. Regulatory Accounting Guidelines and Policies Semi-Annual Memo
F. Video Production of Regulatory Accounting Guidelines and Policies Training

May 2011

Provided Pursuant to Order 07
Dockets UE-100467 & UG-100468

AVISTA Utilities

Background

In the all-party Settlement Stipulation in Docket Nos. UE-100467 and UG-100468, dated August 24, 2010, Avista agreed to undertake, among other things, a review of its accounting policies and procedures, an additional internal audit of certain accounting practices, and additional training of employees related to costs properly charged to utility customers. On November 19, 2010, The Washington Utilities & Transportation Commission (UTC) approved the Settlement Stipulation, including these provisions.

Avista has completed its review of its accounting policies and procedures, the additional internal audit, and additional training of employees related to costs properly charged to utility customers. The findings resulting from this work are summarized in this report, and the materials developed related to this work are attached to this report.

I. *POLICIES/PROCEDURES REGARDING COST ALLOCATIONS*

Paragraph 20 of the Settlement Stipulation states:

Prior to its next Washington general rate case filing, Avista will review its existing policies and procedures regarding the Company's allocation of costs between utility, LIRAP, and non-utility accounts, and produce a report with a detailed description of these policies and procedures. This report will include an explanation of safeguards in place so that subsidiary or non-utility expenses remain separate from and are not being charged to utility accounts. The report will also include the prescribed methods identified for proper allocation of shared/common costs between utility and non-utility accounts. The policies and procedures and related report shall be served on all Parties to the current rate case. Parties reserve the right to challenge or propose amendments to Avista's allocation policies and methodologies in any future rate case. The Company will maintain records of the cost of performing the review and preparing the report (including labor overhead/time spent) and Parties reserve the right to challenge Avista's recovery of all or part of these costs at such time as Avista may seek recovery (i.e., its next general rate case).

A. Review of Internal Policies and Procedures Regarding the Company's Allocation of Costs

The Company has completed a review and update of its policies and procedures regarding the Company's allocation of costs between utility, LIRAP, and non-utility accounts, and has produced a Regulatory Accounting Guidelines and Policies Manual. (See Attachment A) This manual provides a detailed description of specific state regulations and administrative codes, Company accounting and expense reimbursement guidelines, and other miscellaneous Company expense policies. This manual also includes specific guidance to ensure proper allocation of shared/common costs between utility and non-utility accounts, and proper recording of utility and non-utility transactions.

B. Cost of Performing Internal Review

A total of 300 hours were spent performing the internal review of policies/procedures, preparing the Regulatory Accounting Guidelines and Policies, training materials and developing the final report. The total cost for addressing the items was approximately $26,200.

II. INTERNAL AUDIT OF CERTAIN ACCOUNTING PRACTICES REGARDING ALLOCATIONS

Paragraphs 21 and 22 of the Settlement Stipulation state:

21. Avista's Internal Audit Department will perform an annual audit of current accounting practices (including accounting for LIRAP programs) relating to: compliance with regulatory treatment of utility expenditures; accuracy of jurisdictional allocations; and allocations between utility and non-utility accounts for subsidiary and corporate-wide (shared) expenses. Following this audit, Avista will make any necessary revisions to its training materials (see Paragraph 23, below) and put in place measures so that inappropriate subsidiary, or shared, costs are correctly accounted for and not recorded to utility operating accounts. The Internal Audit Department will prepare a report regarding the results of its audit, including a list of all concerns, incorrect treatment of costs, and steps for improving the accuracy and propriety of accounting practices.

22. Avista will commit to performing the annual internal audit as described above and provide a copy of the same to all parties for three (3) years following its initial audit and report. Parties reserve the right to challenge any inappropriately recorded costs. In addition, the Company shall maintain records of the cost of performing the audits and preparing the reports (including labor overhead/time spent) and Parties reserve the right to challenge Avista's recovery of all or part of these costs at such time as Avista may seek recovery (i.e., its next general rate case).

A. Internal Audit of Current Accounting Practices Regarding Allocations

Avista's Internal Audit Department has completed its internal audit of current accounting practices (including accounting for LIRAP programs) relating to: compliance with regulatory treatment of utility expenditures; accuracy of jurisdictional allocations; and allocations between utility and non-utility accounts for subsidiary and corporate-wide (shared) expenses. The Internal Audit Department, conducted a separate audit of the LIRAP program and as such, a separate audit report was issued for the LIRAP program's accounting practices.

The Company's Internal Audit Department has prepared two audit reports which specifically address the nature, objective, scope, findings, recommendations and conclusions of their audits. A summary of the scope, findings, and recommendations for each of the audits has been included below along with the Company's response. In addition, both reports have been included as attachments to this document. (Attachment B - Internal Audit Report of 2010 Avista Utility Expenditures, and Attachment C - Internal Audit Report of the 2010 LIRAP Expenditures)

B. Timing and Scope of Future Annual Audits

Avista has committed to performing annual internal audits of current accounting practices (including accounting for LIRAP programs) relating to: compliance with regulatory treatment of utility expenditures; accuracy of jurisdictional allocations; and allocations between utility and non-utility accounts for subsidiary and corporate-wide (shared) expenses for the three (3) years following our initial audit and reports.

The audit will be completed no later than the second quarter of each year following the calendar year period under audit.

The scope of the internal audit of the Company's utility expenditures will include all expenditure transactions in FERC accounts 400-935 that occurred during the calendar year period, prior to the completion of the audit. The scope of the internal audit of LIRAP expenditures will include all LIRAP tariff rider revenues, allocation of revenues to Community Action Agencies (CAA), and expense transactions that occurred during the calendar year period, prior to the completion of the audit.

C. Cost of Performing Internal Audit

A total of 688 hours were spent performing the internal audit and preparing audit reports. The total cost including labor and benefits for performing the internal review was approximately $41,165.

D. Scope, Findings, and Recommendations of Internal Audits

1. Internal Audit of Avista Utility Expenditures

a. Scope:

"The scope of the internal audit of the Company's utility expenditures included all expenditure transactions in FERC accounts 400-935 from January 1, 2010 through December 31, 2010. Due to the Administrative and General (A&G) errors noted during the 2010 WUTC general rate case and auditor assessed risk, Internal Audit stratified the population into two specific subsets:

Subset A: This population includes all purchase transactions in FERC accounts 900-935, commonly referred to as A&G accounts. The total number of transactions included in this population is 37,691; total dollar amount was a debit balance of $46,980,954. Based on professional auditor judgment and commonly accepted standards, a random sample of 208 transactions (absolute value of $115,250) was determined to be appropriate for Subset A. The sample size was derived from the AICPA published statistical sample size tables using a confidence interval of 95%, tolerable deviation rate of 5%, and an expected population deviation of 2.25%.

- **Subset B:** This population includes all remaining expenditure transactions not included in Subset A. The total number of transactions included in this population is 546,287; total dollar amount was a credit balance of $139,405,643. Based on professional auditor judgment and commonly accepted standards, a random sample of 93 transactions (absolute value of $421,917) was determined to be appropriate for Subset B. The sample size was derived from the AICPA published statistical sample size tables using a confidence interval of 95%, tolerable deviation rate of 5%, and an expected population deviation of 1%. In order to ensure the completeness of all expenditure items, some revenue accounts and transactions were included in this population. As revenue transactions were outside the scope of this audit, they were replaced with the next random sample if selected." (See Avista Utility Expenditures Internal Audit Report, Attachment B, at p.3)

Below is a listing of each of the audit findings, as well as recommendations made by the Internal Audit Department, for the internal audit of Avista Utility expenditures. The Company has also included responses to each of the findings and recommendations.

b. General Findings:

1) "Of a random sample of 208 expenditure transactions, 20 were identified as an error with at least one attribute (FERC account, service, or jurisdiction) being inappropriately allocated." (See Avista Utility Expenditures Internal Audit Report, Attachment B, at p.3)

   Company's Response: *The Company has reviewed the 20 transactions in the internal audit report identified as an error and agrees that these transactions were either incorrectly recorded to the wrong service, jurisdiction, or FERC account. The Company has removed these transactions, totaling $4,757, from the test period being utilized in the Company's up-coming general rate case filing. As explained below, the Company is providing training to address this issue in the future.*

2) "Of a random sample of 93 expenditure transactions, 1 was identified as an error with the service attribute being inappropriately allocated." (See Avista Utility Expenditures Internal Audit Report, Attachment B, at p.3)

   Company's Response: *The Company has reviewed this transaction identified in the internal audit report as an error and agrees that this transaction was incorrectly recorded to the wrong service. The Company has removed this transaction, totaling $545, from the test period being utilized in the Company's up-coming general rate case filing. As explained below, the Company is providing training to address this issue in the future.*

c. Recommendations:

1) “We recommend the Company provide formal training on the Company’s accounting guidelines, which includes regulatory accounting and expense allocation guidelines, on a reoccurring basis and as needed for new employees.“ (See Avista Utility Expenditures Internal Audit Report, Attachment B, at p.4)

   Company’s Response: *The Company has provided formal training on the allocation guidelines to 256 employees throughout the Company, based on the employees’ responsibilities. The Company will continue to provide training on an ongoing basis, requiring affected new employees, and affected employees with new positions within the Company to complete the training as needed.*

   “As part of the formal training, we recommend the Company:”

   - “Communicate the Corporate Allocation Guidelines so that department managers can properly determine and support that their department’s labor and expense allocations are appropriate.” (See Avista Utility Expenditures Internal Audit Report, Attachment B, at p.4)

     Company’s Response: *The Company has provided formal training on the allocation guidelines. As a part of this formal training the Company has communicated that all areas should work with their “Budget Sponsor” personnel to review and determine that each department’s labor and expenses allocations are appropriate. This guidance is also documented in the Company’s Regulatory Accounting Guidelines and Policies Manual and Training Slides (Attachment A and Attachment D), which is available to all employees on the Company’s Intranet, as well as being provided to each employee that completes the formal training.*

   - “Instruct employees to provide clear and complete explanations of expenses on purchase transactions that support the validity and accounting allocations of that expense.” (See Avista Utility Expenditures Internal Audit Report, Attachment B, at p.4)

     Company’s Response: *The Company has provided formal training to employees, instructing the employees to provide clear and complete explanations of expenses on purchase transactions that support the validity and accounting allocations of that expense. This guidance is also documented in the Company’s Regulatory Accounting Guidelines and Policies Training Slides (Attachment D), which is available to all employees on the Company’s*

Intranet, as well as being provided to each employee that completes the formal training.

- "Develop and communicate a guideline that addresses the appropriate allocation of expenses if a split between multiple jurisdictions and/or services is necessary and no common project exists." (See Avista Utility Expenditures Internal Audit Report, Attachment B, at p.4)

  Company's Response: *The Company has provided formal training that addresses the appropriate allocation of expenses if a split between multiple jurisdictions and services is necessary. This guidance is also documented in the Company's Regulatory Accounting Guidelines and Policies Manual and Training Slides (Attachment A and Attachment D), which is available to all employees on the Company's Intranet, as well as being provided to each employee that completes the formal training.*

- "Provide clear and consistent guidance on the allocation of labor and expenses related to dues, donations, charitable contributions, civic organizations, and community service involvement for both employees and executives." (See Avista Utility Expenditures Internal Audit Report, Attachment B, at p.4)

  Company's Response: *The Company has provided formal training on the allocation of labor and expenses related to dues, donations, charitable contributions, civic organizations and community service involvement. This guidance is also documented in the Company's Regulatory Accounting Guidelines and Policies Manual and Training Slides (Attachment A and Attachment D), which is available to all employees on the Company's Intranet, as well as being provided to each employee that completes the formal training.*

2) "We recommend the Company design and implement detective controls to monitor compliance with the Company's accounting guidelines." (See Avista Utility Expenditures Internal Audit Report, Attachment B, at p.4)

   Company's Response: *The Company will periodically monitor the accounting activity to determine compliance with the Company's Regulatory Accounting Guidelines and Policies.*

3) "We recommend the Company identify an expert within the Company to provide guidance and support to all departments to help ensure compliance with the Company's accounting guidelines." (See Avista Utility Expenditures Internal Audit Report, Attachment B, at p.4)

Company's Response: *During the Company's internal training, resources and specific individuals were identified to provide the necessary expert guidance and support, to assist employees in complying with the Company's accounting guidelines. Specifically, employees have been directed to contact their department's "Budget Sponsor" for guidance on appropriate labor and expense coding, and additional employees within the Corporate Accounting, Utility Accounting and State and Federal Regulation Departments for additional assistance. This guidance is also documented in the Company's Regulatory Accounting Guidelines and Policies Manual and Training Slides. (Attachment A and Attachment D)*

4) "We recommend the Company annually provide each department with a listing of their applicable projects/tasks, with service and jurisdiction allocations clearly noted, so that the department managers can review and ensure the projects/tasks are up to date and reflective of the services provided by that department." (See Avista Utility Expenditures Internal Audit Report, Attachment B, at p.4)

   Company's Response: *As part of the Company's internal training, we identified the resources needed to locate the listing of all projects and tasks; this listing clearly identifies the service and jurisdictions assigned to each project and task. In addition department managers and budget sponsors have been instructed to review the projects and tasks listing to ensure that employees have access to the appropriate projects.*

5) "We recommend the Company evaluate whether the Oracle iExpense module can be modified to reject all expenses charged to FERC Account 920 - Labor. If not feasible, we recommend monitoring of this account to occur on at least a quarterly basis." (See Avista Utility Expenditures Internal Audit Report, Attachment B, at p.4)

   Company's Response: *Oracle IExpense is a tool used by the Company to record employee non-labor expenses for reimbursement. We initiated discussions with Dinero (Oracle Consultant) to understand what limitations we can place on IExpense to prevent a 920 task from being used in that module, and it has been determined that the appropriate limitations can be made and will be implemented in the system upgrade to be completed in the last quarter of 2011. During the training, the Company discussed the incorrect use of task / account 920 with IExpense. The Company will monitor and correct charges to account 920 charged within IExpense on a quarterly basis. This monitoring will be performed by the Corporate Accounting Department.*

2. Internal Audit of LIRAP Expenditures

a. Scope:

"The scope of the internal audit of LIRAP expenditures included all LIRAP tariff rider revenues, allocation of revenues to Community Action Agencies' (CAA), and expense transactions from January 1, 2010 through December 31, 2010. Due to the nature of the audit objective and variations in types of transactions, Internal Audit stratified the population into two specific subsets:

> **Subset A:** This population included all transactions from the monthly LIRAP tariff rider revenue journal. This journal records LIRAP tariff rider revenue through FERC account 908600 and the associated liability to FERC account 242770. Based on professional auditor judgment and commonly accepted standards, two months were randomly selected for review. The LIRAP tariff rider revenue and allocation of revenues to CAA's were recalculated and traced to the LIRAP Accounts Payable Sub ledger. Additionally, the FERC account, jurisdiction, and service were reviewed to ensure appropriate recording. The sample size was derived from tests of controls sampling guidelines provided by Deloitte & Touche LLP.
>
> **Subset B:** This population included all LIRAP program expenditure transactions from FERC account 242770. The total number of transactions included in this population is 1,402 with a debit balance of $4,928,377. Based on professional auditor judgment and commonly accepted standards, a random sample of 93 transactions (absolute value of $279,116) was determined to be appropriate for this population. The sample size was derived from the AICPA published statistical sample size tables using a confidence interval of 95%, tolerable deviation rate of 5%, and an expected population deviation of 1%." (See LIRAP Internal Audit Report, Attachment C, at p.3)

Below is a listing of each of the audit findings, as well as recommendations made by the Internal Audit Department, for the internal audit of Avista LIRAP expenditures. The Company has also included responses to each of the findings and recommendations.

b. General Findings:

1) "Of random sample of 93 expenditure transactions, 9 were identified as an error and were inappropriately recorded to the LIRAP program. All errors identified in this subset were internal labor expenses for the same employee. As these internal labor expenses should have been charged to a non LIRAP account, we determined that it was an error to all three attributes." (See LIRAP Internal Audit Report, Attachment C, at p.4)

   Company's Response: *The Company has reviewed the 9 transactions of the LIRAP program identified in the internal audit report as errors and agrees that these transactions, totaling $2,319.79, were incorrectly recorded to the LIRAP program. The Company has reversed these transactions as well as an additional $21,111. This reversal effectively removes all internal labor expenses for one employee which was charged to the LIRAP program in error.*

2) "Additionally, it was noted in the Accounting Practices Audit that a LIRAP program expenditure transaction was inappropriately expensed to a non LIRAP account." (See LIRAP Internal Audit Report, Attachment C, at p.4)

Company's Response: *The Company has reviewed the transaction of the LIRAP program identified in the internal audit report as an error and agrees that this transaction, totaling $29.24, should have been recorded to the LIRAP program. Due to the immaterial historical nature of this 2010 expense transaction, this transaction was not reclassed to the LIRAP program, however the Company has removed these transactions from the test period being utilized in the Company's up-coming general rate case filing.*

c. Recommendations:

1) "We recommend the Company improve the process to document and update changes to the LIRAP program." (See LIRAP Internal Audit Report, Attachment C, at p.4)

Company's Response: *In order to improve the Company's documentation of changes to the LIRAP program, the Company has communicated to the appropriate personnel that formal documentation of any changes made to the program in the future is required. This formal documentation will be issued to all internal employees responsible for the LIRAP program, as well as the agencies, on an as needed basis.*

2) "We recommend the Company design and implement detective controls to monitor compliance with LIRAP program guidelines." (See LIRAP Internal Audit Report, Attachment C, at p.4)

Company's Response: *Detective controls have been put in place to monitor the compliance with the LIRAP program guidelines. Each invoice is approved by the appropriate manager, who is aware of the LIRAP spending guidelines. Also, on a monthly basis, the LIRAP accountant reviews the transaction detail that has been recorded to the LIRAP program for appropriateness.*

3) "We recommend the Company develop a guideline that addresses the appropriate allocation of expenses if a split between intra-company departments is necessary and no common project exists." (See LIRAP Internal Audit Report, Attachment C, at p.4)

Company's Response: *In order to improve the Company's documentation of the appropriate allocation of expenses between departments, the Company will require formal documentation of specific methodologies used to appropriately allocate expenses in the future.*

III. EMPLOYEE TRAINING

Paragraph 23 of the Settlement Stipulation states:

Avista will provide ongoing training for Avista employees to comply with required accounting and allocation practices as discussed in Paragraphs 20 and 21 above. This will include meeting with departments to explain proper labeling of expenses, accounting treatment, and allocations. Training materials will include guidelines regarding the proper use of various FERC accounts and proper expense labeling systems, so that costs are accurately identified for ratemaking purposes. Avista will distribute a semi-annual written reminder to employees to properly label and record expenditures (including appropriate utility/non-utility and jurisdictional allocations). The training described above and the first semi-annual reminder will be provided by Avista before the Company files its next general rate case. In addition, the Company will maintain records of the cost of performing the preparing and providing trainings and training materials/written reminders (including labor overhead/time spent) and Parties reserve the right to challenge Avista's recovery of all or part of these costs at such time as Avista may seek recovery (i.e., its next general rate case).

A. Employee Training:

As required in the Settlement Stipulation in Docket Nos. UE-100467 and UG-100468, at paragraph 23, the Company will continue training on an ongoing basis, requiring affected new employees, and affected employees with new positions within the Company, to complete training.

To immediately address the requirement for training, the Company provided employee training to further educate employees regarding regulatory accounting guidelines and policies. The Company provided training sessions in each of our jurisdictions, requesting that employees or a Department representative, that review or code invoices or expense reports attend one of these sessions. A total of 256 employees participated. Training sessions were conducted in area offices in Spokane, Medford, Lewiston, and Coeur d'Alene. The Company also produced a video that will be used to provide ongoing training to employees Company-wide.

The Company also incorporated the Internal Audit Department's recommendations into the Company's training materials and Semi-Annual Regulatory Accounting Guidelines and Policies Memo (Attachment E – Regulatory Accounting Guidelines and Policies Semi-Annual Memo).

B. Training Materials

Training materials included power point slides, handouts, and a video, all of which have been provided as attachments to this document. The training materials covered the proper use of various FERC accounts and proper expense labeling systems, so that costs are accurately identified for ratemaking purposes.

Included as attachments to this document, the Company has provided copies of all training materials. (Attachment A - Regulatory Accounting Guidelines and Policies Manual and Attachment D - Regulatory Accounting Guidelines and Policies Training Slides) The Company has also included an electronic copy of the video production that is available to all employees to complete ongoing training. (Attachment F - Video Production of Regulatory Accounting Guidelines and Policies Training)

C. Semi-Annual Regulatory Accounting Guidelines and Policies Memo

The Company will circulate a memo on a semi-annual basis reminding all employees of the Regulatory Accounting Guidelines and Policies. The first semi-annual reminder was sent to all employees on May 11, 2011, and has been included as an attachment to this document. (Attachment E - Regulatory Accounting Guidelines and Policies Semi-Annual Memo)

D. Cost of Training

A total of 498 hours were spent by employees throughout the Company for their attendance to a training session, which covered the materials provided in Attachment A - Regulatory Accounting Guidelines and Policies Manual and Attachment D - Regulatory Accounting Guidelines and Policies Training Slides. The total loaded labor costs for employees attendance to these training sessions was approximately $35,300.

Avista Corporation/Utility

Regulatory Accounting Guidelines and Policies

March 23, 2011

Table of Contents

This document is not intended as a compilation of the Company's accounting policies but rather addresses specific requirements to code certain transactions according to Regulatory and State Administrative codes, including coding as either utility expense or non utility expense "below the line" for regulatory purposes. For all other accounting policies please contact the Manager of Corporate Accounting (Adam Munson) or for capitalization policies the Manager of Project and Fixed Asset Accounting (Catherine Mueller).

REGULATIONS AND STATE ADMINISTRATIVE CODES AND RULES:

Avista Utilities as a regulated utility in the states of Washington, Idaho and Oregon maintains its books and records in accordance with Generally Accepted Accounting Principles (GAAP) and Federal and State regulatory requirements. The Company must follow these principles and requirements to ensure costs for electric and natural gas services are fair, just, reasonable and sufficient for the utility and its customers.

Each state in which Avista serves has its own similar set of general rules and requirements that apply. The rules for Washington are shown in part below.

WASHINGTON ADMINISTRATIVE CODES:

Use of Uniform System Chart of Accounts - FERC Chart of Accounts - Washington

WAC 480-100-203 – Electric / WAC 480-90-203 - Gas

1) Electric/Gas utilities in the state of Washington must use the uniform system of accounts applicable to major and non-major Electric / Gas utilities as published by the Federal Energy Regulatory Commission (FERC) in Title 18 of the Code of Federal Regulations, Part 101. Information about the Code of Federal Regulations regarding the version adopted and where to obtain it is set out in WAC 480-100-999,

2) Electric/Gas utilities having multistate operations must maintain records in such detail that the costs of property located and business done in the state of Washington can be readily ascertained in accordance with geographic boundaries.

3) Any deviation from the uniform system of accounts, as prescribed by the FERC, will be accomplished only after due notice and order of this commission.

4) This rule does not supersede any commission order regarding accounting treatments.

Political or legislative activities expenditures-Washington

WAC 480-100-213 - Electric / 480-90-213 - Gas

1) The commission will not allow either direct or indirect expenditures for political or legislative activities for rate-making purposes.

2) For purposes of this rule, political or legislative activities include, but are not limited to:
   (a) Encouraging support or opposition to ballot measures, legislation, candidates for a public office, or current public office holders;
   (b) Soliciting support for or contributing to political action committees;
   (c) Gathering data for mailing lists that are generated for the purposes of encouraging support for or opposition to ballot measures, legislation, candidates for public office, or current office holders, or encouraging support for or contributions to political action committees;
   (d) Soliciting contributions or recruiting volunteers to assist in the activities set forth in (a) through (c) of this subsection.

3) Political or legislative activities do not include activities directly related to appearances before regulatory or local governmental bodies necessary for the utility's operations.

The lobbying portion of an organization's dues or memberships should be charged to Non-Utility (Below the Line) to the POET (**P**roject, **O**rganization, **E**xpenditure Type, and **T**ask) below, with your organization (ORG).

Project	Organization	Expenditure Type	Task
77700300		830 Dues	426400 – Political Expend

Promotional/Image Advertising - Washington

WAC 480-100-223 - Electric / 480-90-223 - Gas

1) The commission will not allow expenses for **promotional** or **political advertising** for rate-making purposes. The term **"promotional advertising"** means advertising to encourage any person or business to select or use the service or additional services of a Electric/Gas utility, to select or install any appliance or equipment designed to use the Electric/Gas utility's service, or to influence consumers' opinions of the Electric/Gas utility.

   The term **"political advertising"** means any advertising for the purpose of influencing public opinion with respect to legislative, administrative, or electoral matters, or with respect to any controversial issue of public importance.

2) As used in this section the terms "promotional advertising" and "political advertising" do not include:
   - (a) Advertising which informs customers how to conserve energy or how to reduce peak demand for energy;
   - (b) Advertising required by law or by regulation, including advertising under Part 1 of Title II, of the National Energy Conservation Policy Act;
   - (c) Advertising regarding service interruptions, safety measures, or emergency conditions;
   - (d) Advertising concerning employment opportunities with the gas utility;
   - (e) Advertising which promotes the use of energy efficient appliances, equipment, or services;
   - (f) Announcements or explanations of existing or proposed tariffs or rate schedules; and
   - (g) Notices of meetings or commission hearings concerning Electric/Gas utility rates and tariffs.

Affiliated Interest Reporting Requirements - Washington

The Company is subject to certain state regulatory reporting requirements relating to the existence of contracts and/or the provision of services between Avista Corp. (the Utility) and any Company Affiliate/Subsidiary.

Covered Activities

The activities between Avista Corp. (Utility) and any Affiliate/Subsidiary which are covered by the reporting requirements include:

1) Entering into or modification of contracts.
2) Provision of services.
3) Sale, lease or transfer of property (i.e. land, buildings, equipment, etc.)

Covered Activities do not include activities between subsidiaries where Avista Corp. (Utility) is not involved.

Regulatory Reporting Requirements

Washington Utilities and Transportation Commission (UTC):

1) File Annual Affiliate or Subsidiary Interest Report (May 30 electric / April 30 natural gas);

2) File contracts or arrangements with affiliates (written or unwritten) **prior to the effective date** of the contract or arrangement. Modifications or amendments must also be submitted **prior to the effective date** of the modification or amendment. The UTC may institute an investigation and disapprove the contract or arrangement if the Commission finds the Utility has failed to prove that the contract or arrangement is reasonable and consistent with the public interest.

3) **The Washington Commissions' reporting requirements provide that all activity, whether written or unwritten, must be included in the annual report regardless of price or activity.**

WAC 480-100-245

Affiliated interests — Contracts or arrangements.

Prior to the effective date of any contract or arrangement described in RCW 80.16.020, each electric utility must file a verified copy or a verified summary, if unwritten, of contracts or arrangements, except transactions provided at tariff rates, with any affiliated interest. Prior to the effective date of any modification or amendment, the utility must file verified copies of the modifications or amendments to the contracts or arrangements. If the contract or arrangement is unwritten, the utility must file a verified summary of any modification or amendment. The commission may institute an investigation and disapprove the contract or arrangement if the commission finds the utility has failed to prove that it is reasonable and consistent with the public interest.

Sale or Transfer of Utility Property - Washington

WAC 480-100-248

Before selling, leasing, or assigning any of its property or facilities which are necessary or useful in the performance of its duties to the public, or before acquiring property or facilities of another public utility, an electric utility must obtain from the commission an order authorizing such transaction in accordance with chapters 80.12 RCW (Transfers of property) and 480-143 WAC (Commission general -- Transfers of property).

WAC 480-143-180

A public service company must not dispose of any property necessary or useful to perform its public duties unless it first applies for, and obtains, written authority from the commission.

Necessary or useful includes all property except items that:

(1) Are substituted with or replaced by items of equal or greater value or usefulness;

(2) Are surplus and unneeded assets for which full value is received;

(3) Are obsolete; or

(4) Are excluded from the public service company's rate base by commission order, or otherwise.

The public service company must file an application for commission determination that the property is not necessary or useful, prior to disposing of such property, if the property to be disposed of has a market value that exceeds the greater of .1% of the public service company's rate base (for the applicable utility service) last established by commission order, or $20,000.

IDAHO ADMINISTRATIVE CODES:

The rules for Idaho are shown, in part, below.

Use of Uniform System Chart of Accounts - FERC
Chart of Accounts - Idaho

IDAPA 31.12.01.101 – Electric / IDAPA 31.12.01.102 - Gas

The Commission adopts by reference the Uniform System of Accounts for Major (previously Class A and B) Electric/Gas Utilities contained in the Code of Federal Regulations, Title 18, Part 101 (April 1, 2007), available from the U.S. Government Printing Office, Superintendent of Documents, Attn: New Orders, PO Box 371954, Pittsburgh, PA 15250-7954. The incorporated material is also available in electronic format at www.gpoaccess.gov/nara. For payment by credit card, call toll-free 866-512-1800. The accounts adopted by reference are adopted for convenience of establishing uniform systems of accounts only for accounting and reporting and do not bind the Commission in any manner to any particular ratemaking treatment of items in those accounts. All Major electrical corporations subject to the regulatory authority of the Idaho Public Utilities Commission are required to maintain their regulatory books according to the system of accounts adopted by this rule. (4-2-08)

Sale or Transfer of Utility Property - Idaho

IDAPA 31.61.03.328

Sale of property to be approved by commission.

(1) No electric public utility or electrical corporation as defined in chapter 1, title 61, Idaho Code, owning, controlling or operating any property located in this state which is used in the generation, transmission, distribution or supply of electric power and energy to the public or any portion thereof, shall merge, sell, lease, assign or transfer, directly or indirectly, in any manner whatsoever, any such property or interest therein, or the operation, management or control thereof, or any certificate of convenience and necessity or franchise covering the same, except when authorized to do so by order of the public utilities commission.

(2) The electric public utility or electrical corporation shall file a verified application setting forth such facts as the commission shall prescribe or require. The commission shall issue a public notice and shall conduct a public hearing upon the application.

(3) Before authorizing the transaction, the public utilities commission shall find:

- (a) That the transaction is consistent with the public interest;
- (b) That the cost of and rates for supplying service will not be increased by reason of such transaction; and
- (c) That the applicant for such acquisition or transfer has the bona fide intent and financial ability to operate and maintain said property in the public service.

The applicant shall bear the burden of showing that standards listed above have been satisfied.

(4) The commission shall have power to issue said authorization and order as prayed for, or to refuse to issue the same, or to issue such authorization and order with respect only to a part of the property involved. The commission shall include in any authorization or order the conditions required by the director of the department of water resources under section 42-1701(6), Idaho Code. The commission may attach to its authorization and order such other terms and conditions as in its judgment the public convenience and necessity may require.

OREGON ADMINISTRATIVE RULES:

The rules for Oregon are shown, in part, below.

Use of Uniform System Chart of Accounts - FERC Chart of Accounts - Oregon

OAR 860-027-0045 – Electric / OAR 860-027-0055 - Gas

1) The Uniform System of Accounts prescribed for Public Utilities and Licensees, Part 101, Chapter 1, 18 Code of Federal Regulations (April 1, 2001, edition) is hereby adopted and prescribed by the Commission for each Electric/Gas company.
2) Each Electric/Gas company having multistate operations shall maintain records in such detail that the cost of property located in and business done in Oregon in accordance with geographic boundaries can be readily ascertained.
3) Each Electric/Gas company having multistate operations shall file annually with the Commission, on or before April 1 of the ensuing year, its Oregon allocated results of operations for the calendar year reported, on the basis of allocation methods acceptable to the Commission.

Promotional/Image Advertising - Oregon

OAR 860-026-0022

Presumptions of Reasonableness of Advertising Expenses in Utility Rate Cases

1) As used in this rule:
   (a) "Advertising Expenses" means expenses for communications which inform, influence, and/or educate customers. Such communication may be by means of, but is not limited to, print, radio, television, billboards, direct mail, videos, banners, telephone listings, and displays;
   (b) "Conservation Advertising Expenses" means advertising expenses, the primary purpose of which is to decrease the total consumption of utility services;
   (c) "Institutional Advertising Expenses" means advertising expenses, the primary purpose of which is not to convey information, but to enhance the credibility, reputation, character, or image of an entity or institution;
   (d) "Legally Mandated Advertising Expenses" means advertising expenses, the primary purpose of which is to comply with:
      1. Local, state, or federal statutes, ordinances, rules, or regulations; and
      2. Court or Commission's orders.
   (e) "Political Advertising Expenses" means advertising expenses, the primary purpose of which is to state or imply that persons should take a specific political action;
   (f) "Promotional Advertising Expenses" means advertising expenses, the primary purpose of which is to communicate with respect to an energy or large telecommunications utility's promotional activities or promotional concessions, as defined in OARs 860-026-0010 and 860-026-0015;
   (g) "Utility Information Advertising Expenses" means advertising expenses, the primary purpose of which is to increase customer understanding of utility systems and the function of those systems, and to discuss generation and transmission methods, utility expenses, rate structures, rate increases, load forecasting, environmental considerations, and other contemporary items of customer interest;
   (h) "Utility Service Advertising Expenses" means advertising expenses, the primary purpose of which is to supply timely customer information about utility services such as changes in office hours, planned service repair interruptions, the closing or opening of new pay stations, or to encourage efficient and safe use of utility services and similar service-related subjects;
   (i) "Nonutility Advertising Expenses" means advertising expenses, the primary purpose of which is to provide information about or encourage purchase of products or services whose revenues fall outside the scope of rate of return regulation by a state or federal regulatory body;
   (j) "Energy Efficiency Advertising Expenses" means advertising expenses, the primary purpose of which is to promote energy efficiency, as defined in OAR 860-026-0005(7).

2) For the purposes of this rule, advertising expenses are categorized as follows:

(b) **Category "A"** – Energy efficiency or conservation advertising expenses that do not relate to a Commission-approved program, utility service advertising expenses, and utility information advertising expenses;

Category "A" expenses include:

(a) Energy efficiency or conservation advertising expenses that do not relate to a Commission-approved program,

(c) "Utility Service Advertising Expenses" means advertising expenses, the primary purpose of which is to supply timely customer information about utility services such as changes in office hours, planned service repair interruptions, the closing or opening of new pay stations, or to encourage efficient and safe use of utility services and similar service-related subjects, and

(d) "Utility Information Advertising Expenses" means advertising expenses, the primary purpose of which is to increase customer understanding of utility systems and the function of those systems, and to discuss generation and transmission methods, utility expenses, rate structures, rate increases, load forecasting, environmental considerations, and other contemporary items of customer interest.

Category "A" expenses are to not exceed 0.125% of gross retail operating revenue. (For example for 2011, these costs are not to exceed $125,000.)

Advertising that encourages efficient and safe use of utility services and similar service-related subjects falls into Category "A", unless the messages are legally mandated. If legally mandated, the expense falls into Category "B" and are not included in the Category "A" limit.

(b) Category "B" – Legally mandated advertising expenses;
(c) Category "C" – Institutional advertising expenses, promotional advertising expenses and any other advertising expenses not fitting into Category "A," "B," or "D";
(d) Category "D" – Political advertising expenses and nonutility advertising expenses; and
(e) Category "E" – Energy efficiency or conservation advertising expenses that relate to a Commission-approved program.

3) For rate-making purposes:

(a) Advertising expenses in Category "A" are presumed to be just and reasonable in a rate proceeding to the extent that expenses are twelve and one-half hundredths of 1 percent (0.125 percent) or less of the gross retail operating revenues determined in that proceeding;
(b) Advertising expenses in Category "B" are presumed to be just and reasonable for rate-making purposes;
(c) The energy or large telecommunications utility shall carry the burden of showing that any advertising expenses in Category "C" are just and reasonable for rate-making purposes. In any rate filing under ORS 757.210 and ORS 759.180, the utility shall separately state the amount of advertising expenses in Category "C";

(d) Advertising expenses in Category "D" are presumed to be not just and reasonable for rate-making purposes; and
(e) With Commission approval, advertising expenses in Category "E" may be capitalized. The Commission will review the prudence of such expenses in a general rate proceeding pursuant to ORS 756.500, ORS 757.210, or ORS 759.180.

4) The presumptions in section (3) of this rule are rebuttable. An energy or large telecommunications utility seeking to include expenditures in excess of amounts in section (3) of this rule shall have the burden of showing that the expenditures are just and reasonable. Parties challenging expenditures which are equal to or less than the amounts in section (3) of this rule have the burden of showing that the expenditures are not just and reasonable.

Affiliated Interest Reporting Requirements - Oregon

The Company is subject to certain state regulatory reporting requirements relating to the existence of contracts and/or the provision of services between Avista Corp. (the Utility) and any Company Affiliate/Subsidiary.

Covered Activities

The activities between Avista Corp. (Utility) and any Affiliate/Subsidiary which are covered by the reporting requirements include:

1) Entering into or modification of contracts.
2) Provision of services.
3) Sale, lease or transfer of property (i.e. land, buildings, equipment, etc.)

Covered Activities do not include activities between subsidiaries where Avista Corp. (Utility) is not involved.

Regulatory Reporting Requirements

Oregon Public Utilities Commission (OPUC):

1) File Annual Affiliated Interest Report (June 1);

2) File contracts between the Utility and any Affiliate / Subsidiary **within 90 days of execution**.

3) **The Oregon Commissions' reporting requirements provide that all activity, whether written or unwritten, must be included in the annual report regardless of price or activity.**

Sale of Utility Property - Oregon

OAR 860-027-0025

Applications for Authority to Sell, Lease, Assign, Mortgage, Merge, Consolidate or Otherwise Dispose of or Encumber its Property, or to Acquire Stock, Bonds, or Property of Another Utility

(1) The requirements of this rule will apply to any energy or large telecommunications utility seeking authority under ORS 757.480, ORS 757.485, ORS 759.375, and ORS 759.380. Every applicant shall set forth in its application to the Commission, in the manner and form indicated, the following information, which should, to the extent possible, be furnished for each person, firm, or corporation involved.

(a) The exact name and address of the utility's principal business office;

(b) The state in which incorporated, the date of incorporation, and the other states in which authorized to transact utility operations;

(c) Name and address of the person on behalf of applicant authorized to receive notices and communications in respect to the applications;

(d) The names, titles, and addresses of the principal officers;

(e) A description of the general character of the business done and to be done, and a designation of the territories served, by counties and states;

(f) A statement, as of the date of the balance sheet submitted with the application, showing for each class and series of capital stock: brief description; the amount authorized (face value and number of shares); the amount outstanding (exclusive of any amount held in the treasury); amount held as reacquired securities; amount pledged; amount owned by affiliated interests; and amount held in any fund;

(g) A statement, as of the date of the balance sheet submitted with the application, showing for each class and series of long-term debt and notes: brief description (amount, interest rate and maturity); amount authorized; amount outstanding (exclusive of any amount held in the treasury); amount held as reacquired securities; amount pledged; amount held by affiliated interests; and amount in sinking and other funds;

(h) Whether the application is for disposition of facilities by sale, lease, or otherwise, a merger or consolidation of facilities, or for mortgaging or encumbering its property, or for the acquisition of stock, bonds, or property of another utility, also a description of the consideration, if any, and the method of arriving at the amount thereof;

(i) A statement and general description of facilities to be disposed of, consolidated, merged, or acquired from another utility, giving a description of their present use and of their proposed use after disposition, consolidation, merger, or acquisition. State whether the proposed disposition of facilities or plan for consolidation, merger, or acquisition includes all the operating facilities of the parties to the transaction;

(j) A statement by primary account of the cost of the facilities and applicable depreciation reserve involved in the sale, lease, or other disposition, merger or consolidation, or acquisition of property of another utility. If original cost is not known, an estimate of original cost based, to the extent possible, upon records or data of the applicant or its predecessors must be furnished, a full explanation of the manner in which such estimate has been made, and a statement indicating where all existing data and records may be found;

(k) A statement as to whether or not any application with respect to the transaction or any part thereof, is required to be filed with any federal or other state regulatory body;

(l) The facts relied upon by applicants to show that the proposed sale, lease, assignment, or consolidation of facilities, mortgage or encumbrance of property, or acquisition of stock, bonds, or property of another utility will be consistent with the public interest;

(m) The reasons, in detail, relied upon by each applicant, or party to the application, for entering into the proposed sale, lease, assignment, merger, or consolidation of facilities, mortgage or encumbrance of property, acquisition of stock, bonds, or property of another utility, and the benefits, if any, to be derived by the customers of the applicants and the public;

(n) The amount of stock, bonds, or other securities, now owned, held or controlled by applicant, of the utility from which stock or bonds are proposed to be acquired; and

(o) A brief statement of franchises held, showing date of expiration if not perpetual, or, in case of transfer, that transferee has the necessary franchises.

(2) Required Exhibits. There shall be filed with the application as part thereof the following exhibits:

(a) EXHIBIT A. A copy of the charter or articles of incorporation with amendments to date;

(b) EXHIBIT B. A copy of the bylaws with amendments to date;

(c) EXHIBIT C. Copies of all resolutions of directors authorizing the proposed disposition, merger, or consolidation of facilities, mortgage or encumbrance of property, acquisition of stock, bonds, or property of another utility, in respect to which the application is made and, if approval of stockholders has been obtained, copies of the resolutions of the stockholders should also be furnished;

(d) EXHIBIT D. Copies of all mortgages, trust, deeds, or indentures, securing any obligation of each party to the transaction;

(e) EXHIBIT E. Balance sheets showing booked amounts, adjustments to record the proposed transaction and pro forma, with supporting fixed capital or plant schedules in conformity with the forms in the annual report, which applicant(s) is required, or will be required, to file with the Commission;

(f) EXHIBIT F. A statement of all known contingent liabilities, except minor items such as damage claims and similar items involving relatively small amounts, as of the date of the application;

(g) EXHIBIT G. Comparative income statements showing recorded results of operations, adjustments to record the proposed transaction and pro forma, in conformity with the form in the annual report which applicant(s) is required, or will be required, to file with the Commission;

(h) EXHIBIT H. An analysis of surplus for the period covered by the income statements referred to in Exhibit G;

(i) EXHIBIT I. A copy of each contract in respect to the sale, lease or other proposed disposition, merger or consolidation of facilities, acquisition of stock, bonds, or property of another utility, as the case may be, with copies of all other written instruments entered into or proposed to be entered into by the parties to the transaction pertaining thereto;

(j) EXHIBIT J. A copy of each proposed journal entry to be used to record the transaction upon each applicant's books; and

(k) EXHIBIT K. A copy of each supporting schedule showing the benefits, if any, which each applicant relies upon to support the facts as required by subsection (1)(l) of this rule and the reasons as required by subsection (1)(m) of this rule.

(3) Utilities may use the following form in lieu of filing under sections (1) and (2) of this rule when permitted to do so by the Commission.

COMPANY ACCOUNTING & EXPENSE REIMBURSEMENT GUIDELINES:

Company Regulatory Accounting Allocation Guidelines

All utility operating costs should be directly assigned to services and jurisdictions whenever possible. For costs that are not directly assigned (common costs), a common service and/or jurisdiction may be used that will then be allocated.

Employees serving in corporate functions typically record their labor and expenses to projects that are common to all rate jurisdictions (projects which begin with "099") if it has been determined that their functions or responsibilities benefit all rate jurisdictions. There are instances when a corporate employee will incur costs (travel for instance) specific to a particular locale. If the employee and their manager deem these costs to be related to service in all jurisdictions, then these costs may be charged to a project which allocates costs to all jurisdictions. If it is deemed that these costs are for the sole benefit of a particular service and/or jurisdiction, then these costs should be directly assigned.

Budget Manual

Additional Company Accounting guidelines are included in the Avista Budget Manual, which includes a listing of FERC Non-Capital Accounts, explanation of Company Account Key, and additional accounting guidelines.

Travel & Expense Reimbursement Guidelines

Additional Company Travel and Expense Reimbursement guidelines are available on the Avanet.

OTHER COMPANY EXPENSE POLICIES:

The following information provides specific guidance on the accounting for certain expenses.

Board of Director Expenses

Board of Director Fees

Beginning in 2011, 90% of Avista Corp. / Avista Utility director fees will be charged to the Utility or "Above the Line" FERC Account 930200. The remaining 10% will be charged to Non-Utility, or "Below the Line" FERC Account 426. This sharing represents the appropriate allocation of director fees paid to the Board of Directors during the year based on the historical level of Utility versus Non-Utility activities involving directors.

Annually thereafter, a survey of all Avista Corp. Directors will be completed to determine the appropriate percentage split between Utility/Non-Utility, based on the average of the individual Board Member's time spent on Utility versus Non-Utility activities while serving on the Avista Corp. Board.

Director Fee expenses paid for Advantage IQ Board meetings to Corporate Board of Director members shall be charged to Non-Utility FERC Account 426.

Board of Director Meeting Costs

Board members are required to travel or incur other expenses from time to time to conduct Company business. The purpose of this Policy is to ensure that adequate cost controls are in place that, travel and other expenditures are appropriate, and to provide a uniform and consistent approach for the coding of expenses incurred for board of director expenses.

Based on specific guidelines discussed below, beginning in 2011, 90% of Avista Corp. / Avista Utility director meeting costs will be charged to the Utility or "Above the Line" FERC Account 930200. The remaining 10% will be charged to Non-Utility, or "Below the Line" FERC Account 426. This sharing represents the appropriate allocation of director meeting costs for the Board of Directors during the year based on the historical level of Utility versus Non-Utility activities involving directors.

Facility Costs
90% of costs associated with the rental or use of room, equipment, etc. for board meeting activities will be charged to the Utility or "Above the Line" to FERC account 930200. The remaining 10% will be charged to Non-Utility, or "Below the Line" FERC Account 426.

Travel
90% of the travel costs will be charged to the Utility or "Above the Line" FERC account 930200.Travel will be reimbursed in full at coach/economy class airfare. Detailed receipts are required for all airfare reimbursements and Air travel reservations should be made as far in advance as possible in order to take advantage of reduced fares. The remaining 10% will be charged to Non-Utility, or "Below the Line" FERC Account 426. Air travel in excess of the coach/economy class airfare, i.e. first class travel is to be charged to account 426, and should be excluded prior to the 90/10 sharing.

Ground Transportation
Directors are expected to use the most economical and efficient ground transportation appropriate under the circumstances. Any limousine service costs are to be charged to Non-Utility Account 426, and should be excluded prior to the 90/10 sharing. 90% of these costs will be charged to the Utility or "Above the Line" to FERC Account 930200. The remaining 10% will be charged to Non-Utility, or "Below the Line" FERC Account 426.

Meals
Meal costs charged to the utility will be limited to 90% of the lower of actual expenses or a standard meal rate of $125 per day. Meal costs exceeding $125 per day will be charged to Non-Utility or "Below the Line" in FERC Account 426. Meals to be charged to the Utility (90%) will be charged "Above the Line" to FERC Account 930200, and the remaining 10% charged to Non-Utility, or "Below the Line" to FERC Account 426.

Lodging
Lodging costs charged to the utility will be limited to 90% of the lower of actual expenses or a standard hotel rate of $175 per night. Lodging costs exceeding $175 per night will be charged to Non-Utility or "Below the Line" in FERC Account 426. Lodging costs to be charged to the Utility (90%) will be charged "Above the Line" to FERC Account 930200, and the remaining 10% charged to Non-Utility, or "Below the Line" FERC Account 426. Directors will be responsible for all incidentals such as entertainment, personal phone calls, in room movies, etc.

Entertainment
Entertainment costs incurred during Board Meetings or retreats will be charged to Non-Utility or "Below the Line" in FERC Account 426 where the cost is not directly related to education of the Board.

Other Director Costs/Expense Reports

Avista Corp. "Travel Expense and Reimbursement Guidelines" used for all employees apply to Avista Board of Directors for reimbursement of travel expenses. Included as Attachment B.

Reimbursement Relocation Expenses

Executive Relocation Reimbursement

The Executive relocation reimbursement that is charged to the utility shall not exceed $35,000. Any reimbursement exceeding $35,000, but in accordance with the terms of employment, shall be charged to Non-Utility, or “Below the Line” FERC Account 417.

Corporate Aircraft

The intent of the airplane pricing policy is to encourage economic utilization and therefore minimize the overall cost of air travel and related expenses incurred by the Company.

The corporate aircraft may be scheduled as an alternative to commercial travel when it is the most cost effective means of travel which is based on an economic cost model which takes into account employee productivity and other related costs or the importance of the meeting or timing is critical to warrant its use. Executive approval is required for all scheduling. All costs related to the Company airplane are budgeted and charged to L54 – Travel and Flight Operations. The usage charges based on the published allocation rate will be charged to individual organizations to fully load Projects; however they will not be reflected in non-capital variance reporting.

Currently we maintain a fixed cost lease for a Cesna Citation VII which is used solely for corporate purposes. Costs for operations of this plane are divided between fixed and variable components. We capture costs differently for these components and charge the costs out on a separate basis. In general, fixed costs include the following:

- Plane lease payments
- Pilot salaries
- Insurance
- Hanger Rent
- Maintenance

These costs are primarily captured using Master Activity Code (MAC) 011, Corporate Aircraft Operations. Outside of the MAC 011 Project /Task combinations, there are two additional project / task combinations for training and professional fees which are included for Org Code L54; these costs are expensed as incurred and are primarily absorbed by Utility operations.

MAC	Project	Project Name	Task / FERC	Task Name
011	09900110	Aircraft Operations-Maint	935000	Maint Gen Plant
011	09900111	Aircraft Operations-Operations	920000	A and G Salaries
011	09900111	Aircraft Operations-Operations	921010	Office Supplies
011	09900111	Aircraft Operations-Operations	921018	Energy Expense
011	09900111	Aircraft Operations-Operations	924000	Property Insurance
011	09900111	Aircraft Operations-Operations	925110	Injuries and Damages
011	09900111	Aircraft Operations-Operations	930200	Misc Gen Expenses
011	09900111	Aircraft Operations-Operations	931100	Rent Hanger Office
011	09900111	Aircraft Operations-Operations	931110	Rent Aircraft
281	09902811	A&G Common Training	926101	Training
031	09900310	Professional Fees	930200	Misc Gen Expenses

Allocation of fixed costs

While variable costs are charged directly to departments, fixed costs are not. However, fixed costs should be periodically reallocated from Utility to Non-Utility operations.

The basis of the allocation is solely on the minutes of a particular flight and the flights purpose. At least annually, the fixed cost charge rate will be reviewed for adequacy by the Flight Department or their designated employee. The estimated fixed charge rate for 2011 is $133.00 per minute based on a 200 hour flight year.

The following guidelines should be followed when determining whether or not to allocated fixed costs:

Nature of Flight	Basis for allocation
<u>Primarily</u> for operations / benefit of the Utility	No Allocation
<u>Primarily</u> related to Non-Utility operations	Allocate 100% Fixed Costs to account 417120 Non-Utility operations are defined in Regulatory Accounting Policy.
Mixed usage	Allocate Fixed Costs to Account 417120 based on flight minutes for subsidiary / Non-Utility purpose. Fact Pattern: • Flight from Spokane to Washington DC with a stop in Chicago. • Utility employees are traveling to DC on utility business. The stop in Chicago is to drop off subsidiary employees. • Flight from Spokane to Chicago would have fixed costs allocated based on the number of people on the plane and the total minutes of the flight. Flight from Chicago to DC is solely related to the Utility and no allocation of fixed cost is warranted. Fact Pattern: • Flight from Spokane to NY to meet with debt rating agencies or for the issuance of equity. Flight has utility and subsidiary employees traveling for this primary purpose. • Although the flight has a mix of utility and subsidiary employees, the primary purpose of the trip is for utility purposes and no allocation of fixed cost is necessary.

Responsibility for completing the documentation for the transfer lies within our Flight Department or their designated employee. Periodically an analysis should be performed to ensure the fixed cost per minute is appropriate and recorded in a timely fashion. POET information for this transfer is:

Transfer In DR - 77703430 – F54 – 885 – 417120
Transfer out (CR) - 09900111 – F54 – 885 – 931111

Documentation should be forwarded to Howard Grimsrud or designated employee in our Energy Delivery Accounting Team (EDAT) for inclusion in the Project Transfer Journal. Preparation of the fixed charge allocation between utility and non-utility operations will be performed at the time the flight manifest is completed and sent to Projects Accounting.

Variable Costs:

- Fuel
- Landing Fees

These costs are captured in Project - Task 77700115-L54-xxx-184110. This is a pooling account that is used captures costs. As the plane is used, a standard per minute rate is billed to the Projects and tasks which utilize the plane; this charge is used to offset costs pooled in the above account. This standard cost is periodically updated by the Energy Delivery Accounting Team. It's important to note that representatives from multiple departments may utilize the plane at any given time. When this occurs, the per-minute rate is allocated among the projects based on the number of travelers.

As with the fixed costs, responsibility for charging these costs on a timely basis resides with Flight Operations or their designated employee. As the plane is used, the appropriate documentation is sent to our Energy Delivery Accounting Team. Departments receive a transportation charge to their Organization Code using expenditure type "550" for the variable costs associated their use of the aircraft. All variable costs are allocated based on the number of passengers listed on the manifest and the purpose of their travel. It is the passenger's responsibility to provide the project and task information that supports the purpose of their travel and appropriately charges use of the plane to either Utility or Non-Utility / Subsidiary operations.

Any questions regarding this policy should be directed towards Dave Robinson, Captain, or Adam Munson, Corporate Accounting Manger

Charitable Contributions, Donations and Sponsorships

Charitable Contributions and Corporate Donations

Corporate contributions provide financial support to organizations and activities benefiting the various communities served by the Company, while supporting business initiatives and fostering relationships with key stakeholders. The costs for these activities are charged "Below the Line".

In order to accurately report the **types** of contributions made, project numbers have been established for each contribution category, and contributions should be charged to one of the POET (**P**roject, **O**rganization, **E**xpenditure Type, and **T**ask) codes noted below.

Project	Organization	Expenditure Type	Task
77700300		825 - Donations	426110 - Dues/Donations - Gen
77700300		825 - Donations	426115 - Art/Cult/Hum
77700300		825 - Donations	426120 - Econ/Comm Devlp
77700300		825 - Donations	426121 - Avista Foundation
77700300		825 - Donations	426122 - Project Share
77700300		825 - Donations	426125 - Education
77700300		825 - Donations	426130 - Environment
77700300		825 - Donations	426135 - Youth Development
77700300		825 - Donations	426140 - Human Services
77700300		825 - Donations	426400 - Political Expend

Sponsorships

The Company provides contributions to organizations in the form of sponsorships. These contributions should be coded in the same manner as cash donations, unless there is a specific benefit to utility customers derived from the cost. Sporting event sponsorships are considered part of marketing and brand identity efforts and should not be coded as a corporate donation. These charges should be charged to the POET (**P**roject, **O**rganization, **E**xpenditure Type, and **T**ask) code noted below:

Project	Organization	Expenditure Type	Task
77700300		826 Sponsorships	426XXX – (any of those noted above)

Dues and Fees

Corporate Dues

Corporate dues / memberships are typically paid to organizations that are of a national or regional nature, e.g. Edison Electric Institute (EEI), American Gas Association (AGA), Western Electric Power Institute, etc, which provide benefit to the Utility and its customers because they focus on the issues facing the energy industry. These charges should be coded to the following:

Project	Organization	Expenditure Type	Task
09800310 (Electric)		830 Dues	930200
09900310 (Gas)		830 Dues	930200

Lobbying Portion of Dues: The lobbying portion of an organization's dues or memberships should be charged to Non-Utility, 77700300 426400 with your ORG. This accounting treatment is used because these costs are not recoverable for ratemaking purposes, per **WAC 480-90-213/480-100-213**.

Other Dues

Employees are encouraged to participate in professional and community organizations that are related to utility operations. Dues in such organizations should be charged to Utility expense when participation in these types of activities are considered a part of an employee's job responsibilities and will provide benefits to the Company's customers.

Professional Organizations: Employee dues for memberships in professional organizations should be charged to appropriate expense distributions related to each employee's job responsibility. If you charge A&G and you support operations, the charges should be charged to one of the following:

Project	Organization	Expenditure Type	Task
02800162 - Admin Activities- WA Common		830 Dues	921000
03800162 - Gas Ops Admin Activity - Idaho		830 Dues	921000
06800161 - Gas Oregon Admin Activity		830 Dues	921000
09800162 - Elect Admin Activity - A and G		830 Dues	921000
09800163 - Admin Activities-Common WA ID		830 Dues	921000
09800166 - Gas Ops No Admin Activity-Admin		830 Dues	921000

09900160 - Gas Ops Admin Activity - Admin		830 Dues	921000
09900162 - Admin Activities-Common to All		830 Dues	921000

Community Organizations: Company or employee dues for memberships in community organizations that provide a benefit to both the Company and to customers should be charged 50% to the Utility (Above the Line) and 50% to Non-Utility (Below the line). Organizations that fall into this category include organizations that provide Avista employees an opportunity to meet with Avista customers that otherwise may be inaccessible to them. These opportunities provide Avista the opportunity to educate its customers on Utility issues such as energy efficiency, customer assistance programs available, rate activity, etc. and to listen to customer concerns. However, this is not the sole purpose of these organizations, and therefore a sharing is appropriate. Examples include Chamber of Commerce, Rotary, Lyons Club, etc., and are dependent on that noted above.

Dues that are to be allocated Utility/Non-Utility should be charged 50% using one of the POET codes noted above, which are charged to the Utility, and the remaining 50% should be charged to the POET code noted below which is charged to Non-Utility.

Project	Organization	Expenditure Type	Task
77700300		830 Dues	426120 - Econ/Comm Devlp

Other Miscellaneous Expense

Employee Miscellaneous Expenses

Employee expenses for the purpose of employee or group performance recognition may be charged to the Utility (Above the Line). All other Employee expenses not related to performance must be charged to Non Utility (below the line FERC Account 426). Examples include holiday gifts, birthday gifts, floral arrangements, etc. However, in all instances, all charges for Employee Expenses must be approved by the appropriate manager. All charges for Employee Expenses, which are not performance based, should be charged to the following POET:

Project	Organization	Expenditure Type	Task
77705191		235 - Employee Misc Expense	426502 – Employee Gifts 426506 – Employee Parties

Employee Entertainment/Sporting Events

Charges for employee entertainment or attendance at sporting events must be charged to Non Utility (below the line FERC Account 426). In all instances, all charges for employee entertainment or attendance to sporting events must be approved by the appropriate manager. These charges should be charged to the following POET:

Project	Organization	Expenditure Type	Task
77705191		235 - Employee Misc Expense	426504 - Employee Entertainment or Sporting Events

Corporate Logo Apparel and Items

Charges for corporate logo and items apparel should be charged to the Utility when the purpose of the item is to identify an employee as a representative of the Company, remind customers or employees of the importance of safety, or educate customers or employees on energy related issues such as energy efficiency or other issues impacting the Utility. These charges would follow the project for which it relates. All other corporate logo apparel and items, i.e. give-away items or gifts, which do not meet the above criteria, must be charged to Non Utility (Below the Line) FERC Account 426 and the following POET:

Project	Organization	Expenditure Type	Task
77705191		235 - Employee Misc Expense	426508 – Corporate Logo Apparel and Items

Community Boards and Volunteering

The Company encourages employees to give back to the community and endorses participation on Community Boards and other volunteering activities. Any incremental costs of participation, should be charged “Below the Line”, unless there is a specific benefit to utility customers derived from the cost. All charges must be approved by the appropriate manager.

In order to accurately report these transactions, project numbers have been established for several types of involvement and should be charged to one of the POET codes noted below.

Project	Organization	Expenditure Type	Task
77700300		235 - Employee Misc Expense	426110 - Dues/Donations - Gen
77700300		235 - Employee Misc Expense	426115 - Art/Cult/Hum
77700300		235 - Employee Misc Expense	426120 - Econ/Comm Devlp
77700300		235 - Employee Misc Expense	426121 - Avista Foundation
77700300		235 - Employee Misc Expense	426122 - Project Share
77700300		235 - Employee Misc Expense	426125 - Education
77700300		235 - Employee Misc Expense	426130 - Environment
77700300		235 - Employee Misc Expense	426135 - Youth Development
77700300		235 - Employee Misc Expense	426140 - Human Services

In-Kind Contributions – All incremental expenses associated with volunteer activities should be recorded to a Non-Utility POET listed above. Direct labor costs which are more than incidental and on a recurring basis, must also be recorded to a Non-Utility POET. For example, if you are a loaned employee or executive, your time must be recorded Below the Line. For any questions regarding in kind contributions of labor, please contact Adam Munson, Manager Corporate Accounting.

For Questions Regarding Policies and Guidelines

For questions regarding Policies and Guidelines, please contact:
Adam Munson, Manager Corporate Accounting, at 509-495-2471 or Adam.munson@avistacorp.com
Liz Andrews, Manager State and Federal Regulation, at 509-495-8601 or Liz.Andrew@avistacorp.com
Jen Smith, State and Federal Regulatory Analyst, at 509-495-2098 or Jennifer.Smith@avistacorp.com

For assistance in setting up a new project number, please contact:
Howard Grimsrud, Operations Analyst, at 509-495-2936 or Howard.grimsrud@avistacorp.com

Accounting Practices Audit

Report Date: March 2011

Accounting Practices Audit - 2010

BACKGROUND

As outlined in the Washington State Utilities and Transportation Commission (WUTC) Settlement Stipulation for Dockets UE-100467 and UG-100468, Avista Corporation (the Company) agreed that Internal Audit will perform an annual audit of current accounting practices (including LIRAP programs) relating to compliance with regulatory treatment of utility expenditures, accuracy of jurisdictional allocations, and allocations between utility and non-utility accounts for subsidiary and corporate-wide shared expenses.

This report documents the nature and results of our audit, including a list of incorrect treatment of costs, and recommendations for improving the accuracy and propriety of accounting practices.

Based on professional auditor judgment, the LIRAP program was identified as a separate audit and was subject to different audit procedures. As such, a separate audit report was issued for the LIRAP program's accounting practices.

NATURE OF AUDIT

We used the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing as guidelines while performing our audit. An audit includes examining, on a test basis, evidence supporting the accuracy of management's assertions; in this case, that utility expenditures are being accounted for appropriately. As such, the audit was planned and performed to obtain reasonable assurance that the Company is appropriately accounting for expenditures.

We determined an attribute sampling plan appropriate as it determines the rate of compliance with established criteria. The FERC account, jurisdiction, and service were the attributes reviewed. Attribute sampling plans do not take materiality and/or dollar values into consideration. We designed our attribute sampling plan by using professional auditor judgment and commonly accepted confidence intervals (95%) and tolerable deviation rates (5%).

We believe our audit provides a reasonable basis for our conclusion.

OBJECTIVE

The objective of this audit was to provide reasonable assurance that the Company was in compliance with the regulatory treatment of utility expenditures and that the allocations between utility and non-utility accounts, jurisdictions, and services were appropriate.

Accounting Practices Audit - 2010

SCOPE

The scope of this audit included all expenditure transactions in FERC accounts 400-935 that occurred from 1/1/10-12/31/10, with the sampling unit defined as a single expenditure transaction item. Due to the Administrative and General (A&G) errors noted during the 2010 WUTC general rate case and auditor assessed risk, Internal Audit stratified the population into two specific subsets:

> **Subset A:** This population includes all purchase transactions in FERC accounts 900-935, commonly referred to as A&G accounts. The total number of transactions included in this population is 37,691; total dollar amount was a debit balance of $46,980,954. Based on professional auditor judgment and commonly accepted standards, a random sample of 208 transactions (absolute value of $115,250) was determined to be appropriate for Subset A. The sample size was derived from the AICPA published statistical sample size tables using a confidence interval of 95%, tolerable deviation rate of 5%, and an expected population deviation of 2.25%.
>
> **Subset B:** This population includes all remaining expenditure transactions not included in Subset A. The total number of transactions included in this population is 546,287; total dollar amount was a credit balance of $139,405,643. Based on professional auditor judgment and commonly accepted standards, a random sample of 93 transactions (absolute value of $421,917) was determined to be appropriate for Subset B. The sample size was derived from the AICPA published statistical sample size tables using a confidence interval of 95%, tolerable deviation rate of 5%, and an expected population deviation of 1%. In order to ensure the completeness of all expenditure items, some revenue accounts and transactions were included in this population. As revenue transactions were outside the scope of this audit, they were replaced with the next random sample if selected.

Sufficient and competent evidential matter was obtained to gain reasonable assurance that items were appropriately allocated to the proper FERC account, service, and jurisdiction.

GENERAL FINDINGS

In Subset A, out of our random sample of 208 expenditure transactions, 20 were identified as an error with at least one attribute (FERC account, service, or jurisdiction) being inappropriately allocated. Please refer to Exhibit A for the Summary of Findings in Subset A.

In Subset B, out of our random sample of 93 expenditure transactions, 1 was identified as an error with the service attribute being inappropriately allocated. Please refer to Exhibit B for the Summary of Findings in Subset B.

All errors identified in both subsets were purchase transactions.

Accounting Practices Audit - 2010

RECOMMENDATIONS

The following recommendations have been identified by Internal Audit:

- We recommend the Company provide formal training on the Company's accounting guidelines, which includes regulatory accounting and expense allocation guidelines, on a reoccurring basis and as needed for new employees. As part of the formal training, we recommend the Company:
    - communicate the Corporate Allocation Guidelines so that department managers can properly determine and support that their department's labor and expense allocations are appropriate,
    - instruct employees to provide clear and complete explanations of expenses on purchase transactions that support the validity and accounting allocations of that expense,
    - develop and communicate a guideline that addresses the appropriate allocation of expenses if a split between multiple jurisdictions and/or services is necessary and no common project exists, and
    - provide clear and consistent guidance on the allocation of labor and expenses related to dues, donations, charitable contributions, civic organizations, and community service involvement for both employees and executives.

- We recommend the Company design and implement detective controls to monitor compliance with the Company's accounting guidelines.

- We recommend the Company identify an expert within the Company to provide guidance and support to all departments to help ensure compliance with the Company's accounting guidelines.

- We recommend the Company annually provide each department with a listing of their applicable projects/tasks, with service and jurisdiction allocations clearly noted, so that the department managers can review and ensure the projects/tasks are up to date and reflective of the services provided by that department.

- We recommend the Company evaluate whether the Oracle iExpense module can be modified to reject all expenses charged to FERC Account 920 - Labor. If not feasible, we recommend monitoring of this account to occur on at least a quarterly basis.

CONCLUSION

In Subset A, based on the procedures performed by Internal Audit, we can conclude with 95% certainty that appropriate accounting and allocation of utility expenditures is not occurring within our tolerable rate.

In Subset B, we can conclude with 95% certainty that appropriate accounting and allocation of utility expenditures is occurring within our tolerable rate.

As we performed an attribute sampling plan to determine the frequency of errors, materiality and dollar values were not taken into consideration. Further, as the allocations between service and jurisdiction vary, the dollar value of the errors in the population may also offset each other. Therefore, dollar value extrapolation of errors across the population is not feasible.

Exhibit A. SUMMARY OF FINDINGS - Subset A

	Error Type			Summary		
Error #	**FERC Account**	**Jurisdiction**	**Service**	**Current Incorrect Accounting***	**Correct Accounting***	**Dollar Value**
1	X	X	X	930200.AA.CD	Non-Utility	$ 1.32
2	X	X	X	921000.AA.CD	Non-Utility	$ 2,500.00
3		X		921000.AA.CD	921000.WA.CD	$ 2.50
4	X	X	X	901000.AA.CD	903000.OR.GD	$ 168.83
5		X		921000.AA.CD	921000.AN.CD	$ 363.90
6		X		925200.AN.CD	925200.AA.CD	$ 3.13
7		X	X	930200.AA.CD	930200.AN.ED	$ 259.23
8		X		926100.AN.CD	926100.AA.CD	$ 175.00
9			X	931000.WA.ED	931000.WA.CD	$ 545.00
10	X	X	X	930200.AN.ED	Non-Utility	$ 159.40
11	X	X	X	930200.WA.CD	Non-Utility	$ 510.28
12	X	X	X	588000.ED.AN[1]	Non-Utility	$ 13.96
13			X	930200.AA.GD	930200.AA.CD	$ 15.00
14			X	921000.AN.CD	921000.AN.ED	$ 50.00
15		X	X	930200.AN.CD	930200.ID.ED	$ 9.84
16	X	X	X	930200.AN.CD	Non-Utility	$ 100.00
17			X	923000.AN.ED	923000.AN.CD	$ 16.85
18			X	935000.WA.ED	935000.WA.CD	$ 178.24
19	X	X	X	930200.AA.CD	242770.WA.ED[2]	$ 29.24
20		X		931000.ID.ED	931000.AN.ED	$ 200.00
Totals	**8**	**15**	**15**			**$ 5,301.72**

[1] This expenditure transaction originally was allocated to 930200.AN.CD and prior to Internal Audit's review was adjusted to 588000.ED.AN. The original transaction was selected in Internal Audit's sample. The ultimate allocation to 588000.ED.AN was identified as an error as this should be a non-utility expense.

[2] This expenditure transaction should have been charged to the LIRAP liability account, as it was a LIRAP expense. The correct accounting would be a 70% allocation to 242770.WA.ED and a 30% allocation to 242770.WA.GD.

Legend

***Accounting Format:**	FERC Account.Jurisdiction.Service	
X:	Error identified	
Jurisdiction:	WA:	Washington
	ID:	Idaho
	OR:	Oregon
	AA:	Allocate all (WA, ID, and OR)
	AN:	Allocate north (WA and ID)
Service:	ED:	Electric
	GD:	Gas
	CD:	Both electric and gas

Accounting Practices Audit - 2010

Exhibit B. SUMMARY OF FINDINGS - Subset B

	Error Type			Summary		
Error #	FERC Account	Jurisdiction	Service	Current Incorrect Accounting*	Correct Accounting*	Dollar Value
1			X	588000.AN.ED	75% to 588000.AN.ED 25% to 880000.AN.GD	$ 39.00

Legend

***Accounting Format:**	FERC Account.Jurisdiction.Service	
X:	Error identified	
Jurisdiction:	WA:	Washington
	ID:	Idaho
	OR:	Oregon
	AA:	Allocate all (WA, ID, and OR)
	AN:	Allocate north (WA and ID)
Service:	ED:	Electric
	GD:	Gas
	CD:	Both electric and gas

Low-Income Rate Assistance Program (LIRAP)

Accounting Practices Audit

Report Date: March 2011

LIRAP Accounting Practices Audit - 2010

BACKGROUND

As outlined in the Washington State Utilities and Transportation Commission (WUTC) Settlement Stipulation for Dockets UE-100467 and UG-100468, Avista Corporation (the Company) agreed that Internal Audit will perform an annual audit of current accounting practices (including LIRAP programs) relating to compliance with regulatory treatment of utility expenditures, accuracy of jurisdictional allocations, and allocations between utility and non-utility accounts for subsidiary and corporate-wide shared expenses.

This report documents the nature and results of our audit, including a list of incorrect treatment of costs, and recommendations for improving the accuracy and propriety of LIRAP accounting practices.

Based on professional auditor judgment, the LIRAP program was identified as a separate audit and was subject to different audit procedures than the Accounting Practices Audit. As such, a separate audit report was issued for the Accounting Practices Audit.

NATURE OF AUDIT

We used the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing as guidelines while performing our audit. An audit includes examining, on a test basis, evidence supporting the accuracy of management's assertions; in this case, that LIRAP transactions are being accounted for appropriately. As such, the audit was planned and performed to obtain reasonable assurance that the Company is appropriately accounting for LIRAP transactions.

We believe our audit provides a reasonable basis for our conclusion.

OBJECTIVE

The objective of this audit was to provide reasonable assurance that the Company was in compliance with Washington and Oregon LIRAP tariff riders and that LIRAP tariff rider revenues, allocation of revenues to Community Action Agency's (CAA's), and expenses were appropriately recorded.

SCOPE

The scope of this audit included all LIRAP tariff rider revenues, allocation of revenues to CAA's, and expense transactions that occurred from 1/1/10-12/31/10. Due to the nature of the audit objective and variations in types of transactions, Internal Audit stratified the population into two specific subsets:

Subset A: This population included all transactions from the monthly LIRAP tariff rider revenue journal. This journal records LIRAP tariff rider revenue through FERC account 908600 and the associated liability to FERC account 242770. Based on professional auditor judgment and commonly accepted standards, two months were randomly selected for review. The LIRAP tariff rider revenue and allocation of revenues to CAA's were recalculated and traced to the LIRAP Accounts Payable Subledger. Additionally, the FERC account, jurisdiction, and service were reviewed to ensure appropriate recording. The sample size was derived from tests of controls sampling guidelines provided by Deloitte & Touche LLP.

Subset B: This population included all LIRAP program expenditure transactions from FERC account 242770. The total number of transactions included in this population is 1,402 with a debit balance of $4,928,377. Based on professional auditor judgment and commonly accepted standards, a random sample of 93 transactions (absolute value of $279,116) was determined to be appropriate for this population. The sample size was derived from the AICPA published statistical sample size tables using a confidence interval of 95%, tolerable deviation rate of 5%, and an expected population deviation of 1%.

We determined an attribute sampling plan appropriate as it determines the rate of compliance with established criteria. The FERC account, jurisdiction, and service were the attributes reviewed to ensure that the expenditure transaction was an appropriate LIRAP program expense.

Sufficient and competent evidential matter was obtained to gain reasonable assurance that items were appropriately recorded.

GENERAL FINDINGS

In Subset A, no errors were noted during testing.

In Subset B, out of our random sample of 93 expenditure transactions, 9 were identified as an error and were inappropriately recorded to the LIRAP program. All errors identified in this subset were internal labor expenses for the same employee. As these internal labor expenses should have been charged to a non LIRAP account, we determined that it was an error to all three attributes. Please refer to Exhibit 1 for the Summary of Findings in Subset B.

Additionally, it was noted in the Accounting Practices Audit that a LIRAP program expenditure transaction was inappropriately expensed to a non LIRAP account.

RECOMMENDATIONS

The following recommendations have been identified by Internal Audit:

- We recommend the Company improve the process to document and update changes to the LIRAP program.

- We recommend the Company design and implement detective controls to monitor compliance with LIRAP program guidelines.

- We recommend the Company develop a guideline that addresses the appropriate allocation of expenses if a split between intra-company departments is necessary and no common project exists.

CONCLUSION

In Subset A, based on the procedures performed by Internal Audit, we can conclude that LIRAP tariff rider revenues and allocation of revenues to CAA's were appropriately recorded.

In Subset B, we can conclude with 95% certainty that appropriate accounting of LIRAP expenditure transactions is not occurring within our tolerable rate. However, as all of the errors were for the same internal employee's labor expense, Internal Audit was able to isolate all related errors within the population. During 2010 the total dollar value of all internal labor expenses inappropriately recorded to the LIRAP program was $23,465.

Exhibit 1: Summary of Findings in Subset B

	Error Type			Summary		
Error #	**FERC Account**	**Jurisdiction**	**Service**	**Current Incorrect Accounting***	**Correct Accounting***	**Dollar Value**
1	X	X	X	242770.WA.ED	920000.WA.CD	$ 80.52
2	X	X	X	242770.WA.ED	920000.WA.CD	$ 370.58
3	X	X	X	242770.WA.ED	920000.WA.CD	$ 84.12
4	X	X	X	242770.WA.ED	920000.WA.CD	$ 370.58
5	X	X	X	242770.WA.ED	920000.WA.CD	$ 28.91
6	X	X	X	242770.WA.ED	920000.WA.CD	$ 222.35
7	X	X	X	242770.WA.ED	920000.WA.CD	$ 0.54
8	X	X	X	242770.WA.ED	920000.WA.CD	$ 214.94
9	X	X	X	242770.WA.ED	920000.WA.CD	$ 947.25
Totals	**9**	**9**	**9**			**$ 2,319.79[1]**

[1] The total dollar value represents the sum of all the labor transaction errors included in our sample. During 2010 the total dollar value of all internal labor expenses inappropriately included in the LIRAP program was $23,465.

Legend

***Accounting Format:**	FERC Account.Jurisdiction.Service
X:	Error identified
Jurisdiction:	WA: Washington
Service:	ED: Electric
	CD: Both electric and gas

Regulatory Accounting Guidelines, Policies, and Expense Coding Training

March 2011

1

Training Purpose:

As a regulated utility operating in multiple services and states, it is important the Company maintain its books and records following proper accounting guidelines and policies. Costs should be charged to the appropriate service and jurisdiction, based on which customers benefit from the service provided. It is also necessary to properly account for costs to utility and non-utility accounts. The Company should be using its best efforts to assure that ratepayers are only paying for appropriate costs.

Special attention should be paid to items such as:

- Allocations / Direct assignment of costs
- Political Activities
- Advertising
- Charitable Contributions, Donations & Sponsorships
- Dues
- Miscellaneous employee expenses

2

Learning Objective:

- Understand Regulatory Accounting Guidelines and Policies to accurately record and code expenses by:
- Using FERC accounts accurately to identify and track costs
- Properly allocating charges for service and jurisdiction
  - Charges should be directly assigned to a service or jurisdiction whenever possible.
- Understanding "Above" vs. "Below the Line"
- Understanding "Allowable" vs. "Non-Allowable" costs for rate making
  - These may be acceptable business expenses, but not allowable for ratemaking purposes, i.e., lobbying, promotional advertising, etc.

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AVISTA

Why does all this matter?
It's how our customer rates are determined!

- Avista records its revenues, expenses and capital costs by coding various accounts that are either directly assigned or are allocated between services (electric, gas) and jurisdiction (WA, ID, OR).
- The Rates Department then uses this information to determine the rates which are charged to our customers (WA-elec, WA-gas, ID-elec, ID-gas, OR-gas).
- Therefore, where you record your costs is ultimately how we determine our customers' rates.
- By recording your costs accurately, Customers are only paying for costs to provide them safe and reliable service at reasonable rates.

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AVISTA

2010 WA Electric & Gas GRCs
Dockets UE-100467/UG-100468, Order 07, Page 11

"The testimony supporting the Settlement explained that the Company's original filing contained costs that were either incorrectly booked to utility accounts or booked to improper accounts."

"These errors were discovered through Public Counsel's targeted audit. Although Public Counsel's audit was limited to a small subset of accounting entries, it revealed several instances where ratepayers would have been inappropriately and unlawfully saddled with costs that must be borne by shareholders alone."

"It is not Public Counsel's function to provide accounting oversight for the Company. Nor should Staff and the other parties be responsible for ensuring that Avista is complying with the law."

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AVISTA

2010 WA Electric & Gas GRCs
Dockets UE-100467/UG-100468, Order 07, Page 11

"We are concerned that a broader investigation will reveal many more such instances . . . "

"We are confident that the Company can, and will, do better."

"Given the attention to these matters, we expect that future filings will be free of blatant errors and accounting adjustments that are unquestionably improper."

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AVISTA

Spokesman Review Article
"Avista rate hikes approved with warning"

Annual audits imposed to prevent more incorrect charges
By Becky Kramer
The Spokesman-Review
November 20, 2010

"Washington regulators granted part of Avista's request for higher rates Friday, but also said the electric and natural gas utility must conduct annual expense audits to make sure that ratepayers aren't illegally saddled with costs that should be borne by shareholders."

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AVISTA

Spokesman Review Article, continued :

"The action came after an audit by the state attorney general's office, which found that Avista had billed utility customers for $38,000 in expenses that the company's shareholders should have paid." Items included:

- First-class travel for the board of directors;
- Employee gifts and entertainment at a sporting event;
- Dues and fees to civic organizations;
- Charitable contributions;
- Advertising to improve Avista's corporate image

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AVISTA

Regulations and State Administrative Codes and Rules:

Avista Utilities as a regulated utility in the states of Washington, Idaho and Oregon must maintain its books and records in accordance with Generally Accepted Accounting Principles (GAAP) and Federal and State regulatory requirements.

The Company must follow these principles and requirements to ensure costs for electric and natural gas services are fair, just, reasonable and sufficient for the utility and its customers.

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AVISTA

Regulations and State Administrative Codes and Rules:

Use of Uniform System Chart of Accounts - FERC Chart of Accounts

- *Washington - WAC 480-100-203 – Electric / WAC 480-90-203 - Gas*
- *Idaho - IDAPA 31.12.01.101 – Electric / IDAPA 31.12.01.102 - Gas*
- *Oregon - OAR 860-027-0045 – Electric / OAR 860-027-0055 – Gas*

Political or legislative activities expenditures

- *Washington - WAC 480-100-213/480-90-213*

Promotional/Image Advertising

- *Washington - WAC 480-100-223/480-090-223*
- *Oregon - OAR 860-026-0022*

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AVISTA

Regulations and State Administrative Codes and Rules:

Affiliated Interest Reporting

- *Washington* - RCW 80.16.020 and WAC 480-90-245
- *Oregon* - ORS 757.495 and OAR 860-027-0040

Sale or Transfer of Utility Property

- *Washington* - WAC 480-100-248–Electric / WAC 480-090-248 – Gas
- Washington - WAC 480-143-180 - Disposal and determination of necessary or useful property.
- *Oregon* - OAR 860-027-0025
- *Idaho* – IDAPA 31.61.03.328

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AVISTA

Regulations and State Administrative Codes and Rules: Affiliated Interest Reporting Requirements

The Company is subject to certain state regulatory reporting requirements relating to the existence of contracts and/or the provision of services between Avista Corp. (the Utility) and any Company Affiliate/Subsidiary.

Covered Activities

The activities between Avista Corp. (Utility) and any Affiliate/Subsidiary which are covered by the reporting requirements include:

- Entering into or modification of contracts.
- Provision of services.
- Sale, lease or transfer of property (i.e. land, buildings, equipment, etc.)

Covered Activities do not include activities between subsidiaries where Avista Corp. (Utility) is not involved.

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AVISTA

Regulations and State Administrative Codes and Rules: Affiliated Interest Reporting Requirements - Washington

Regulatory Reporting Requirements

Washington Utilities and Transportation Commission (WUTC):

1. File Annual Affiliate or Subsidiary Interest Report (May 30 electric / April 30 natural gas);
2. File contracts or arrangements with affiliates (written or unwritten) **prior to the effective date** of the contract or arrangement. Modifications or amendments must also be submitted **prior to the effective date** of the modification or amendment. The WUTC may institute an investigation and disapprove the contract or arrangement if the Commission finds the Utility has failed to prove that the contract or arrangement is reasonable and consistent with the public interest.
3. **The Washington Commissions' reporting requirements provide that all activity, whether written or unwritten, must be included in the annual report regardless of price or activity.**

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AVISTA

Regulations and State Administrative Codes and Rules: Affiliated Interest Reporting Requirements – Oregon

Regulatory Reporting Requirements

Oregon Public Utilities Commission (OPUC):

1. File Annual Affiliated Interest Report (June 1);
2. File contracts between the Utility and any Affiliate / Subsidiary **within 90 days of execution**.
3. **The Oregon Commissions' reporting requirements provide that all activity, whether written or unwritten, must be included in the annual report regardless of price or activity.**

To report activities or questions regarding affiliate/subsidiary activities, please contact:

Jeanne Pluth, Senior Regulatory Analyst, 509-495-2204, jeanne.pluth@avistacorp.com

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AVISTA

Regulations and State Administrative Codes and Rules: Sale or Transfer of Property – WA, ID, OR

Before selling, leasing, or assigning any of its property or facilities which are necessary or useful in the performance of its duties to the public, or before acquiring property or facilities of another public utility, an electric/gas utility must obtain from the commission an order authorizing such transaction.

•Avista must file an applications with the Commissions requesting approval for any sale, lease, etc, of Utility property ***prior to*** the Sale or Transfer of the property.

•A minimum of 60 days notice is necessary in order to file and receive authorization from the commissions.

•Note: In the state of Oregon, any net gain from the sale of Utility property is applied against the unamortized Oregon acquisition adjustment.

To report activities or questions regarding the Sale or Transfer of Property, please contact:

Karen Schuh, Regulatory Analyst, 509-495-2293, Karen.schuh@avistacorp.com

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AVISTA

Commission and Company Approved Guidelines:

Company Regulatory Accounting Allocation Guidelines

All utility operating costs should be directly assigned to services and jurisdictions whenever possible. For costs that are not directly assigned (common costs), a common service and/or jurisdiction may be used that will then be allocated.

Employees serving in corporate functions typically record their labor and expenses to projects that are common to all rate jurisdictions (projects which begin with “099”) if it has been determined that their functions or responsibilities benefit all rate jurisdictions. There are instances when a corporate employee will incur costs (travel for instance) specific to a particular locale. If the employee and their manager deem these costs to be related to service in all jurisdictions, then these costs may be charged to a project which allocates costs to all jurisdictions. If it is deemed that these costs are for the sole benefit of a particular service and/or jurisdiction, then these costs should be directly assigned.

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AVISTA

Projects and Tasks

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Understanding where items are charged

Project
- Accumulates Costs
- First 3 digits equate to service and jurisdiction

Task
- Equivalent to FERC
- Above the line 920-935
- Below the Line 417-426

Sources of Information
- Budget Manual
- FERC CFR
- Corporate Acct Project Acct Rates

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POET - Project, Organization, Expenditure Type, Task

•Project Number - divided in two parts; locations and project number.

- The first three digits of the project number represent the location of the work or service.
- The last five digits are a unique set of numbers assigned to a project.
- A service and jurisdiction are automatically assigned via the project code.

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AVISTA

Service

When using POET to record expenditures, Service is associated with the Project Number.

The service code is intended to mean “method of assignment to electric and/or gas services”. The values that will be used for this code are:

Service Code	Description
ED (Electric Direct)	Directly assigned to Electric Service
GD (Gas Direct)	Directly assigned to Gas Service
CD (Common Direct)	Common to both Electric and Gas Services
ZZ (Non-Utility)	Not associated with a Service (Non-Utility)

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AVISTA

Jurisdiction

When using POET to record expenditures, Jurisdiction is associated with the Project Number.

The first three digits of a project code dictate the service and jurisdiction a project is associated. Below are commonly used Administrative & General location codes:

Location	Jurisdiction	Description	Explanation
•028	WA	Washington	Directly assigned to Washington
•038	ID	Idaho	Directly assigned to Idaho
•048	MT	Montana	Directly assigned to Montana
•068	OR	Oregon Gas	Directly assigned to Oregon
•098	AN	Common WA/ID	Common to Washington and Idaho
•099	AA	Common WA/ID/OR	Common to all States
•777	ZZ	Non Utility	Not associated with a Jurisdiction

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AVISTA

Project / Task Examples

POET Entry					General Ledger		
Project	Org	Exp Type	Task		FERC	Service	Jurisdiction
09800160	XXX	XXX	561010	=	561000	ED	AN
09800160	XXX	XXX	561020	=	561000	ED	AN
03800510	XXX	XXX	588000	=	588000	ED	ID
03802046	XXX	XXX	893010	=	893000	GD	ID
09900013	XXX	XXX	930200	=	930200	CD	AA
09900542	XXX	XXX	813000	=	813000	GD	AA

Selection of Project / Task drive the allocation of charges in the general ledger.

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AVISTA

Service / Jurisdiction Allocation Example

1	Project	09900013	09900542
2	Service / Jurisdiction	CD / AA	GD /AA
3	Invoice Amount	$ 100.00	$ 100.00
	Allocation for Rate Making:		
4	Washington:		
5	Electric	$ 48.06	$ -
6	Gas	13.35	48.36
7		$ 61.41	$ 48.36
8	Idaho:		
9	Electric	$ 24.33	$ -
10	Gas	6.13	22.22
11		$ 30.46	$ 22.22
12	Oregon	$ 8.13	$ 29.42

NOTE: This is a system allocation, Not to be manually computed by the employee.

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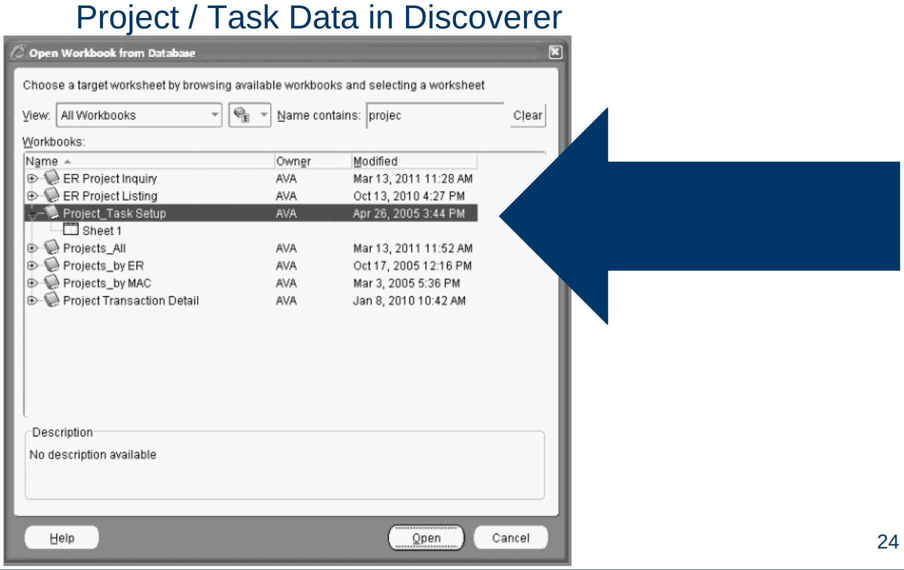
Project / Task Data in Discoverer



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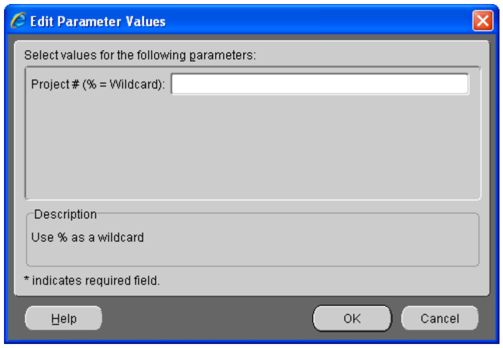
AVISTA

Project / Task Data in Discoverer



After selecting the Project-Task Setup report you will be prompted with the following screen.

You can either type in a specific project number to look up the corresponding Service and Jurisdiction.

OR

You can type in "%" which will provide you with a listing of all project numbers that currently exist.

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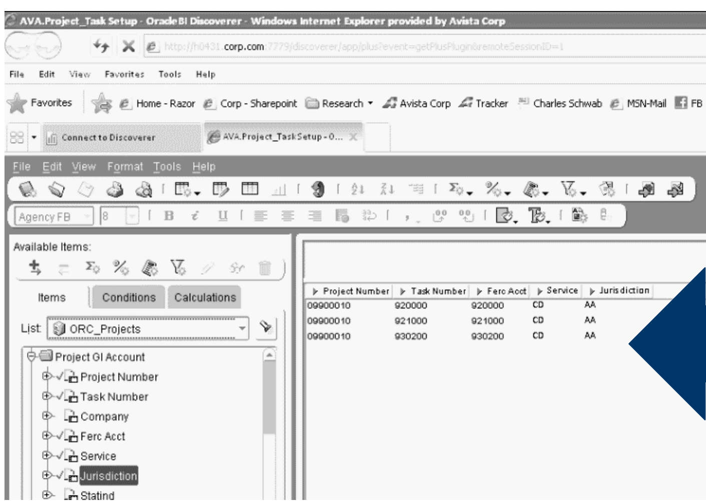
AVISTA

Project / Task Data in Discoverer



This screen shot displays the search for project number 09900010.

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AVISTA

Tasks / FERC Account

<u>Tasks:</u>

Used to break-down costs into further detail

Task Breakdown

Digits 1-3 (sometimes 4) = FERC   Digits 4-6 = Sub accounts

Tasks 300XXX (Design & Engineering) is an exception to the rule. It is for common engineering costs and they are assigned directly to Construction Work in Progress, or FERC Account 107000.

<u>FERC Accounts:</u>

Account codes with the associated meanings are defined by the FERC and used by all regulated utilities for consistency across the utility industry.

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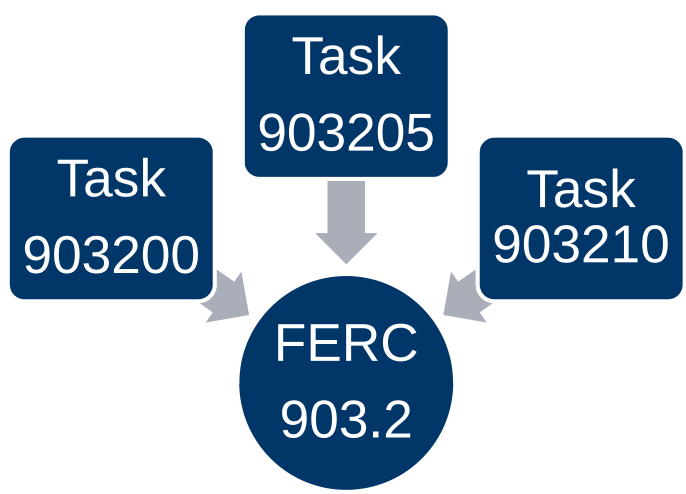
AVISTA

TASK / FERC …. Sub Accounts



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AVISTA

FERC Accounts

- Administrative and General FERC Accounts: (920-935)
  - 920 – A&G Salaries
  - 921 – Office Supplies & exp
  - 923 – Outside services employed
  - 924 – Property Insurance
  - 925 – Injuries & damages
  - 926- Employee Pensions & Benefits
  - 928 – Regulatory commission exp
  - 931 – Rents
  - 930 – Misc. general exp (930.1 – Advertising; 930.2 – Misc.)
  - 935 – Maintenance on general plant

- Non - Utility Accounts:
  - 417.1 – Expenses for non-utility
  - 426.1 – Donations
  - 426.3 – Penalties
  - 426.4 – Certain civic, political, & related
  - 426.5 – Other Miscellaneous

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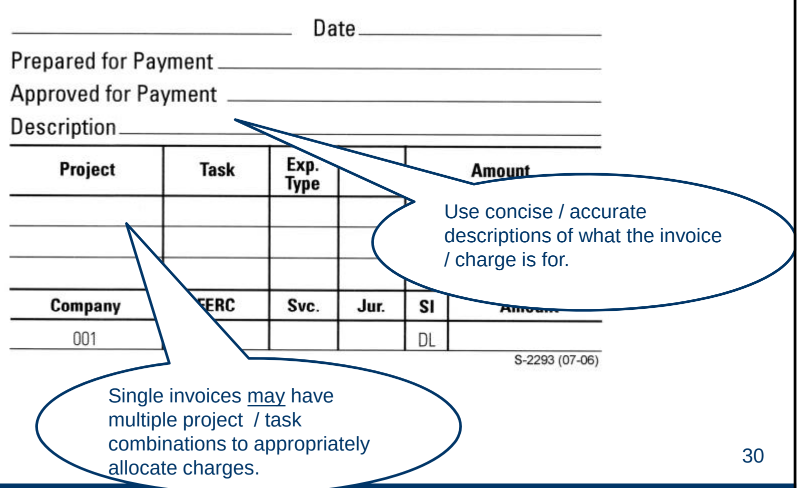
Accurate Invoice and Expense Report Completion and Review



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I Expense Report Example

Create Expense Report: Review

Review the expense report below before submission.

Save | Cancel | Back | Step 4 of 4 | Submit

General Information

Name	Andrews, Elizabeth M (94452)	Receipts Status	Required
Expense Dates	10/15/2010 - 11/02/2010	Attachments	None Add
Cost Center	ZZ	Report Total	475.30 USD
Purpose	Travel	Reimbursement Amount	475.30 USD
Approver	Norwood, Kelly O' Neal		

Expense Lines | Expense Allocations | Weekly Summary | Approval Notes [0]

Project Allocations

Expand All | Collapse All

Focus	Line	Payment Method	Date	Expense Type	Receipt Amount	Reimbursable Amount (USD)	Merchant	Location	Justification	Project	Task
	All					475.30					
	1	Cash Receipt	11/02/2010	Lodging	360.00 USD	360.00			WA GRC Hearing-elec	02800540 Wa Elect Regulatory Activities	928000 Reg Commission
	2	Cash Receipt	11/02/2010	Lodging	90.00 USD	90.00			WA GRC Hearing-gas	02800545 Wa Gas Regulatory Activities	928000 Reg Commission
	3	Cash Receipt	10/15/2010	Meals	25.30 USD	25.30			ID PCA meeting	03800540 Id Elect Regulatory Activities	928000 Reg Commission

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Utility or Non-Utility

Utility

- Above the Line
- Benefit to Customers
- Recovered from Ratepayers

Non-Utility

- Below the Line
- Legitimate business expense, with no benefit to customers
- NOT recovered from Ratepayers

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AVISTA

Non-Utility Charges

Political Activities:

WAC 480-90-213/ 480-100-213

Expenditures for political or legislative activities.

(1) The commission will not allow either direct or indirect expenditures for political or legislative activities for rate-making purposes.
(2) For purposes of this rule, political or legislative activities include, but are not limited to:
(a) Encouraging support or opposition to ballot measures, legislation, candidates for a public office, or current public office holders;
(b) Soliciting support for or contributing to political action committees;
(c) Gathering data for mailing lists that are generated for the purposes of encouraging support for or opposition to ballot measures, legislation, candidates for public office, or current office holders, or encouraging support for or contributions to political action committees;
(d) Soliciting contributions or recruiting volunteers to assist in the activities set forth in (a) through (c) of this subsection.
(3) Political or legislative activities do not include activities directly related to appearances before regulatory or local governmental bodies necessary for the utility's operations.

Note: Lobbying portion of an organization's dues or memberships should be charged to 77700300 426400 with your ORG. This accounting treatment is used because these costs are not recoverable for ratemaking purposes and are charged as Miscellaneous Income Deductions.

FERC Account 426.400

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AVISTA

Advertising

WAC 480-90-223/480-100-223

(1) The commission will not allow expenses for promotional or political advertising for rate-making purposes. The term "promotional advertising" means advertising to encourage any person or business to select or use the service or additional services of a gas utility, to select or install any appliance or equipment designed to use the gas utility's service, or to influence consumers' opinions of the gas utility.
The term "political advertising" means any advertising for the purpose of influencing public opinion with respect to legislative, administrative, or electoral matters, or with respect to any controversial issue of public importance.
(2) As used in this section the terms "promotional advertising" and "political advertising" do not include:
(a) Advertising which informs customers how to conserve energy or how to reduce peak demand for energy;
(b) Advertising required by law or by regulation, including advertising under Part 1 of Title II, of the National Energy Conservation Policy Act;
(c) Advertising regarding service interruptions, safety measures, or emergency conditions;
(d) Advertising concerning employment opportunities with the gas utility;
(e) Advertising which promotes the use of energy efficient appliances, equipment, or services;
(f) Announcements or explanations of existing or proposed tariffs or rate schedules; and
(g) Notices of meetings or commission hearings concerning gas utility rates and tariffs.

Promotional/Image Advertising – Non-Utility

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AVISTA

Non-Utility Charges

Charitable Contributions, Donations & Sponsorships

FERC Account 426.1: "This account shall include all payments or donations for charitable, social or community welfare purposes"

Corporate contributions provide financial support to organizations and activities benefiting the various communities served by the Company, while supporting business initiatives and fostering relationships with key stakeholders. The costs for these activities are charged "Below the Line".

In order to accurately report the **types** of contributions made, project numbers have been established for each contribution category, and contributions should be charged to one of the POET (**P**roject, **O**rganization, **E**xpenditure Type, and **T**ask) codes noted below.

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AVISTA

Non-Utility Charges

Charitable Contributions and Donations

Project	Organization	Expenditure Type	Task	Task Description
77700300		825 - Donations	426110	Dues/Donations
77700300		825 - Donations	426115	Arts, Culture, Humanities
77700300		825 - Donations	426120	Economic/Community Development
77700300		825 - Donations	426121	Avista Foundation
77700300		825 - Donations	426122	Project Share
77700300		825 - Donations	426125	Education
77700300		825 - Donations	426130	Environmental
77700300		825 - Donations	426135	Youth Development
77700300		825 - Donations	426140	Health & Human Service
77700300		825 - Donations	426400	Political Expenditures

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Non-Utility Charges

Sponsorships

The Company provides contributions to organizations in the form of sponsorships. These contributions should be coded in the same manner as cash donations, unless there is a specific benefit to utility customers derived from the cost.

Sporting event sponsorships are considered part of marketing and brand identity efforts and should not be coded as a corporate donation.

These charges should be charged to the POET (**P**roject, **O**rganization, **E**xpenditure Type, and **T**ask) code noted below:

Project	Organization	Expenditure Type	Task	Task Description
77700300		826 - Sponsorships	426XXX	(any of those listed above)
77700300		826 - Sponsorships	426XXX	(any of those listed above)

Dues and Fees:

Corporate Dues

Corporate dues / memberships are typically paid to industry organizations that are of a national or regional nature, e.g. Edison Electric Institute (EEI), American Gas Association (AGA), Western Electric Power Institute, etc, which provide benefit to the Utility and its customers because they focus on the issues facing the energy industry. These charges should be coded to the following:

Project	Organization	Expenditure Type	Task	Task Description
09800310 (Electric)		830 - Dues	930200	
09900310 (Gas)		830 - Dues	930200	

Note: Lobbying portion of an organization's dues or memberships should be charged to 77700300 426400 with your ORG. This accounting treatment is used because these costs are not recoverable for ratemaking purposes and are charged as Miscellaneous Income Deductions.

EEI EDISON ELECTRIC INSTITUTE

INVOICE FOR MEMBERSHIP DUES

701 PENNSYLVANIA AVENUE, NW
WASHINGTON, DC 20004-2696
PHONE (202) 508-5000

MR. SCOTT L. MORRIS
CHAIRMAN, PRESIDENT AND CEO
AVISTA CORP
PO BOX 3727
SPOKANE, WA 99220-3727

Date	Invoice Number
11/15/2010	DUES201109

Payment Due on or before 2/1/2011
(Interest charges will accrue after due date)

Description	Total
This invoice reflects the five percent increase in EEI regular activity dues unanimously approved by the EEI Board of Directors on June 16, 2010. Each company's dues will vary based on changes in company statistics and the relative change in those statistics.	
2011 EEI Membership Dues for:	
Regular Activities of Edison Electric Institute[1]	① $262,523 Ⓐ
Industry Issues[2]	① 26,252 Ⓑ
Mutual Assistance Program[3]	① 1,000
2011 Contribution to The Thomas Alva Edison Foundation (Edison Foundation), including the Institute for Electric Efficiency The Edison Foundation is an IRC 501(c)(3) educational and charitable organization. The Institute for Electric Efficiency (IEE) is a program of the Edison Foundation. **Contributions are tax deductible in the same manner as contributions to any 501(c)(3) organization.**	5,000
Total	$294,775

1- The portion of membership dues allocable during 2011 relating to influencing legislation not deductible for federal income tax purposes is estimated to be 21%. ② - 55,129.83
2- The portion of the voluntary industry issues allocable during 2011 relating to influencing legislation is estimated to be 35%. ③ - 9,188.20
3- Voluntary assessment approved by EEI Executive Committee relating to improvements for the rapid response to disasters. No portion of this assessment is allocable to influencing legislation.

Date 12-01-10
Prepared for Payment
Approved for Payment
Description

Project	Task	Exp. Type	Org.	Amount
09800310	980200	830	E01	225,456.97 - EEI DUES
77700300	484400	830	E01	64,318.03 - EEI LOBBY FEES
77700300	486126	825	E01	5,000.00 - EEI CONTRIBUTION

Σ① = 289,775
< 64,318.03 >
UTILITY $225,456.97

262,523 Ⓐ
x .21 ②
55,129.83 Ⓒ

26,252 Ⓑ
x .35 ③
9,188.20 Ⓒ

ΣⒸ = 64,318.03

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Dues and Fees:

Other Dues

Employees are encouraged to participate in professional and community organizations that are related to utility operations. Dues in such organizations should be charged to Utility expense when participation in these types of activities are considered a part of an employee's job responsibilities and will provide benefits to the Company's customers.

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Dues and Fees:

Other Dues, continued

Professional Organizations: Employee dues for individual memberships in professional organizations should be charged to appropriate expense distributions related to each employee's job responsibility. If you charge A&G and you support operations, the charges should be charged to one of the following:

Project	Organization	Expenditure Type	Task	Task Description
02800162 - Admin Activities- WA Common		830 - Dues	921000	
03800162 - Gas Ops Admin Activity - Idaho		830 - Dues	921000	
06800161 - Gas Oregon Admin Activity		830 - Dues	921000	
09800162 - Elect Admin Activity - A and G		830 - Dues	921000	
09800163 - Admin Activities-Common WA ID		830 - Dues	921000	
09800166 - Gas Ops No Admin Activity-Admin		830 - Dues	921000	
09900160 - Gas Ops Admin Activity - Admin		830 - Dues	921000	
09900162 - Admin Activities-Common to All		830 - Dues	921000	

Dues and Fees:

Other Dues, continued,

Community and Civic Organizations: Company or employee dues for memberships in community organizations that provide a benefit to both the Company and to customers should be charged 50% to the Utility (Above the Line) and 50% to Non-Utility (Below the line).

Organizations that fall into this category include organizations that provide Avista employees an opportunity to meet with Avista customers that otherwise may be inaccessible to them. These opportunities provide Avista the opportunity to educate its customers on Utility issues such as energy efficiency, customer assistance programs available, rate activity, etc. and to listen to customer concerns. However, this is not the sole purpose of these organizations, and therefore a sharing is appropriate. Examples include Chamber of Commerce, Rotary, Lions Club, etc.

Dues and Fees:

Community and Civic Organizations, continued

Dues that are to be allocated Utility/Non-Utility should be charged 50% using one of the POET codes noted above, which are charged to the Utility, and the remaining 50% should be charged to the POET code noted below which is charged to Non-Utility.

Project	Organization	Expenditure Type	Task	Task Description
77700300		830 - Dues	426120	Econ/Comm Devlp

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Dues and Fees

- **Trade or Industry Dues for Company**
  - 100% Charge to Utility
  - FERC Account 930.2*
  - i.e. – EEI, AGA, WEI
- **Trade or Professional Dues for Employee**
  - 100% Charged to Utility
  - FERC Account 921* A&G or 500-800**
  - i.e. – AICPA, CPA, WSBA
- **Community / Civic / Other Dues**
  - If participation provides an opportunity to educate or interact with customers on utility issues. Record:
    50% - Utility - FERC Acct 921000
    And
    50% - Non Utility - FERC Acct 426120
  - If participation provides no opportunity to educate or interact with customers on utility issues. Record:
    100% - Non Utility - FERC Acct 426120
  - i.e. – Chamber of Commerce, Rotary, Lions Club

In all instances, all charges for these dues must be approved by the appropriate manager.
* Lobbying portion of an organization's dues or memberships should be charged to 77700300 426400 with your ORG.
** Professional certifications for electric and gas technical areas are recorded in operation and maintenance FERC accounts, i.e. 880 gas, 588 electric.

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Invoice Examples – Charitable/Civic Dues

Date 12/2/2010

Prepared for Payment

Approved for Payment

Description 50/50 Spokane Chamber Dues

Project	Task	Exp. Type	Org.	Amount	
02800162	921000	830	H14	250.00	-50%
77700300	426120	830	H14	250.00	-50%

Company	FERC	Svc.	Jur.	SI	Amount
001				DL	

S-2293 (07-06)

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Below the Line Charges – Non-Utility Related Expenses:

Employee Miscellaneous Expenses

Employee Gifts awarded to an employee as an award for performance purposes may be charged to the Utility (Above the Line).

All other Employee Gifts must be charged to Non Utility (below the line FERC Account 426). Examples include holiday gifts, birthday gifts, floral arrangements, etc. However, in all instances, all charges for Employee Gifts must be approved by the appropriate manager.

Project	Organization	Expenditure Type	Task	Task Description
77705191		235 – Miscellaneous Employee Expenses	426502 426506	Employee Gifts Employee Parties

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Below the Line Charges – Non-Utility Related Expenses:

Employee Entertainment/Sporting Events

Charges for employee entertainment or attendance at sporting events must be charged to Non Utility (below the line FERC Account 426). In all instances, all charges for employee entertainment or attendance to sporting events must be approved by the appropriate manager. These charges should be charged to the following POET:

Project	Organization	Expenditure Type	Task	Task Description
77705191		235 – Miscellaneous Employee Expenses	426504	Employee Entertainment/Sporting Events

Below the Line Charges – Non-Utility Related Expenses:

Corporate Logo Apparel and Items

Charges for corporate logo apparel and items should be charged to the Utility when the purpose of the item is to identify an employee as a representative of the Company, remind customers or employees of the importance of safety, or educate customers or employees on energy related issues such as energy efficiency or other issues impacting the Utility. These charges would follow the project for which it relates.

All other corporate logo apparel and items, i.e. give-away items or gifts, which do not meet the above criteria, must be charged to Non Utility (Below the Line) FERC

Project	Organization	Expenditure Type	Task	Task Description
77705191		235 – Miscellaneous Employee Expenses	426508	Corporate Logo Apparel and Items

Below the Line Charges – Non-Utility Related Expenses:

Community Boards and Volunteering

The Company encourages employees to give back to the community and endorses participation on Community Boards and other volunteering activities. Any incremental costs of participation, should be charged "Below the Line", unless there is a specific benefit to utility customers derived from the cost. All charges must be approved by the appropriate manager.

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Below the Line Charges – Non-Utility Related Expenses:

Community Boards and Volunteering, continued

In order to accurately report these transactions, project numbers have been established for several types of involvement and should be charged to one of the POET codes noted below.

Project	Organization	Expenditure Type	Task	Task Description
77700300		235 - Employee Misc Expense	426110	Dues/Donations
77700300		235 - Employee Misc Expense	426115	Arts, Culture, Humanities
77700300		235 - Employee Misc Expense	426120	Economic/Community Development
77700300		235 - Employee Misc Expense	426121	Avista Foundation
77700300		235 - Employee Misc Expense	426122	Project Share
77700300		235 - Employee Misc Expense	426125	Education
77700300		235 - Employee Misc Expense	426130	Environmental
77700300		235 - Employee Misc Expense	426135	Youth Development
77700300		235 - Employee Misc Expense	426140	Health & Human Service

Note: In-Kind Contributions – All incremental expenses associated with volunteer activities should be recorded to a Non-Utility POET listed above. Direct labor costs which are more than incidental and on a recurring basis, must also be recorded to a Non-Utility POET. For example, if you are a loaned employee or executive, your time must be recorded Below the Line. For any questions regarding in kind contributions of labor, please contact Adam Munson, Manager Corporate Accounting.

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References

- Code of Federal Regulation Website
- Federal Energy Regulatory Commission (FERC) Website
- Washington Utilities and Transportation Commission (WUTC) Website
- Oregon Public Utilities Commission (OPUC) Website
- Idaho Public Utilities Commission (IPUC) Website
- AVAnet
  - Regulatory Accounting Guidelines and Policies
  - Budget Manual
  - Travel and Expense Reimbursement Guidelines
  - Project – Task Listing
  - Budget Contacts

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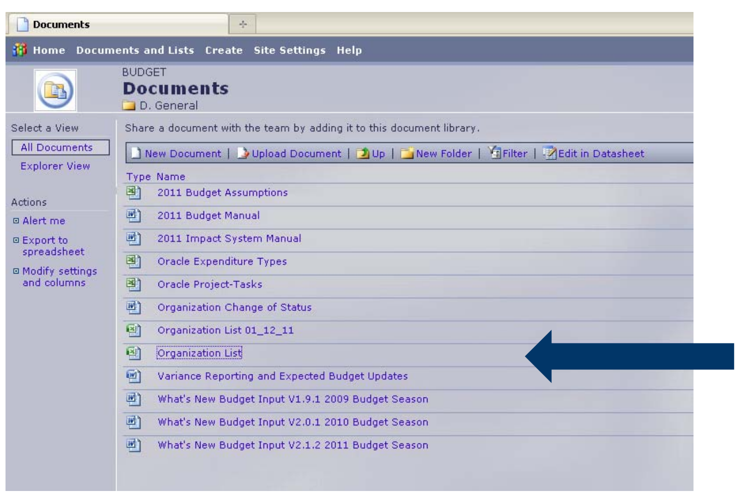
For questions regarding Projects:

For assistance in determining which project number to record an expense to, please refer to your Budget Contact. A listing of all Budget contacts assigned to specific Orgs, are listed on the Budget website.



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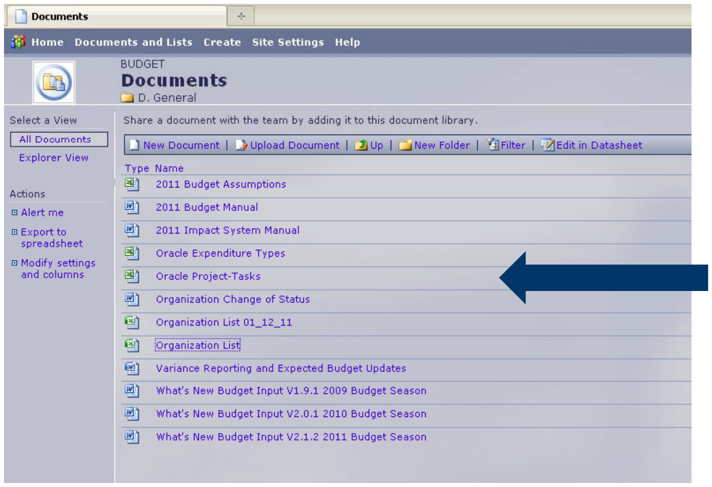
For questions regarding Projects:

A listing of all Projects is also available on the Budget website.



For assistance in setting up a new project number, please contact:
Howard Grimsrud, Operations Analyst, at 509-495-2936 or Howard.grimsrud@avistacorp.com

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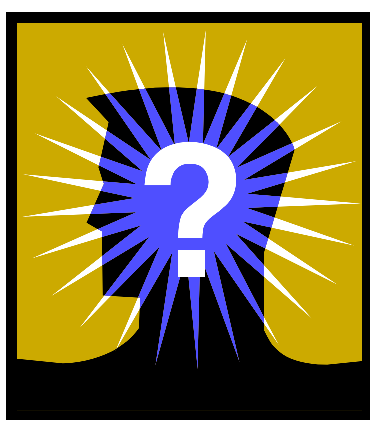
Questions?



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For Questions Regarding Policies and Guidelines:

For questions regarding Policies and Guidelines, please contact:

Adam Munson, Manager Corporate Accounting, at 509-495-2471 or Adam.munson@avistacorp.com

Liz Andrews, Manager State and Federal Regulation, at 509-495-8601 or Liz.Andrew@avistacorp.com

Jen Smith, State and Federal Regulatory Analyst, at 509-495-2098 or Jennifer.Smith@avistacorp.com

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SUMMARY

Main message points we want you to leave with . . . . .

•Customers should bear the costs for that from which they receive benefit.

•To achieve that, employees must:

- Directly assign where appropriate, or allocate when services provided are shared by service, jurisdiction, or both.
- Charge costs to Non-Utility when appropriate, based on Company Regulatory Accounting Guidelines and Policies.

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Housekeeping

- Sign-in form

- Time Card - project # 09905519 has been assigned to the Training on invoice coding and charging payroll job.
  - Use task # 920000 for Labor or task #926105 for Non-Labor

- The Training presentations and policies will be available on the AVAnet soon!

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AVISTA

To: **All Employees**

From: **Kelly Norwood**

Date: **05-09-2011**

Re: **Regulatory Accounting Policies and Guidelines**

As a regulated utility operating in multiple services and states, it is important the Company maintain its books and records following proper accounting guidelines and policies. Costs should be charged to the appropriate service and jurisdiction, based on which customers benefit from the service provided. It is also necessary to properly account for costs to utility and non-utility accounts. The Company should be using its best efforts to assure that ratepayers are only paying for appropriate costs. Special attention should be paid to items such as:

- Use of appropriate FERC Accounts
- Use of appropriate descriptions of transactions for purpose as well as Service/Jurisdiction
- Use of Allocations / Direct assignment of costs where appropriate
- Appropriately accounting for Miscellaneous transactions such as:
    - Political Activities
    - Advertising
    - Charitable Contributions, Donations & Sponsorships
    - Dues
    - Miscellaneous employee expenses

This memo is being distributed to all employees as a reminder of these requirements and to emphasize the importance of these requirements. Avista's Regulatory Accounting Guidelines and Policies Manual is available for review on Avista's intranet site at:

http://sharepoint/departments/budget/Shared%20Documents/A.%20Accounting%20Guidlelines%20and%20Policies/Regulatory%20Accounting%20Guidelines%20and%20Policies%20Manual.pdf

Company Regulatory Accounting Allocation Guidelines

All utility operating costs should be directly assigned to services and jurisdictions whenever possible. Costs that are not directly assigned (common costs), will then be allocated, through the assignment of certain project codes.

Employees serving in corporate functions typically record their labor and expenses to projects that are common to all rate jurisdictions (projects which begin with "099") if it has been determined that their functions or responsibilities benefit all rate jurisdictions. There are instances when a corporate employee will incur costs (travel for instance) specific to a particular locale. If the employee and their manager deem these costs to be related to service in all jurisdictions, then these costs may be charged to a project which allocates costs to all jurisdictions. If it is deemed that these costs are for the sole benefit of a particular service and/or jurisdiction, then these costs should be directly assigned.

Utility vs. Non-Utility Expenses

In order to properly account for costs, it is necessary to have a basic understanding of the difference between Utility vs. Non-utility expenses.

A Utility expense provides a benefit to customers and is recovered from rate payers. Utility expenses are recorded in FERC Account ranges 500-935.

A Non-Utility expense is a legitimate business expense; however, it provides no benefit to customers. Non-Utility expenses are not recovered from rate payers. Non-Utility expenses are generally recorded in FERC Account ranges 417-426.

Training Requirements

Training is required for affected new employees and affected employees with new positions, which will be required to prepare budgets, code invoices or complete expense reports. It is important for department managers to be aware of this requirement and encourage new employees in their department complete this training as needed. Please contact your manager if you believe that you should complete this training.

Questions

For assistance in determining which project number to record an expense to, please refer to your Budget Contact. A listing of all Budget contacts assigned to specific Orgs, are listed on the Budget website.

For questions regarding Project Number setup, please contact:
Howard Grimsrud, Operations Analyst, at 509-495-2936 or Howard.grimsrud@avistacorp.com

For questions regarding Policies and Guidelines, please contact:
Adam Munson, Manager Corporate Accounting, ext. 2471 or Adam.munson@avistacorp.com
Liz Andrews, Manager Revenue Requirements, ext. 8601 or Liz.Andrew@avistacorp.com
Jen Smith, State and Federal Regulatory Analyst, at ext. 2098 or Jennifer.Smith@avistacorp.com

Attachment F

Video Production of Regulatory Accounting Guidelines and Policies Training