

Avista Corp.
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March 28, 2012

**RE: Avista Corporation Dockets UE-100467 & UG-100468 (consolidated)
Settlement Stipulation Compliance, Paragraph 23**

To all Parties:

At **paragraph 23** of the Settlement Stipulation approved in Order No. 07 in the above-referenced dockets, it 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).

Enclosed are two audit reports titled "Accounting Practices Audit" and "Low-Income Rate Assistance Program Accounting Practices Audit". As noted in paragraph 22 of the approved Settlement Stipulation, "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 report." The attached report contains the results of the second annual report; the first report was sent to all parties on May 11, 2011.

Questions regarding this filing should be directed to Liz Andrews (509) 495-8601.

Sincerely,

A handwritten signature in black ink, appearing to read "David J. Meyer", with a horizontal line extending to the right.

David J. Meyer
Vice President and Chief Counsel for
Regulatory and Governmental Affairs
Enclosures

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MAY 11 2011

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served the attached Compliance Filing upon the persons and entities listed on the Service List below in Avista Corporation's Electric and Natural Gas General Rate Case, Dockets UE-100467 & UG-100468, by electronic mail and mailing a copy thereof, postage prepaid to the following:

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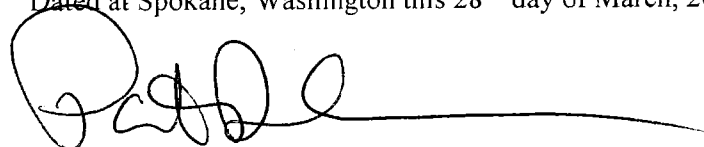
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I declare under penalty of perjury that the foregoing is true and correct.

Dated at Spokane, Washington this 28th day of March, 2012.



Patrick Ehrbar
Manager, Rates & Tariffs



Accounting Practices Audit

Report Date: March 2012

Accounting Practices Audit – 2011

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 – 2011

SCOPE

The scope of this audit included all expenditure transactions in FERC accounts 400-935 that occurred from 1/1/11-12/31/11, 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, the errors identified in the 2010 Accounting Practices Audit, 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 38,383. Based on professional auditor judgment and commonly accepted standards, a random sample of 208 transactions was determined to be appropriate for Subset A. The sample size was derived from the American Institute of Certified Public Accountant's (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 631,188. Based on professional auditor judgment and commonly accepted standards, a random sample of 93 transactions 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 for each selected expenditure transaction to gain reasonable assurance that items were appropriately allocated to the proper FERC account, service, and jurisdiction.

Accounting Practices Audit – 2011

GENERAL FINDINGS

In Subset A, out of our random sample of 208 expenditure transactions, 21 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 FERC account, service, and jurisdiction attributes 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 – 2011

OBSERVATIONS AND RECOMMENDATIONS

Based on the recommendations from the 2010 Accounting Practices Audit, the Company made improvements in the following areas:

- Formal training was provided to the Company's employees and accounting guidelines were developed, communicated, and made available to all employees.
- Detective controls, including the review of specific accounts and expenditure types, were implemented in 2011.
- Experts within the Company were identified as a resource for employees to provide departments with guidance and support to ensure compliance with the Company's accounting guidelines.
- The Oracle iExpense module was modified to reject all expenses charged to FERC account 920 (Labor).

The following recommendations have been identified by Internal Audit as a result of the 2011 Accounting Practices Audit:

- We recommend the Company continue to provide formal training on the Company's accounting guidelines on an annual basis, which includes regulatory accounting and expense allocation guidelines, with a focus on purchase transactions (iExpense and vouchers). Formal training for new employees should be provided within a reasonable period of time after employment begins.
- We recommend the Company annually remind department managers to review their listing of applicable projects/tasks (including service and jurisdiction allocations) to ensure they are accurate and reflective of the services provided by that department. Additionally, we recommend department managers provide this listing to employees as a reference tool for coding expenses.
- We recommend the Company continue to design and implement additional detective controls to monitor compliance with the Company's accounting guidelines on a regular basis.
- We recommend the Company communicate all identified errors from the 2011 Accounting Practices Audit to the employee submitting the expense and their supervisor to increase awareness about errors. Additional training should be provided if needed.

Accounting Practices Audit – 2011

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 and each error must be assessed individually.

Accounting Practices Audit – 2011

Exhibit A Summary of Findings in Subset A

Error #	Error Type			Summary		Dollar Value ¹
	FERC Account	Jurisdiction	Service	Current Incorrect Accounting*	Correct Accounting*	

Non-Utility

1	X	X	X	921000.AA.CD	Non-Utility	\$ 15.00
2	X	X	X	921000.AA.CD	Non-Utility	\$ 104.03
3	X	X	X	921000.AN.CD	Non-Utility	\$ 175.73

FERC Account Only

4	X			923000.AN.ED	921000.AN.ED	\$ 2.18	✓
5	X			921000.AA.CD	903000.AA.CD	\$ 9,239.40	
6	X			901000.AA.CD	930200.AA.CD	\$ 53.45	
7	X			923000.AA.CD	921000.AA.CD	\$ 116.44	✓
8	X			923000.AA.CD	921000.AA.CD	\$ 4.72	✓

Service Only

9			X	935000.WA.ED	935000.WA.CD	\$ 980.00
10			X	921000.WA.ED	921000.WA.GD	\$ 23.00
11			X	921000.WA.ED	921000.WA.GD	\$ 11.70
12			X	935000.WA.ED	935000.WA.CD	\$ 980.00
13			X	921000.AA.CD	921000.AA.GD	\$ 3.89
14			X	935000.WA.ED	935000.WA.CD	\$ 530.00

Jurisdiction Only

15		X		930200.AA.CD	930200.AN.CD	\$ 19.00
16		X		935000.AN.CD	935000.AA.CD	\$ 8.91
17		X		908000.AN.CD	908000.WA.CD	\$ 3.21
18		X		908000.AN.CD	908000.WA.CD	\$ 4.59

Multiple Attributes

19		X	X	908000.AN.CD	908000.WA.GD	\$ 73.55
20	X	X	X	905000.AA.CD	921000.OR.GD	\$ 145.50
21		X	X	925100.AA.CD	925100.WA.ED	\$ 6.95

¹ This represents the dollar value of the transaction selected and is included for informational purposes. It may not represent the dollar impact of the error to ratemaking jurisdictions and services.

✓ This error does not affect overall costs allocated to customers because both FERC accounts use the Four Factor percentages to allocate costs between ratemaking jurisdictions and services.

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 – 2011

Exhibit B Summary of Findings in Subset B

Error #	Error Type			Summary		Dollar Value ¹
	FERC Account	Jurisdiction	Service	Current Incorrect Accounting*	Correct Accounting*	
1	X	X	X	80% to 588000.AN.ED 20% to 880000.AN.GD	588000.ID.ED	\$ 28.65

¹ This represents the dollar value of the transaction selected and is included for informational purposes. It may not represent the dollar impact of the error to ratemaking jurisdictions and services.

Legend

***Accounting Format:**

FERC Account.Jurisdiction.Service

X:

Error Identified

Jurisdiction:

WA: Washington

ID: Idaho

AN: Allocate North (WA and ID)

Service:

ED: Electric

GD: Gas



**Low-Income Rate Assistance Program
(LIRAP)**

Accounting Practices Audit

Report Date: March 2012

LIRAP Accounting Practices Audit - 2011

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, results of our audit, 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.

LIRAP Accounting Practices Audit - 2011

SCOPE

The scope of this audit included all LIRAP tariff rider revenues, allocation of revenues to CAA's, and expense transactions that occurred from 1/1/11-12/31/11. 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 the American Institute of Certified Public Accountant's (AICPA) tests of controls sampling guidelines.

Subset B: This population included all LIRAP program expenditure transactions from FERC account 242770. The total number of transactions included in this population is 1,392. Based on professional auditor judgment and commonly accepted standards, a random sample of 93 transactions 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.

LIRAP Accounting Practices Audit - 2011

GENERAL FINDINGS

No errors were noted during testing of Subset A or Subset B.

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 occurring within our tolerable rate.