

Profits & Shareholders

What it takes to provide safe, reliable energy

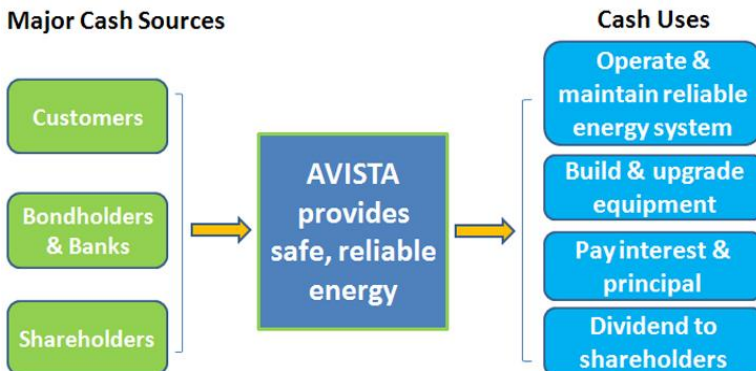
Avista invests millions of dollars in its energy system every year.

Most of this money comes from: money we collect from customers for the energy they use, from shareholders who invest in our company, and from money we borrow from bondholders and banks.

What happens to the cash?

Much of the money is used to purchase power, operate our business and invest in our energy system, so we can continue providing service to our customers and meet the growing demand for energy. We also **pay interest on the money we borrow. The remainder – which is called profit, net income or earnings – is used to pay a return to the shareholders** who invest in Avista.

The bottom line: Cash from customers, bondholders and shareholders allows us to provide safe, reliable energy for our customers.



The role of shareholders



In all companies, owners bear the risks. At Avista, shareholders – or investors as they’re sometimes called – own our company.

As owners, they bear the risks of our company’s financial performance. For the risk they’re taking, shareholders expect a return on their investment. If it’s not adequate, they’ll invest elsewhere.

Profits are the fair return to investors allowed by our state regulators so they’ll continue investing in our company, which provides a source of money needed to run our business.

What happens to earnings?

Earnings are also referred to as profits or net income. Each quarter when Avista is required to report our company earnings, it can make media headlines and raise questions from customers.

Simply put: Revenue minus expenses equals net income.

That means **revenue from customers is used to pay our business expenses,** including operating and resource costs needed to provide service to customers, as well as interest and income taxes. Depreciation costs are another significant expense, which spreads the cost of an asset like a generating facility over many years. **What’s left after all these expenses is net income, or earnings, for shareholders.**

A portion of net income is returned to shareholders through dividends. The remaining portion becomes retained earnings of the company, which allows for reinvestment in our business.

It’s similar to your personal finances

With your own personal budget, you use your income, or salary, to pay your personal expenses such as rent, food, gas and insurance.

The remaining money that’s left after all of these expenses is similar to a company’s “net income.”

Like a company, you can decide what to do with that money: perhaps put some in savings, make an extra mortgage payment to reduce your debt or reinvest it in your house.

Return to investors: an opportunity, not a guarantee

Because Avista is a **regulated utility**, rates are set by the state regulatory commissions. After examining all of Avista's costs and taking public testimony, the commissions set rates they believe are reasonable and fair.

They also give Avista the opportunity – but not a guarantee – to earn a profit.

The amount varies by state, but **generally Avista is allowed to earn a return of about 10 percent on our investments in the energy system. That's what state regulators have determined is fair and reasonable for investors. Over the past five years, the utility has earned less than that – about 8 percent on average.** That's about 8 cents for every dollar invested.

The allowed return on investment reflects the risk that shareholders take by investing their money in Avista. A bondholder loans Avista money and expects interest in return.

A shareholder who invests money in Avista also expects a return.



Investing to serve customers

Being a financially sound utility allows us to:

- Provide safe, reliable energy to our customers
- Offer family-wage jobs for our employees
- Support communities we serve
- Have the opportunity to provide a fair return to our shareholders

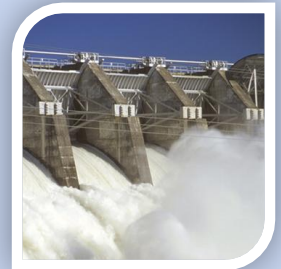
To serve more than 650,000 customers across three states, **Avista invests approximately \$200 million every year to build and upgrade a \$2 billion energy system of pipes, poles, generating facilities and other equipment.**

Noxon Rapids Dam:

Avista will spend approximately **\$45 million over five years to upgrade its generating capacity.**

Palouse Transmission Line Project:

Avista invested **\$135 million to upgrade the major power lines** throughout Eastern Washington and Northern Idaho **to enhance reliability and reduce outage duration for customers.**



Serving the public interest

The state regulatory commissions are charged with making sure the interests of customers and shareholders are treated fairly and equitably in matters of rates and profits. The following quotes are from the commissions' descriptions of their responsibilities.



Oregon Public Utility Commission

"The PUC ensures consumers receive utility service at **fair and reasonable rates**, while allowing regulated companies the opportunity to earn an adequate return on their investment."



Washington Utilities and Transportation Commission

"It is the commission's responsibility to ensure regulated companies provide safe and reliable service to customers at reasonable rates, while **allowing them the opportunity to earn a fair profit.**"



Idaho Public Utilities Commission

"Customers must be ensured of **paying a reasonable rate, and utilities must be allowed to recover their legitimate costs** of serving their customers and earn a fair rate of return."