

Proposed Annual Rate Adjustments Filed to be Effective Nov. 1, 2018

On Aug. 17, 2018, Avista filed two annual rate adjustment requests with the Washington Utilities and Transportation Commission (UTC or Commission), with a requested effective date of Nov. 1, 2018. These annual filings have no impact on the company's earnings, and are not related to the proposed acquisition of Avista by Hydro One.

The first rate adjustment is Avista's Purchased Gas Cost Adjustment (PGA). PGAs are filed each year to balance the actual cost of wholesale natural gas purchased by Avista to serve customers with the amount included in rates. This includes the natural gas commodity cost as well as the cost to transport natural gas on interstate pipelines to Avista's local distribution system. If approved, Avista's request is designed to decrease natural gas revenues by \$0.1 million or 0.1 percent. While Avista typically files PGAs in August of each year, Avista filed an out-of-cycle PGA in December 2017 which reduced natural gas rates by 7.1 percent effective January 26, 2018. The primary drivers for that rate reduction included continued low natural gas commodity costs due to the continued high production levels of natural gas, and a reduction in the cost to transport natural gas to Avista's distribution system. Those costs have remained the same since the prior rate reduction, which is why the proposed reduction in this PGA is relatively small.

The second rate adjustment is related to electric and natural gas decoupling. Decoupling is a mechanism designed to break the link between a utility's revenues and customers' energy usage. Generally, Avista's electric and natural gas revenues are adjusted each month based on the number of customers, rather than kilowatt hour and therm sales. The difference between revenues based on sales and revenues based on the number of customers is surcharged or rebated to customers beginning in the following year. For electric operations, the rate adjustment is designed to decrease revenues by \$13.1 million, or 2.5 percent. For natural gas operations, the rate adjustment is designed to decrease revenues by \$12.4 million, or 8.8 percent. These rate adjustments are driven primarily by a higher level of customer usage in 2017 due in part to a colder than normal winter.

Change in Rates - If approved by the Commission, residential electric customers in Washington using an average of 938 kilowatt hours per month would see their monthly bills change from \$87.33 to \$82.07, a decrease of \$5.26 per month, or approximately 6.0 percent. Residential natural gas customers using an average of 65 therms per month would see their monthly bills change from \$50.66 to \$45.29, a decrease of \$5.37 per month, or approximately 10.6 percent.

The percentage change for electric and natural gas customers varies by rate schedule and depends on how much energy a customer uses.

If approved, customers would see the following rate adjustments:

Electric Rate Change

Proposed Schedule 1 Residential Rates (effective Nov. 1, 2018)

| Electric Service | Current Billing Rate | Proposed Decrease | Proposed Billing Rates |
|-----------------------|----------------------|-------------------|------------------------|
| Basic Charge | \$9.00 | \$0.00 | \$9.00 |
| First 800 kWhs/month | \$0.08170/ kWh | \$0.00561/ kWh | \$0.07609/ kWh |
| Next 700 kWhs/month | \$0.09402/ kWh | \$0.00561/ kWh | \$0.08841/ kWh |
| Over 1,500 kWhs/month | \$0.10913/ kWh | \$0.00561/ kWh | \$0.10352/ kWh |

Proposed Electric Rate Increase by Schedule (effective Nov. 1, 2018)

| Schedule No. | Rate Schedule | % Change in Billed Revenue |
|--------------|-------------------------|----------------------------|
| 1/2 | Residential | -5.8% |
| 11/12 | General Service | 0.1% |
| 21/22 | Large General Service | 0.2% |
| 25 | Ex. Lg. General Service | 0.00% |
| 31/32 | Pumping Service | 0.2% |
| 41-48 | Street and Area Lights | 0.00% |
| | Overall | -2.5% |

Natural Gas Rate Change

Proposed Schedule 101 Rates (effective Nov. 1, 2018)

| Natural Gas Service | Current Billing Rate | Proposed Increase | Proposed Billing Rates |
|-----------------------|----------------------|-------------------|------------------------|
| Basic Charge | \$9.50 | \$0.00 | \$9.50 |
| First 70 therms/month | \$0.63319/ therm | -\$0.08256/ therm | \$0.55063/ therm |
| Over 70 therms/month | \$0.74325/ therm | -\$0.08256/ therm | \$0.66069/ therm |

Proposed Natural Gas Rate Increase by Schedule (effective Nov. 1, 2018)

| Schedule No. | Rate Schedule | % Decrease in Billed Revenue |
|--------------|-----------------------------|------------------------------|
| 101/102 | General Service | -10.0% |
| 111/112 | Large General Service | -6.4% |
| 121/122 | Ex. Lg. General Service | -8.1% |
| 131/132 | Interruptible Sales Service | -5.0% |
| 146 | Transportation Service | 0.0% |
| | Overall | -8.9% |

The Company's requests are proposals, subject to public review and a Commission decision. The Commission has the authority to set final rates that may vary from the utility's request, which may be either higher or lower depending on the results of the investigation. You may contact the UTC to inquire about the Commission process, or to be notified about the scheduled open meetings at which the proposal will be considered. You can contact the Commission to comment on Avista's rate proposals via email at comments@utc.wa.gov, by telephone at 1-888-333-WUTC (9882), via letter at: UTC, 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504-7250, or online at: www.utc.wa.gov. Copies of the applications are available for public review on the Commission website, at the Company offices located at: 1411 E. Mission Ave, Spokane, WA 99202, as well as on our website at www.myavista.com/rates. If you have questions about this filing, you can contact Avista at 1-800-227-9187.