AVISTA CORP
Form 10-K
February 28, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM TO

Commission file number 1-3701

AVISTA CORPORATION

(Exact name of Registrant as specified in its charter)

Washington	**91-0462470**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	Identification No.)
1411 East Mission Avenue, Spokane, Washington	**99202-2600**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: 509-489-0500

Web site: http://www.avistacorp.com

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
Common Stock, no par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of Class

Preferred Stock, Cumulative, Without Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No x

The aggregate market value of the Registrant s outstanding Common Stock, no par value (the only class of voting stock), held by non-affiliates is $1,489,452,508 based on the last reported sale price thereof on the consolidated tape on June 30, 2011.

As of January 31, 2012, 58,554,301 shares of Registrant s Common Stock, no par value (the only class of common stock), were outstanding.

Documents Incorporated By Reference

Document	Part of Form 10-K into Which Document is Incorporated
Proxy Statement to be filed in connection with the annual meeting of shareholders to be held on May 10, 2012	**Part III, Items 10, 11, 12, 13 and 14**

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* = not an applicable item in the 2011 calendar year for Avista Corporation

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ACRONYMS AND TERMS

(The following acronyms and terms are found in multiple locations within the document)

Acronym/Term	Meaning
aMW	- Average Megawatt - a measure of the average rate at which a particular generating source produces energy over a period of time
AFUDC	- Allowance for Funds Used During Construction; represents the cost of both the debt and equity funds used to finance utility plant additions during the construction period
AM&D	- Advanced Manufacturing and Development, does business as METALfx
ASC	- Accounting Standards Codification
Avista Capital	- Parent company to the Company s non-utility businesses
Avista Corp.	- Avista Corporation, the Company
Avista Energy	- Avista Energy, Inc., an electricity and natural gas marketing, trading and resource management business, subsidiary of Avista Capital
Avista Utilities	- Operating division of Avista Corp. comprising the regulated utility operations
BPA	- Bonneville Power Administration
Capacity	- The rate at which a particular generating source is capable of producing energy, measured in KW or MW
Cabinet Gorge	- The Cabinet Gorge Hydroelectric Generating Project, located on the Clark Fork River in Idaho
Colstrip	- The coal-fired Colstrip Generating Plant in southeastern Montana
Coyote Springs 2	- The natural gas-fired Coyote Springs 2 Generating Plant located near Boardman, Oregon
CT	- Combustion turbine
Deadband or ERM deadband	- The first $4.0 million in annual power supply costs above or below the amount included in base retail rates in Washington under the Energy Recovery Mechanism in the state of Washington
Dekatherm	- Unit of measurement for natural gas; a dekatherm is equal to approximately one thousand cubic feet (volume) or 1,000,000 BTUs (energy)
DOE	- The state of Washington s Department of Ecology
Ecos	- A Portland, Oregon-based energy efficiency solutions provider acquired by Ecova in 2009
Ecova	- Formerly known as Advantage IQ, Inc. (Advantage IQ), provider of facility information and cost management services for multi-site customers throughout North America, subsidiary of Avista Capital
Energy	- The amount of electricity produced or consumed over a period of time, measured in KWH or MWH

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EPA	- Environmental Protection Agency
ERM	- The Energy Recovery Mechanism in the state of Washington
FASB	- Financial Accounting Standards Board
FERC	- Federal Energy Regulatory Commission
GHG	- Greenhouse gas
IPUC	- Idaho Public Utilities Commission
IRP	- Integrated Resource Plan
Jackson Prairie	- Jackson Prairie Natural Gas Storage Project, an underground natural gas storage field located near Chehalis, Washington
kV	- Kilovolt or 1000 volts, a measure of capacity on transmission lines
KW, KWH	- Kilowatt or 1000 watts a measure of generating output, kilowatt-hour or 1000 watt hours a measure of energy produced
Lancaster Plant	- A natural gas-fired combined cycle combustion turbine plant located in Idaho
MW, MWH	- Megawatt or 1000 KW, megawatt-hour or 1000 KWH
NERC	- North American Electricity Reliability Corporation
Noxon Rapids	- The Noxon Rapids Hydroelectric Generating Project, located on the Clark Fork River in Montana
OPUC	- The Public Utility Commission of Oregon
PCA	- The Power Cost Adjustment mechanism in the state of Idaho
PGA	- Purchased Gas Adjustment
PLP	- Potentially liable party
PUD	- Public Utility District
PURPA	- The Public Utility Regulatory Policies Act of 1978, as amended
RTO	- Regional Transmission Organization
Spokane Energy	- Spokane Energy, LLC, a special purpose limited liability company and all of its membership capital is owned by Avista Corp.
Spokane River Project	- The five hydroelectric plants operating under one FERC license on the Spokane River (Long Lake, Nine Mile, Upper Falls, Monroe Street and Post Falls)
Therm	- Unit of measurement for natural gas; a therm is equal to approximately one hundred cubic feet (volume) or 100,000 BTUs (energy)
Watt	- Unit of measurement for electricity; a watt is equal to the rate of work represented by a current of one ampere under a pressure of one volt
WUTC	- Washington Utilities and Transportation Commission

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Forward-Looking Statements

From time to time, we make forward-looking statements such as statements regarding projected or future:

- financial performance,
- cash flows,
- capital expenditures,
- dividends,
- capital structure,
- other financial items,
- strategic goals and objectives, and
- plans for operations.

These statements have underlying assumptions (many of which are based, in turn, upon further assumptions). Such statements are made both in our reports filed under the Securities Exchange Act of 1934, as amended (including this Annual Report on Form 10-K), and elsewhere. Forward-looking statements are all statements except those of historical fact including, without limitation, those that are identified by the use of words that include will, may, could, should, intends, plans, seeks, anticipates, estimates, expects, forecasts, projects, p expressions. Forward-looking statements (including those made in this Annual Report on Form 10-K) are subject to a variety of risks and uncertainties and other factors. Many of these factors are beyond our control and they could have a significant effect on our operations, results of operations, financial condition or cash flows. This could cause actual results to differ materially from those anticipated in our statements. Such risks, uncertainties and other factors include, among others:

- weather conditions (temperatures, precipitation levels and wind patterns) and their effects on energy demand and electric generation, including the effect of precipitation and temperatures on the availability of hydroelectric resources, the effect of wind patterns on the availability of wind resources, the effect of temperatures on customer demand, and similar impacts on supply and demand in the wholesale energy markets;
- the effect of state and federal regulatory decisions on our ability to recover costs and earn a reasonable return including, but not limited to, the disallowance of costs and investments, and delay in the recovery of capital investments and operating costs;

changes in wholesale energy prices that can affect, among other things, the cash requirements to purchase electricity and natural gas, the value received for sales in the wholesale energy market, the necessity to request changes in rates that are subject to regulatory approval, collateral required of us by counterparties on wholesale energy transactions and credit risk to us from such transactions, and the market value of derivative assets and liabilities;

economic conditions in our service areas, including the effect on the demand for, and customers payment for, our utility services;

global financial and economic conditions (including the impact on capital markets) and their effect on our ability to obtain funding at a reasonable cost;

our ability to obtain financing through the issuance of debt and/or equity securities, which can be affected by various factors including our credit ratings, interest rates and other capital market conditions;

the potential effects of legislation or administrative rulemaking, including the possible adoption of national or state laws requiring our resources to meet certain standards and placing restrictions on greenhouse gas emissions to mitigate concerns over global climate changes;

changes in actuarial assumptions, interest rates and the actual return on plan assets for our pension plan, which can affect future funding obligations, pension expense and pension plan liabilities;

volatility and illiquidity in wholesale energy markets, including the availability of willing buyers and sellers, and prices of purchased energy and demand for energy sales;

unplanned outages at any of our generating facilities or the inability of facilities to operate as intended;

the outcome of pending regulatory and legal proceedings arising out of the western energy crisis of 2000 and 2001, including possible refunds;

the outcome of legal proceedings and other contingencies;

changes in, and compliance with, environmental and endangered species laws, regulations, decisions and policies, including present and potential environmental remediation costs;

wholesale and retail competition including, but not limited to, alternative energy sources, suppliers and delivery arrangements;

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the ability to comply with the terms of the licenses for our hydroelectric generating facilities at cost-effective levels;

natural disasters that can disrupt energy generation, transmission and distribution, as well as the availability and costs of materials, equipment, supplies and support services;

explosions, fires, accidents, or mechanical breakdowns that may occur while operating and maintaining our generation, transmission and distribution systems;

blackouts or disruptions of interconnected transmission systems;

disruption to information systems, automated controls and other technologies that we rely on for operations, communications and customer service;

the potential for terrorist attacks, cyber security attacks or other malicious acts, that cause damage to our utility assets, as well as the national economy in general; including the impact of acts of terrorism, cyber security attacks or vandalism that damage or disrupt information technology systems;

delays or changes in construction costs, and/or our ability to obtain required permits and materials for present or prospective facilities;

changes in the long-term climate of the Pacific Northwest, which can affect, among other things, customer demand patterns and the volume and timing of streamflows to our hydroelectric resources;

changes in industrial, commercial and residential growth and demographic patterns in our service territory or the loss of significant customers;

the loss of key suppliers for materials or services;

default or nonperformance on the part of any parties from which we purchase and/or sell capacity or energy;

deterioration in the creditworthiness of our customers and counterparties;

the effect of any potential decline in our credit ratings, including impeded access to capital markets, higher interest costs, and certain covenants with ratings triggers in our financing arrangements and wholesale energy contracts;

increasing health care costs and the resulting effect on health insurance provided to our employees and retirees;

increasing costs of insurance, more restricted coverage terms and our ability to obtain insurance;

work force issues, including changes in collective bargaining unit agreements, strikes, work stoppages or the loss of key executives, availability of workers in a variety of skill areas, and our ability to recruit and retain employees;

the potential effects of negative publicity regarding business practices, whether true or not, which could result in, among other things, costly litigation and a decline in our common stock price;

changes in technologies, possibly making some of the current technology obsolete;

changes in tax rates and/or policies;

changes in the payment acceptance policies of Ecova s client vendors that could reduce operating revenues;

potential difficulties for Ecova in integrating acquired operations and in realizing expected opportunities, diversions of management resources and losses of key employees, challenges with respect to operating new businesses and other unanticipated risks and liabilities; and

changes in our strategic business plans, which may be affected by any or all of the foregoing, including the entry into new businesses and/or the exit from existing businesses.

Our expectations, beliefs and projections are expressed in good faith. We believe they are reasonable based on, without limitation, an examination of historical operating trends, our records and other information available from third parties. However, there can be no assurance that our expectations, beliefs or projections will be achieved or accomplished. Furthermore, any forward-looking statement speaks only as of the date on which such statement is made. We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which such statement is made or to reflect the occurrence of unanticipated events. New risks, uncertainties and other factors emerge from time to time, and it is not possible for us to predict all such factors, nor can we assess the effect of each such factor on our business or the extent that any such factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statement.

Available Information

Our Web site address is www.avistacorp.com. We make annual, quarterly and current reports available at our Web site as soon as practicable after electronically filing these reports with the Securities and Exchange Commission. Information contained on our Web site is not part of this report.

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PART I

Item 1. Business

Company Overview

Avista Corporation (Avista Corp. or the Company), incorporated in the state of Washington in 1889, is an energy company engaged in the generation, transmission and distribution of energy as well as other energy-related businesses. As of December 31, 2011, we employed 1,594 people in our utility operations and 1,215 people in our subsidiary businesses. Our corporate headquarters are in Spokane, Washington, the second-largest city in Washington state. Spokane serves as the business, transportation, medical, industrial and cultural hub of the Inland Northwest region. Of all the forces that have shaped the Spokane County economy, none is more significant than Spokane s historic role as a regional center of services for the surrounding rural populations of eastern Washington and northern Idaho. Regional services include government and higher education, medical services, retail trade and finance. The Inland Northwest also coincides closely with our utility service area in Washington and Idaho but is separate from our service area in southwest Oregon.

We have two reportable business segments as follows:

Avista Utilities an operating division of Avista Corp. that comprises our regulated utility operations. Avista Utilities generates, transmits and distributes electricity and distributes natural gas. The utility also engages in wholesale purchases and sales of electricity and natural gas.

Ecova (formerly known as Advantage IQ) an indirect subsidiary of Avista Corp. (79.2 percent owned as of December 31, 2011) provides energy efficiency and cost management programs and services for multi-site customers and utilities throughout North America. Ecova s primary product lines include expense management services for utility and telecom needs as well as strategic energy management and efficiency services that include procurement, conservation, performance reporting, financial planning and energy efficiency program management for commercial enterprises and utilities.

We have other businesses, including a sheet metal fabrication business, emerging technology venture fund investments and commercial real estate investments, as well as Spokane Energy, LLC (Spokane Energy). These activities do not represent a reportable business segment and are conducted by various indirect subsidiaries of Avista Corp.

Ecova and various other companies are subsidiaries of Avista Capital, Inc. (Avista Capital) which is a direct, wholly owned subsidiary of Avista Corp. Total Avista Corp. stockholders equity was $1,185.7 million as of December 31, 2011, of which $72.0 million represented our investment in Avista Capital.

See Item 6. Selected Financial Data and Note 24 of the Notes to Consolidated Financial Statements for information with respect to the operating performance of each business segment (and other subsidiaries).

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Avista Utilities

General

Through our regulated utility operations, we generate, transmit and distribute electricity and distribute natural gas. Retail electric and natural gas customers include residential, commercial and industrial classifications. We also engage in wholesale purchases and sales of electricity and natural gas as an integral part of energy resource management and our load-serving obligation.

Our utility provides electric distribution and transmission, as well as natural gas distribution services in parts of eastern Washington and northern Idaho. We also provide natural gas distribution service in parts of northeast and southwest Oregon. At the end of 2011, we supplied retail electric service to 360,000 customers and retail natural gas service to 321,000 customers across our entire service territory. Our service territory covers 30,000 square miles with a population of 1.5 million. See Item 2. Properties for further information on our utility assets. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Economic Conditions and Utility Load Growth for information on economic conditions in our service territory.

Electric Operations

In addition to providing electric distribution and transmission services, we generate electricity from facilities that we own and we purchase capacity and energy and fuel for generation under long-term and short-term contracts. We also sell electric capacity and energy, as well as surplus fuel in the wholesale market in connection with our resource optimization activities as described below.

As part of our resource procurement and management operations in the electric business, we engage in an ongoing process of resource optimization, which involves the economic selection from available energy resources to serve our load obligations and the use of these resources to capture available economic value. We sell and purchase electric capacity and energy and fuel in wholesale markets as part of the process of acquiring and balancing resources to serve our load obligations. These transactions range from terms of 30 minutes up to multiple years. We make continuing projections of:

- electric loads at various points in time (ranging from 30 minutes to multiple years) based on, among other things, estimates of customer usage and weather, historical data and contract terms, and
- resource availability at these points in time based on, among other things, fuel choices and fuel markets, estimates of streamflows, availability of generating units, historic and forward market information, contract terms, and experience.

On the basis of these projections, we make purchases and sales of electric capacity and energy and fuel to match expected resources to expected electric load requirements. Resource optimization involves generating plant dispatch and scheduling available resources and also includes transactions such as:

- purchasing fuel for generation,
- when economical, selling fuel and substituting wholesale electric purchases, and

other wholesale transactions to capture the value of generation and transmission resources and fuel delivery capacity contracts.

Our optimization process includes entering into hedging transactions to manage risks.

Our generation assets are interconnected through the regional transmission system and are operated on a coordinated basis to enhance load-serving capability and reliability. We provide transmission and ancillary services in eastern Washington, northern Idaho and western Montana. Transmission revenues were $13.8 million in 2011, $12.8 million in 2010 and $9.3 million in 2009.

Electric Requirements

Our peak electric native load requirement for 2011 occurred on January 11, 2011 at which time our total obligation was 2,381 MW consisting of:

- native load of 1,669 MW,
- long-term wholesale obligations of 243 MW, and
- short-term wholesale obligations of 469 MW.

At that time our maximum resource capacity available was 2,923 MW, which included:

- company-owned or controlled electric generation of 1,756 MW,
- long-term hydroelectric contracts with certain Public Utility Districts (PUDs) of 124 MW,
- long-term thermal generation contract with Lancaster Plant of 279 MW,

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other long-term wholesale contracts of 189 MW, and

short-term wholesale purchases of 575 MW.

Electric Resources

We have a diverse electric resource mix of hydroelectric projects, thermal generating facilities, and power purchases and exchanges.

At the end of 2011, our facilities had a total net capability of 1,791 MW, of which 56 percent was hydroelectric and 44 percent was thermal. See Item 2. Properties for detailed information on generating facilities.

Hydroelectric Resources We own and operate six hydroelectric projects on the Spokane River and two hydroelectric projects on the Clark Fork River. Hydroelectric generation is our lowest cost source per megawatt-hour (MWh) of electricity and the availability of hydroelectric generation has a significant effect on total power supply costs. Under normal streamflow and operating conditions, we estimate that we would be able to meet approximately one-half of our total average electric requirements (both retail and long-term wholesale) with the combination of our hydroelectric generation and long-term hydroelectric purchase contracts with certain PUDs in the state of Washington. Our estimate of normal annual hydroelectric generation for 2012 (including resources purchased under long-term hydroelectric contracts with certain PUDs) is 542 average megawatts (aMW) (or 4.76 million MWhs). Hydroelectric resources provided 637 aMW for 2011, 476 aMW for 2010 and 526 aMW for 2009.

The following table shows our hydroelectric generation (in thousands of MWhs) during the year ended December 31:

	2011	2010	2009
Noxon Rapids	2,110	1,503	1,673
Cabinet Gorge	1,292	942	1,061
Post Falls	90	90	84
Upper Falls	73	71	52
Monroe Street	110	106	104
Nine Mile	90	101	106
Long Lake	556	480	487
Little Falls	213	201	199
Total company-owned hydroelectric generation	4,534	3,494	3,766
Long-term hydroelectric contracts with PUDs	1,047	685	839
Total hydroelectric generation	5,581	4,179	4,605

Thermal Resources We own:

the combined cycle combustion turbine (CT) natural gas-fired Coyote Springs 2 Generation Project (Coyote Springs 2) located near Boardman, Oregon,

a 15 percent interest in a twin-unit, coal-fired boiler generating facility, the Colstrip 3 & 4 Generating Project (Colstrip) in southeastern Montana,

a wood waste-fired boiler generating facility known as the Kettle Falls Generating Station (Kettle Falls GS) in northeastern Washington,

a two-unit natural gas-fired CT generating facility, located in northeast Spokane (Northeast CT),

a two-unit natural gas-fired CT generating facility in northern Idaho (Rathdrum CT), and

two small natural gas-fired generating facilities (Boulder Park and Kettle Falls CT).

Coyote Springs 2, which is operated by Portland General Electric Company, is supplied with natural gas under both term contracts and spot market purchases, including transportation agreements with unilateral renewal rights.

Colstrip, which is operated by PPL Montana, LLC, is supplied with fuel from adjacent coal reserves under coal supply and transportation agreements in effect through 2019.

The primary fuel for the Kettle Falls GS is wood waste generated as a by-product and delivered by trucks from forest industry operations within 100 miles of the plant. A combination of long-term contracts and spot purchases has provided, and is expected to meet, fuel requirements for the Kettle Falls GS.

The Northeast CT, Rathdrum CT, Boulder Park and Kettle Falls CT generating units are primarily used to meet peaking electric requirements. We also operate these facilities when marginal costs are below prevailing wholesale electric prices. These generating facilities have access to natural gas supplies that are adequate to meet their respective operating needs.

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The following table shows our thermal generation (in thousands of MWhs) during the year ended December 31:

	2011	2010	2009
Coyote Springs 2	705	1,661	1,559
Colstrip	1,433	1,749	1,277
Kettle Falls GS	291	312	184
Northeast CT and Rathdrum CT	8	12	44
Boulder Park and Kettle Falls CT	10	14	33
Total company-owned thermal generation	2,447	3,748	3,097
Long-term contract with Lancaster Plant	835	1,410	
Total thermal generation	3,282	5,158	3,097

Lancaster Plant Power Purchase Agreement The Lancaster Plant is a 270 MW natural gas-fired combined cycle combustion turbine plant located in Idaho, owned by an unrelated third-party. All of the output from the Lancaster Plant is contracted to us through 2026 under a power purchase agreement (PPA).

Palouse Wind PPA In June 2011, we entered into a 30-year PPA with Palouse Wind, LLC (Palouse Wind), an affiliate of First Wind Holdings, LLC. Under the PPA, we will acquire all of the power and renewable attributes produced by a wind project being developed by Palouse Wind in Whitman County, Washington. The wind project is expected to have a nameplate capacity of approximately 105 MW and produce approximately 40 aMW with deliveries by the end of 2012. We decided to enter this PPA due, in part, to market changes reducing the cost of renewable resource projects. This was due, in part, to tax incentives for the construction of renewable resource projects that remain in effect through 2012. The power purchased from Palouse Wind will help to meet our Washington renewable energy requirements beginning in 2016, as well as provide a new energy resource to serve our system retail load requirements. Under the PPA, we have the option to purchase the wind project each year following the 10th anniversary of the commercial operation date at a price determined under the contract.

Other Purchases, Exchanges and Sales We purchase and sell power under various long-term contracts. We also enter into short-term purchases and sales. See Electric Operations for additional information with respect to the use of wholesale purchases and sales as part of our resource optimization process.

Pursuant to the Public Utility Regulatory Policies Act of 1978 (PURPA), as amended, we are required to purchase generation from qualifying facilities. This includes, among other resources, hydroelectric projects, cogeneration projects and wind generation projects at rates approved by the WUTC and the IPUC. Existing contracts expire at various times through 2022.

See Avista Utilities Operating Statistics Electric Operations Electric Energy Resources for annual quantities of purchased power, wholesale power sales and power from exchanges in 2011, 2010 and 2009.

Hydroelectric Licensing

We are a licensee under the Federal Power Act as administered by the FERC, which includes regulation of hydroelectric generation resources. Except for the Little Falls Plant, all of our hydroelectric plants are regulated by the FERC through project licenses. The licensed projects are subject to the provisions of Part I of the Federal Power Act. These provisions include payment for headwater benefits, condemnation of licensed projects upon payment of just compensation, and take-over of such projects after the expiration of the license upon payment of the lesser of net investment or fair value of the project, in either case, plus severance damages.

The Cabinet Gorge Hydroelectric Generating Project (Cabinet Gorge) and the Noxon Rapids Hydroelectric Generating Project (Noxon Rapids) are under one 45-year FERC license issued in March 2001. As part of the Clark Fork Settlement Agreement, we initiated the implementation of protection, mitigation and enhancement measures in March 1999. Measures in the agreement address issues related to fisheries, water quality, wildlife, recreation, land use, cultural resources and erosion.

See Cabinet Gorge Total Dissolved Gas Abatement Plan in Note 21 of the Notes to Consolidated Financial Statements for discussion of dissolved atmospheric gas levels that exceed state of Idaho and federal water quality standards downstream of Cabinet Gorge during periods when we must divert excess river flows over the spillway and our mitigation plans and efforts.

Five of our six hydroelectric projects on the Spokane River (Long Lake, Nine Mile, Upper Falls, Monroe Street, and Post Falls) are under one 50-year FERC license issued in June 2009 and are referred to as the Spokane River Project. The sixth, Little Falls, is operated under separate Congressional authority and is not licensed by the FERC. For further information see Spokane River Licensing in Note 21 of the Notes to Consolidated Financial Statements.

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Future Resource Needs

We have operational strategies to provide sufficient resources to meet our energy requirements under a range of operating conditions. These operational strategies consider the amount of energy needed over 30 minute, hourly, daily, monthly and annual durations, which vary widely because of the factors that influence demand. Our average hourly load was 1,095 aMW in 2011, 1,075 aMW in 2010 and 1,082 aMW in 2009. The following is a forecast of our average annual energy requirements and resources for 2012, 2013, 2014 and 2015:

Forecasted Electric Energy Requirements and Resources

(aMW)

	2012	2013	2014	2015
Requirements:				
System load	1,113	1,134	1,150	1,165
Contracts for power sales	140	127	109	58
Total requirements	1,253	1,261	1,259	1,223
Resources:				
Company-owned and contract hydro generation (1)	542	525	527	495
Company-owned base load thermal generation (2)	511	503	507	511
Contracts for power purchases	399	440	436	432
Total resources	1,452	1,468	1,470	1,438
Surplus resources	199	207	211	215
Additional available energy (3)	152	153	153	139
Total surplus resources	351	360	364	354

(1) The forecast assumes near normal hydroelectric generation (decline in 2013 and 2015 is due to changes in contracts with PUDs).
(2) Excludes the Northeast CT and Rathdrum CT. We generally use our thermal resources to meet electric load requirements due to either below normal hydroelectric generation or increased loads or outages at other generating facilities, and/or when operating costs are lower than short-term wholesale market prices.
(3) Northeast CT and Rathdrum CT. The combined maximum capacity of the Northeast CT and Rathdrum CT is 243 MW, with estimated available energy production as indicated for each year.

In August 2011, we filed our 2011 Electric Integrated Resource Plan (IRP) with the WUTC and the IPUC. We are required to file an IRP every two years. The IRP details projected growth in demand for energy and the new resources needed to serve customers over the next 20 years. We regard the IRP as a tool for resource evaluation, rather than an acquisition plan for a particular project.

Highlights of the 2011 IRP include:

A contract for the 105 MW Palouse Wind, LLC project, which is expected to help meet the requirements of the Washington state Energy Independence Act beginning in 2016, as well as provide a new resource to serve our customers increasing energy needs.

An additional 42 aMW of wind or qualifying renewable resource or energy credits are required under the same Act beginning in 2021.

Energy efficiency measures are expected to save 310 aMW of cumulative energy over the 20-year IRP timeframe. This aggressive effort could reduce load growth to half of what it would be without these measures.

750 MW of new natural gas-fired generation facilities are required between 2018 and 2031.

Three grid modernization programs are projected to save 5 aMW of energy by 2013.

Transmission upgrades will be needed to deliver the energy from new generation resources to the distribution lines serving customers. We will continue to participate in regional efforts to expand the region s transmission system.

We are subject to the Washington state Energy Independence Act, which includes renewable energy portfolio standards and we must obtain a portion of our electricity from qualifying renewable resources or through purchase of renewable energy credits. Future generation resource decisions will be impacted by legislation for restrictions on greenhouse gas emissions and renewable energy requirements.

See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Environmental Issues and Other Contingencies for information related to existing laws, as well as potential legislation that could influence our future electric resource mix.

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Natural Gas Operations

General We provide natural gas distribution services to retail customers in parts of eastern Washington, northern Idaho, and parts of northeast and southwest Oregon.

Market prices for natural gas, like other commodities, can be volatile. To provide reliable supply and to manage the impact of volatile prices on our customers, we procure natural gas through a diversified mix of spot market purchases and forward fixed price purchases from various supply basins and over various time periods. We also use natural gas storage capacity to support high demand periods and to procure natural gas when prices may be seasonally lower. Securing prices throughout the year and even into subsequent years mitigates potential adverse impacts of significant purchase requirements in a volatile price environment.

Like prices, natural gas loads can also be volatile. Daily natural gas loads can differ significantly from the monthly load projections. We make continuing projections of our natural gas loads and assess available natural gas resources. On the basis of these projections, we plan and execute a series of transactions to hedge a significant portion of our projected natural gas requirements through forward market transactions and derivative instruments. These transactions may extend for multiple years into the future with the highest volumes hedged for the current and most immediately upcoming natural gas operating year (November through October). We also leave a significant portion of our natural gas supply requirements unhedged for purchase in short-term and spot markets.

As part of the process of balancing natural gas retail load requirements with resources, we engage in wholesale purchases and sales of natural gas. We plan for sufficient natural gas delivery capacity to serve our retail customers on a theoretical peak day. As such, we generally have more pipeline and storage capacity than what is needed. We optimize natural gas resources by using excess resources and market opportunities to generate economic value that offsets net natural gas costs. Wholesale sales are delivered through wholesale market facilities outside of our natural gas distribution system. Natural gas resource optimization activities include, but are not limited to:

- wholesale market sales of surplus natural gas supplies,
- purchases and sales of natural gas to optimize use of pipeline and storage capacity.

We also provide transportation service to certain large commercial and industrial natural gas customers who purchase natural gas through third-party marketers. For these customers, we move their natural gas through our distribution system from natural gas transmission pipeline delivery points to the customers premises.

Natural Gas Supply We purchase all of our natural gas in wholesale markets. We are connected to multiple supply basins in the western United States and western Canada through firm capacity delivery rights on six pipeline networks. Access to this diverse portfolio of natural gas resources allows us to make natural gas procurement decisions that benefit our natural gas customers. We have interstate pipeline capacity to serve approximately 25 percent of natural gas supplies from domestic sources, with the remaining 75 percent from Canadian sources. Natural gas prices in the Pacific Northwest are affected by global energy markets, as well as supply and demand factors in other regions of the United States and Canada. Future prices and delivery constraints may cause our source mix to vary.

Natural Gas Storage We own a one-third interest in the Jackson Prairie Natural Gas Storage Project (Jackson Prairie), an underground natural gas storage field located near Chehalis, Washington. Jackson Prairie has a total peak day deliverability of 11.5 million therms, with a total working natural gas capacity of 253 million therms.

Avista Utilities gained 30.3 million therms of additional capacity at Jackson Prairie on May 1, 2011 for use in its utility operations. This capacity was originally held by Avista Energy and as part of the asset sales agreement this capacity had been assigned to Shell Energy through April 30, 2011.

Natural gas storage enables us to place natural gas into storage when prices may be lower or to satisfy minimum natural gas purchasing requirements, as well as to meet high demand periods or to withdraw natural gas from storage when spot prices are higher.

Regulatory Issues

General As a regulated public utility, we are subject to regulation by state utility commissions for prices, accounting, the issuance of securities and other matters. The retail electric and natural gas operations are subject to the jurisdiction of the WUTC, the IPUC, the Public Utility Commission of Oregon (OPUC), and the Public Service Commission of the State of Montana (Montana Commission). Approval of the issuance of securities is not required from the Montana Commission. We are also subject to the jurisdiction of the FERC for licensing of hydroelectric generation resources, and for electric transmission services and wholesale sales.

Our rates for retail electric and natural gas services (other than specially negotiated retail rates for industrial or large commercial customers, which are subject to regulatory review and approval) are determined on a cost of service basis.

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Rates are designed to provide, after recovery of allowable operating expenses, an opportunity for us to earn a reasonable return on rate base. Rate base is generally determined by reference to the original cost (net of accumulated depreciation) of utility plant in service, subject to various adjustments for deferred taxes and other items. Over time, rate base is increased by additions to utility plant in service and reduced by depreciation and retirement of utility plant and write-offs as authorized by the utility commissions. In general, a request for new rates in Washington and Idaho is made on the basis of net investment as of a date, and operating expenses and revenues for a test period ended, prior to the date of the request. Our retail revenues are derived from the number of units of electricity or natural gas actually sold and rates are based on the assumption that sales of electricity and natural gas will be the same as during the test period. Although the current ratemaking process in these states provides recovery of some future changes in net investment, operating costs and revenues, it does not reflect all changes in costs for the period in which new retail rates will be in place. This historically has resulted in a lag between the time we incur costs and the time when we start recovering the costs through subsequent changes in rates. Oregon currently allows a forecasted test year, which generally is more effective in providing timely recovery of costs.

In Washington, there is currently a proposal for an electric decoupling mechanism. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Avista Utilities Regulatory Matters Proposed Electric Decoupling Washington for further information.

Our rates for wholesale electric and natural gas transmission services are based on either cost of service principles or market-based rates as set forth by the FERC. See Notes 1 and 23 of the Notes to Consolidated Financial Statements for additional information about regulation, depreciation and deferred income taxes.

General Rate Cases We regularly review the need for electric and natural gas rate changes in each state in which we provide service. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Avista Utilities Regulatory Matters General Rate Cases for information on general rate case activity.

Power Cost Deferrals We defer the recognition in the income statement of certain power supply costs that vary from the level currently recovered from our retail customers as authorized by the WUTC and the IPUC. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Avista Utilities Regulatory Matters Power Cost Deferrals and Recovery Mechanisms and Note 23 of the Notes to Consolidated Financial Statements for detailed information on power cost deferrals and recovery mechanisms in Washington and Idaho.

Purchased Gas Adjustment (PGA) Under established regulatory practices in each respective state, we are allowed to adjust natural gas rates periodically (with regulatory approval) to reflect increases or decreases in the cost of natural gas purchased. Differences between actual natural gas costs and the natural gas costs included in retail rates are deferred and charged or credited to expense when regulators approve inclusion of the cost changes in rates. We typically propose such adjustments at least once per year. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Avista Utilities Regulatory Matters Purchased Gas Adjustments and Note 23 of the Notes to Consolidated Financial Statements for detailed information on natural gas cost deferrals and recovery mechanisms in Washington, Idaho and Oregon.

Federal Laws Related to Wholesale Competition

Federal law promotes practices that open the electric wholesale energy market to competition. The FERC requires electric utilities to transmit power and energy to or for wholesale purchasers and sellers, and requires electric utilities to enhance or construct transmission facilities to create additional transmission capacity for the purpose of providing these services. Public utilities (through subsidiaries) and other entities may participate in the development of independent electric generating plants for sales to wholesale customers.

Public utilities operating under the Federal Power Act are required to provide open and non-discriminatory access to their transmission systems to third parties and establish an Open Access Same-Time Information System to provide an electronic means by which transmission customers can obtain information about available transmission capacity and purchase transmission access. The FERC also requires each public utility subject to the rules to operate its transmission and wholesale power merchant operating functions separately and to comply with standards of conduct designed to ensure that all wholesale users, including the public utility s power merchant operations, have equal access to the public

utility s transmission system. Our compliance with these standards has not had any substantive impact on the operation, maintenance and marketing of our transmission system or our ability to provide service to customers.

See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Competition for further information.

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Regional Transmission Organizations

Beginning with FERC Orders No. 888 and No. 2000 (issued in 2000) and continuing with subsequent rulemakings and policies (including the Variable Energy Resource Notice of Proposed Rulemaking), the FERC has encouraged better coordination and operational consistency aimed to capture efficiencies that might otherwise be gained through the formation of a Regional Transmission Organization (RTO) such as an independent system operator (ISO). While it has not mandated RTO formation, the FERC has issued orders and made public policy statements indicating its support for the development and formation of independent organizations, including those intended to implement a number of regional transmission planning coordination requirements.

We have participated in discussions with transmission providers and other stakeholders in the Pacific Northwest for several years regarding the possible formation of an ISO in the region. We ultimately became a member of ColumbiaGrid, a Washington nonprofit membership corporation with an independent slate of directors formed to improve the operational efficiency, reliability, and planned expansion of the transmission grid in the Pacific Northwest. ColumbiaGrid is not an ISO, but performs limited functions as set forth in specific agreements with ColumbiaGrid members and other stakeholders. ColumbiaGrid and its members also work with other western organizations to address operational efficiencies, including WestConnect and the Northern Tier Transmission Group. We will continue to assess the benefits of entering into other functional agreements with ColumbiaGrid and/or participating in other forums to attain operational efficiencies and to meet FERC policy objectives.

The FERC requires RTOs to provide various data and is currently requesting non-RTO regions to report similar data for the purpose of establishing performance metrics. We expect the FERC to use this data to compare RTO and non-RTO regions. We cannot foresee what policy objectives the FERC may develop as a result of establishing such performance metrics.

Reliability Standards