

September 22, 2006

Public Utility Commission of Oregon  
Administrative Hearings Division  
550 Capitol St NE #215  
PO Box 2148  
Salem OR 97308-2148

Attention: Ms. Janice Fulker, Administrator  
Tariffs and Data Analysis  
Utility Program

UF \_\_\_\_\_

Transmitted herewith are one executed and two conformed copies of an application for approval of an order authorizing security issuance.

The application contains as much information as is presently known. As other applicable data or updated documents become available, they will be forwarded to your attention.

The Company requests to receive an Order of Approval from the Commission by October 31, 2006. When complete, please send the executed copy of the Order of Approval to:

Ms. Diane C. Thoren, Assistant Treasurer  
Avista Corporation  
1411 East Mission Avenue  
Spokane WA 99202-2600

If any questions arise or additional information is needed, please do not hesitate to contact Paul Kimball me at 509-495-4584.

Sincerely,

Diane Thoren  
Assistant Treasurer

Enclosures

**BEFORE THE  
PUBLIC UTILITY COMMISSION OF OREGON**

In the Matter of the Application of )  
AVISTA CORPORATION ) APPLICATION  
for an Order authorizing the issuance and sale of ) UF-  
Securities not to exceed \$150,000,000 )

Avista Corporation (hereinafter called "Applicant") hereby requests the Public Utility Commission of Oregon to enter a written order establishing that the proposed offering, issuance and sale by the Applicant of up to \$150,000,000 of secured or unsecured, fixed or floating rate bonds, notes and other evidences of indebtedness, including, without limitation, assumption of any obligation or liability as guarantor, indorser, surety or otherwise in respect to the securities of any other person, firm, corporation, or affiliate of the Applicant, and any refunding, extension, renewal or replacement of any of the foregoing (the "Securities") in accordance with OAR 860-27-0025 and -0030 and Oregon Revised Statutes ORS 757.415.

1. Required information:

(a) The name and principal business address of the Applicant is Avista Corporation, 1411 East Mission Avenue, Spokane, Washington 99202-2600.

(b) The Applicant was incorporated in Washington Territory (now the State of Washington) on March 15, 1889. The term of incorporation is perpetual. The Applicant is a public utility, which currently owns and operates property in Eastern Washington, Northern Idaho, Western Montana, and Central & Southwestern Oregon.

(c) The name and address of the person authorized on behalf of the Applicant to receive notices and communications with respect to this Application is Ms. Diane C. Thoren, Assistant Treasurer, Avista Corporation, 1411 East Mission Avenue, Spokane, Washington, 99202.

(d) The names and titles of the principal officers of the Applicant, all of whom maintain offices at 1411 East Mission Avenue, Spokane, Washington 99202, are as follows:

Gary G. Ely	Chairman of the Board & Chief Executive Officer
Scott L. Morris	President & Chief Operating Officer
Malyn K. Malquist	Executive Vice President & Chief Financial Officer
Marian M. Durkin	Senior Vice President, General Counsel & Chief Compliance Officer
Karen S. Feltes	Senior Vice President & Corporate Secretary
Christy M. Burmeister-Smith	Vice President & Treasurer
Don F. Kopczyński	Vice President
David J. Meyer	Vice President & Chief Counsel for Regulatory & Governmental Affairs
Kelly O. Norwood	Vice President
Ronald R. Peterson	Vice President
Ann M. Wilson	Vice President & Controller
Roger D. Woodworth	Vice President
Don M. Falkner	Assistant Treasurer
Susan Y. Miner	Assistant Corporate Secretary
Diane C. Thoren	Assistant Treasurer

(e) Applicant is engaged in the generation, transmission, distribution and sale of electric energy, which it sells at retail to approximately 330,000 residential, commercial, and industrial customers in Eastern Washington and Northern Idaho, and at wholesale to public utilities, municipalities and others. Its electric properties are operated as a unified system and are interconnected with adjacent electric utilities. The electric energy sold by the Applicant is generated in power stations, which it owns in whole or in part or obtained, by purchase or exchange from other utilities and governmental agencies.

Applicant is also engaged in the distribution and sale of natural gas to approximately 285,000 residential, commercial and industrial customers in Eastern Washington, Northern Idaho, and Central & Southwestern Oregon.

(f) The Applicant's capital stock as of June 30, 2006 was as follows (Dollars in thousands):

	Outstanding Shares	Amount
<b>Preferred Stock</b> (10,000,000 shares authorized)		
Subject to Mandatory Redemption \$6.950 Series K (\$100 stated value)	280,000	\$28,000
<b>Total Preferred Stock</b>	<u>280,000</u>	<u>\$28,000</u>
<b>Common Stock</b> (200,000,000 shares authorized)		
No Par Value	49,080,250	\$630,380
Capital Stock Expense		(16,955)
<b>Total Common Stock</b>	<u>49,080,250</u>	<u>\$613,425</u>

None of the capital stock is held as reacquired securities, pledged, held by affiliated corporations, or held in any fund, except as noted above.

(g) The Applicant's long-term debt as of June 30, 2006 was as follows:

<u>Description</u>	<u>Authorized (\$000s)</u>	<u>Outstanding (\$000s)</u>
<b>First Mortgage Bonds</b>		
Secured Medium-Term Notes, Series A	\$ 250,000	\$ 72,000
Secured Medium-Term Notes, Series B	250,000	31,000
7 ¾% Series Due 1-1-2007	150,000	150,000
6.125% Series Due 9-1-2013	150,000	45,000
5.45% Series Due 12-1-2019	*	90,000
6.25% Series Due 12-1-2035	150,000	150,000
Series C	250,000	88,850
<b>Pollution Control Bonds</b>		
Series due October 1, 2032	66,700	66,700
Series due March 1, 2034	17,000	17,000
6% Series due 2014	4,100	4,100
<b>Unsecured Medium-Term Notes</b>		
Series A	200,000	3,000
Series B	150,000	17,000
<b>Trust Preferred Notes</b>		
Capital I & II	150,000	113,403
<b>Senior Corporate Notes</b>		
9.75% Due 6-1-2008	<u>400,000</u>	<u>273,960</u>
<b>Total Long Term Debt</b>	<b>\$ <u>2,187,800</u></b>	<b>\$ <u>1,122,013</u></b>

None of the long-term debt is held as reacquired securities, pledged, held by affiliated corporations, or held in any fund, except as noted above.

\*Both the 6.125% and the 5.45% Series were issued under the same \$150 million authority.

(h) Full Description of Securities Proposed to be Issued. The Applicant proposes to offer, issue and sell Securities for purposes authorized by law, in forms necessary or convenient to its operations, in a total amount of up to and including \$150,000,000 and for terms which will exceed 364 days. The Applicant may also enter into letters of credit, insurance or other arrangements with unrelated parties pursuant to which such parties may lend additional credit or liquidity support to the Securities. The purpose of such additional credit or liquidity support would be to enhance the credit rating of the Securities and thereby reduce the interest expense of the Securities. While no specific transactions are presently pending or contemplated under the proposed authority, the Applicant will only enter into transactions where the fees, interest rates and expenses charged or incurred by the Applicant in connection with the transactions, and any refunding, extensions, renewals or replacements thereof, are competitive with then-existing market prices for similar transactions.

The issuance of Securities under the requested authority is anticipated before the end of 2006 and is expected to be in the range of \$75-\$150 Million with a term of no less than 7 years and no more than 40 years. The interest rate would not exceed 7.0%. All the foregoing terms depend on and subject to then-existing market prices for similar transactions.

Below are the proposed spreads

Table 1  
Taxable Debt Spreads over US Treasury  
Fixed-Rate Spreads

<u>Greater Than or Equal To</u>	<u>Less Than</u>	<u>Maximum Spread Over Benchmark Treasury Yield</u>
9 months	2 years	+ 170 basis points
2 years	3 years	+ 180 basis points
3 years	4 years	+ 190 basis points
4 years	6 years	+ 200 basis points
6 years	9 years	+ 205 basis points
9 years	10 years	+ 215 basis points
10 years	11 years	+ 220 basis points
11 years	15 years	+ 230 basis points
15 years	20 years	+ 240 basis points
20 years or more		+ 265 basis points

Table 2  
Taxable Debt Securities Maximum Spread Over Index  
Floating-Rate Spreads

<u>Term in Years</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
<u>Index</u>							
LIBOR	+150	+175	+185	+190	+195	+200	+210
CP	+160	+185	+195	+200	+205	+210	+215
T-Bills	+185	+210	+225	+230	+235	+240	+250
Fed Funds	+185	+210	+225	+230	+235	+240	+250

(i) Detailed Description of the Proposed Transaction. The terms for the Securities will be determined at the time of issuance, and the underwriters, banks or other agents will be selected at that time. The terms of each Securities issuance and the names of the banks, or agents will be supplied at the time of issuance.

(j) Fees to Persons Other than Attorneys & Accountants. Compensation to any underwriter, bank or agent for their services in connection with the handling of the Securities is not expected to exceed 4.0%.

Estimated Total Fees and Expenses - with total fees not to exceed \$6,000,000

Underwriters	\$4,725,000
Legal counsel fees	\$400,000
Printing	\$100,000
Accounting	\$50,000
Trustee fees	\$50,000
Rating agency fees	\$250,000
Miscellaneous	<u>\$50,000</u>
Total:	<u>\$5,625,000</u>

(k) Other required applications of filings. Similar applications have been filed with, the Washington Utilities and Transportation Commission and the Idaho Public Utilities Commission, in whose jurisdictions the Applicant also operates. The appropriate forms or other appropriate filing will be filed with the Securities and Exchange Commission depending on the nature of the issuance of the Securities.

(l) Purposes for which the securities are to be issued. The Applicant may use the funds from the offer, issuance and sale of the Securities for any or all of the following purposes: (1) the Applicant's construction, facility improvement, and maintenance programs, (2) to retire or exchange one or more outstanding stock, bond, or note issuances, (3) to reimburse the treasury for funds previously expended, and (4) for such other purposes, as may be permitted by law. To the extent that the Applicant's treasury is refunded, the original expenditures, or their precedents, were made for purposes described by ORS 757.415(1)(a), (b), or (e). To the extent that the obligations are discharged or refunded, those obligations or their precedents were used for purposes described by ORS 757.415(1)(a), (b), or (e).

(m) Reasons and Benefits. The issuance of the requested authority allows the Applicant the greater flexibility to manage its funds and reduce borrowing costs. As the facts set forth in this application demonstrate, the proposed authority would allow the Applicant to better manage its debt and capital in a more efficient and cost effective manner. Accordingly, Applicant believes the requested authority is consistent with the public interest and necessary or appropriate for or consistent with the proper performance by the Applicant of service as a public utility.

(n) Amounts proposed to be acquired. The Applicant anticipates using the proceeds from the issuance of the Securities to refinance debt maturities and to repay funds borrowed under its corporate credit facility. The Applicant has \$170 million of debt maturities in the next 5 months beginning in December 2006 that must be refinanced including \$150 million that matures January 1, 2007.

(o) Not Applicable

2. Submitted herewith are the following exhibits as required:

Exhibit A	The Applicant's Articles of Incorporation
Exhibit B	The Applicant's Bylaws
Exhibit C	A copy of the resolution adopted by the Applicant's Board.
Exhibit D	The Applicant's Mortgage
Exhibit E	A balance sheet as of June 30, 2006
Exhibit F	A statement of contingent liabilities as of June 30, 2006
Exhibit G	An income statement for the 6 months ended June 30, 2006
Exhibit H	An analysis of retained earnings for the 12 months ended June 30, 2006
Exhibit I	Drafts of transactional documents will be supplied when available.
Exhibit J	Proposed journal entry.
Exhibit K	Not applicable

WHEREFORE, the Applicant respectfully requests the Public Utility Commission of Oregon to enter a written order authorizing the proposed offering, issuance and sale by the Applicant of up to \$150,000,000 of certain secured or unsecured bonds, notes and other evidences of indebtedness, including, without limitation, assumption of any obligation or liability as guarantor, indorser, surety or otherwise in respect to the securities of any other person, firm, corporation, or affiliate of the Applicant, and any refunding, extension, renewal or replacement of any of the foregoing (the "Securities").

AVISTA CORPORATION

By \_\_\_\_\_  
Diane C. Thoren, Assistant Treasurer

Dated: September 22, 2006

STATE OF WASHINGTON            )  
County of Spokane                )

I, Diane C. Thoren, being duly sworn, depose and say that I am the Assistant Treasurer of Avista Corporation, the Applicant in the foregoing Application; that I have read said Application, including all Exhibits thereto, and know the contents thereof; and that the same are true to the best of my knowledge and belief.

\_\_\_\_\_  
Diane C. Thoren, Assistant Treasurer

SUBSCRIBED AND SWORN to before me this  
22nd Day of September, 2006

\_\_\_\_\_  
Notary Public for Washington

My Commission Expires: \_\_\_\_\_

ENTERED

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

UF \_\_\_\_\_

In the Matter of the Application of	)	
AVISTA CORPORATION	)	APPLICATION
for an Order authorizing the issuance and sale of	)	UF-
<u>Securities not to exceed \$150,000,000</u>	)	

Avista Corporation (hereinafter called "Applicant") hereby requests the Public Utility Commission of Oregon to enter a written order establishing that the proposed offering, issuance and sale by the Applicant of up to \$150,000,000 of secured or unsecured, fixed or floating rate bonds, notes and other evidences of indebtedness, including, without limitation, assumption of any obligation or liability as guarantor, indorser, surety or otherwise in respect to the securities of any other person, firm, corporation, or affiliate of the Applicant, and any refunding, extension, renewal or replacement of any of the foregoing (the "Securities") in accordance with OAR 860-27-0025 and -0030 and Oregon Revised Statutes ORS 757.415.

At its \_\_\_\_\_, public meeting, the Commission decided to grant the application.

Based on the Application and the Commission's records, the Commission makes the following:

**FINDINGS OF FACT**

The Company provides natural gas service to the public in Oregon.

The Company proposes to issue and sell up to \$150,000,000 of Securities for various corporate purposes.

There is no indication that the proposed offering will impair the Company's ability to provide its public utility service.

**OPINION**

**Jurisdiction**

ORS 757.005 defines a "public utility" as anyone providing heat, light, water or power service to the public in Oregon. The Company is a public utility subject to the Commission's jurisdiction.

**The Offerings**

ORS 757.415(1) provides that:

A public utility may issue [stocks and bonds, notes, and other evidences of indebtedness] for the following purposes and no others....:

- (a) The acquisition of property, or the construction, completion, extension, or improvement of its facilities.
- (b) The improvement or maintenance of its service.
- (c) The discharge or lawful refunding of its obligations.

- (d) The reimbursement of money actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the issue of stocks or bonds, notes or other evidences of indebtedness, or securities of such public utility, for any of the purposes listed in paragraphs (a) to (c) of this subsection except the maintenance of service and replacements, in cases where the applicant has kept its accounts and vouchers for such expenditures in such manner as to enable the commission to ascertain the amount of money so expended and the purposes for which such expenditures were made.

When an application involves refunding of obligations, the applicant also must show that the original borrowings were made for a permissible purpose. Avion Water Company, Inc., UF 3903, Order No. 83244; Pacific Power & Light Co., UF 3749, Order No. 81-745 at 5.

ORS 757.415(2) provides that:

[The applicant] shall secure from the commission an order stating:

- (a) The amount of the issue and the purposes to which the proceeds are to be applied; and
- (b) In the opinion of the commission, the [proceeds] reasonably [are] required for the purposes specified in the order and compatible with the public interest, which is necessary or appropriate for or consistent with the proper performance by the applicant of service as a public utility, and will not impair its ability to perform that service; and
- (c) Except as otherwise permitted in the order in the case of [long-term debt], such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The amount of the offering will be not more than \$150,000,000 of Securities. The Applicant will use the funds from the offer for the following purpose: to retire or exchange one or more outstanding stock, bond, or note issuances. To the extent that the obligations are discharged or refunded, those obligations or their precedents were used for purposes described by ORS 757.415(1)(a), (b), or (e).

Utility facilities are long-term assets which should be financed with long-term capital. The proposed expenditures are not reasonably chargeable to operating expenses or income.

The Commission believes that the proposed transactions are reasonably required for the purposes stated. The Company's proposed issuances are compatible with the public interest and consistent with the proper performance of the Company's public utility service. The proposed transactions will not impair the Company's ability to perform that service.

For rate-making purposes, the Commission reserves judgment on the reasonableness of the Company's capital costs and capital structure. In its next rate proceeding, the Company will be required to show that its capital costs and structure are just and reasonable. See ORS 757.210.

#### **CONCLUSIONS OF LAW**

1. The Avista Corporation is a public utility subject to the Commission's jurisdiction.
2. The application meets the requirements of ORS 757.415.
3. The Application should be granted.

#### **ORDER**



**IT IS THEREFORE ORDERED** that:

1. The Application of Avista Corporation for authority to issue and sell up to \$150,000,000 of Securities for various corporate purposes.
2. The proceeds must be used for the purposes set forth in ORS 757.415(1) (a), (b), (c) and (d).
3. Avista Corporation shall file as they become available:
  - (a) The Report of Securities Issued required by OAR 860-27-030(4).
  - (b) Verified copies of any agreement entered into in connection with the issuance of the Securities pursuant to this order not previously filed with the Commission.
  - (c) A verified statement setting forth in reasonable detail the disposition of the proceeds of each offering made pursuant to this order.

Made, entered, and effective \_\_\_\_\_.

**BY THE COMMISSION:**

\_\_\_\_\_  
Roger Hamilton  
Commissioner

\_\_\_\_\_  
Ron Eachus  
Commissioner

\_\_\_\_\_  
Joan Smith  
Commissioner