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May 20, 2012

**RE: Avista Corporation Dockets UE-100467 & UG-100468 (consolidated)
Settlement Stipulation Compliance, Paragraph 22**

To all Parties:

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 third report.

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

Sincerely,

A handwritten signature in black ink, appearing to read "D. Meyer", followed by a horizontal line.

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

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

Dated at Spokane, Washington this 20th day of May, 2013.



Paul Kimball
Sr. Regulatory Analyst



Accounting Practices Audit

Report Date: May 2013

Accounting Practices Audit – 2012

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, for fiscal years ended 2010 through 2013, 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, service, and jurisdiction 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, service, and jurisdictions were appropriate.

Accounting Practices Audit – 2012

SCOPE

The scope of this audit included all expenditure transactions in FERC accounts 400-935 that occurred from 1/1/12-12/31/12, with the sampling unit defined as a single expenditure transaction item. Due to the errors noted during the 2010 and 2011 Accounting Practices Audit and auditor assessed risk, Internal Audit focused the 2012 audit on purchase (voucher, credit card, and iExpense) transactions and identified two specific subsets:

Subset A: This population includes all voucher transactions in FERC accounts 400-935. The total number of transactions included in this population is 48,392 with a debit balance of \$76,214,288. Based on professional auditor judgment and commonly accepted standards, a random sample of 286 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 2.75%.

Subset B: This population includes all credit card and iExpense transactions in FERC accounts 400-935. The total number of transactions included in this population is 30,566 with a debit balance of \$3,122,075. Based on professional auditor judgment and commonly accepted standards, a random sample of 361 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 3%.

In order to ensure the completeness of all expenditure items, some revenue accounts and transactions were included in these populations. As revenue transactions were outside the scope of this audit, they were replaced with the next random sample if selected. Additionally, limited procedures were performed over the remaining population not included in Subset A or Subset B (non-purchase transactions in FERC accounts 400-935).

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 – 2012

GENERAL FINDINGS

In Subset A, out of our random sample of 286 expenditure transactions, 6 were identified as an error with at least one attribute (FERC account, service, and 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 361 expenditure transactions, 19 were identified as an error with at least one attribute (FERC account, service, and jurisdiction) being inappropriately allocated. Please refer to Exhibit B for the Summary of Findings in Subset B.

Accounting Practices Audit – 2012

OBSERVATIONS AND RECOMMENDATIONS

Based on the recommendations from the 2010 and 2011 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. It was noted that several transactions were corrected prior to the 2012 audit.
- 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).
- Errors from the 2011 Accounting Practices Audit were communicated to the employee submitting the expense and their supervisor to increase awareness about errors. Additional training was provided if needed.

The following recommendations have been identified by Internal Audit as a result of the 2012 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 iExpense and credit card transactions. Formal training for new employees should be provided within a reasonable period of time after employment begins.
- We recommend the Company communicate the importance of appropriate and sufficient expense descriptions on vouchers, iExpense, and credit card transactions.
- We recommend the Company review the accounting guidelines and appropriate allocation of costs with outside office locations to ensure practices and treatment of expenses follow approved guidelines.
- We recommend the Company communicate all identified errors from the 2012 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 – 2012

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 occurring within our tolerable rate.

In Subset B, we can conclude with 95% certainty that appropriate accounting and allocation of utility expenditures is not 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 – 2012

Exhibit A Summary of Findings in Subset A

Error #	Error Type			Summary		Dollar Value ¹
	FERC Account	Service	Jurisdiction	Current Incorrect Accounting*	Correct Accounting*	
Non-Utility						
1	X	X	X	930200.CD.AN	Non-Utility	\$ 60.00
Jurisdiction Only						
2			X	909000.CD.AN	909000.CD.AA	\$ 190.00
Multiple Attributes						
3	X	X		588000.ED.AN	880000.GD.AN	\$ 11.35
4	X	X		588000.ED.AN	880000.GD.AN	\$ 2.03
5	X	X		588000.ED.ID	880000.GD.ID	\$ 8.50
6	X	X		588000.ED.ID	880000.GD.ID	\$ 1.59

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 services and jurisdictions.

Legend

***Accounting Format:** FERC Account.Service.Jurisdiction
X: Error Identified
Service: ED: Electric
 GD: Gas
 CD: Both Electric and Gas
Jurisdiction: WA: Washington
 ID: Idaho
 OR: Oregon
 AA: Allocate All (WA, ID, and OR)
 AN: Allocate North (WA and ID)

Accounting Practices Audit – 2012

Exhibit B Summary of Findings in Subset B

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

Non-Utility

1	X	X	X	930200.ED.WA	Non-Utility	\$ 45.00
2	X	X	X	930200.CD.AA	Non-Utility	\$ 2.40
3	X	X	X	921000.CD.AA	Non-Utility	\$ 3.00
4	X	X	X	921000.CD.AA	Non-Utility	\$ 4.35
5	X	X	X	Non-Utility	921000.CD.AA	\$ 100.24

FERC Account Only

6	X			923000.CD.AA	921000.CD.AA	\$ 6,227.36 ✓
7	X			905000.CD.AA	921000.CD.AA	\$ 18.67
8	X			921000.CD.AA	930200.CD.AA	\$ 275.00 ✓
9	X			905000.CD.AA	921000.CD.AA	\$ 60.00
10	X			923000.CD.AA	921000.CD.AA	\$ 3.39 ✓
11	X			500000.ED.AN	546000.ED.AN	\$ 4.91 ✓

Service Only

12		X		935000.CD.AN	935000.ED.AN	\$ 17.74
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Jurisdiction Only

13			X	870000.GD.AA	870000.GD.AN	\$ 119.30
14			X	880000.GD.AN	880000.GD.OR	\$ 25.00
15			X	921000.ED.WA	921000.ED.ID	\$ 25.00
16			X	870000.GD.AA	870000.GD.AN	\$ 107.03
17			X	908000.CD.AN	908000.CD.WA	\$ 45.51

Multiple Attributes

18	X	X	X	545000.ED.AN	880000.GD.OR	\$ 5.03
19		X	X	930200.ED.AN	930200.CD.AA	\$ 19.00

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 services and jurisdictions.

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

Legend

***Accounting Format:** FERC Account.Service.Jurisdiction

X: Error Identified

Service: ED: Electric

GD: Gas

CD: Both Electric and Gas

Jurisdiction: WA: Washington

ID: Idaho

OR: Oregon

AA: Allocate All (WA, ID, and OR)

AN: Allocate North (WA and ID)



Low-Income Rate Assistance Program (LIRAP)

Accounting Practices Audit

Report Date: May 2013

LIRAP Accounting Practices Audit – 2012

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, for fiscal years ended 2010 through 2013, 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, and any 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 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 – 2012

SCOPE

The scope of this audit included all LIRAP tariff rider revenues, allocation of revenues to CAA's, and expense transactions that occurred from 1/1/12-12/31/12. 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, three 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 1,399. 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 – 2012

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.