

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 10, 2020**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ **N/A**

DATE: March 3, 2020

TO: Public Utility Commission

THROUGH: Michael Dougherty, John Crider, and Matt Muldoon **SIGNED**

FROM: Moya Enright

SUBJECT: AVISTA CORPORATION:

(Docket No. UF 4315)

Requests authority to enter into a revolving credit agreement for a term of up to seven years in an amount up to \$500 million.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve Avista Corporation's (Avista, AVA, or Company) application for establishing a revolving credit agreement for a term up to \$500 million for an initial term of five years that may be extended for two additional years, subject to the following ten conditions and reporting requirements. The Company has reviewed and agrees with this memo.

1. Sum of borrowing principal and Letters of Credit (LC) under the Revolving Credit Agreement (Credit Agreement) shall not exceed \$400 million initially, and not more than \$500 million inclusive of all accordion features, at any one time. Aggregate principal of First Mortgage Bonds (FMB) authorized herein may not exceed the aggregate commitment of the Credit Agreement secured.
2. The term of the Credit Agreement will be at least five years, but no more than seven years, including all extensions.
3. Aggregate Administrative Agent and Co-Syndication Agent Banks' one-time arrangement and syndication fees may not exceed 10 basis points (bps) of the amount specified in Condition 1.¹ Also, the administrative agent's (passed through) one-time out of pocket, counsel, and miscellaneous expenses may not exceed an additional \$250,000, and its annual administrative agency fee may not exceed \$50,000 per year. The agent's one-time fee for each one-year extension of the

¹ Aggregate agents' one-time fees may not exceed \$500,000 (\$500,000,000 times 0.10 percent).

credit facility may not exceed 15 basis points (bps) of the amount specified in Condition 1.

4. Each participating bank's one-time upfront fee (not including arrangement and co-syndication agent fees) may not exceed 60 bps of that bank's initial commitment amount, in addition to amounts shown in Condition 3 above.

In addition, LC fronting fees shall not exceed 0.20 percent per annum of the amount of each LC issued and outstanding under the credit facility. LC participation fees will not exceed the amounts shown respectively in Attachment A.

5. Each bank's annual facility fees and costs of variable rate borrowing and fixed rate borrowing will not exceed the amounts and spreads shown respectively in Attachment A.
6. Authority for the up to \$500 million aggregate credit facilities authorized in Docket No. UF 4285 by Commission Order No. 14-083, entered March 17, 2014, (Prior Credit Facility) is terminated upon close and execution of the new Credit Agreement.
7. Under the Credit Agreement, the Company must maintain a consolidated indebtedness to total consolidated capitalization ratio of 65 percent or less.
8. Avista will file a certified copy of the executed Credit Agreement with the Commission within 30 calendar days after close, with a report demonstrating all fees, interest rates (showing spreads over benchmark securities where applicable), and expenses are consistent with contemporaneous competitive market prices for such credit agreements.
9. Proceeds must be used for lawful utility purposes authorized by ORS 757.415. Avista will not use this Credit Agreement to guarantee its activities in Alaska. The Company will maintain an electronic MS Excel spreadsheet, with all cell references and formulas intact capturing quarterly information for each outstanding credit facility. This quarterly information will include: outstanding balances of revolving credit, LCs issued, total interest accrued, and fees paid. Data capture will continue as long as Avista has a credit facility outstanding for any portion of a given calendar year. In lieu of periodic reporting, Avista will provide this data to Staff upon request.
10. The Commission reserves judgment on the reasonableness for ratemaking purposes of the Company's capital costs, capital structure, and commissions and expenses incurred for security issuances. Avista has the burden of proof to demonstrate that the Company's financing activities; capital costs, including embedded expenses; and capital structure are just and reasonable.

DISCUSSION:

Issue

Whether the Commission should approve Avista's request to refresh a revolving line of credit agreement for a term of up to five years, with the option to extend for two additional one year periods, in an amount up to \$500 million, with an initial facility commitment in the amount of \$400 million, such new credit agreement to be secured with first mortgage bonds (FMB) or other appropriate guarantee(s).

Applicable Law

Applicable to this proceeding are ORS 757.410 and 757.415, OAR 860-027-0030, and OAR 860-027-043.

Under ORS 757.415(1), a public utility may issue stocks and bonds, notes and other evidences of indebtedness, certificates of beneficial interests in a trust and securities for the following purposes:

- (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 . . .
- (e) The compliance with terms and conditions of options granted to its employees to purchase its stock, if the commission first finds that such terms and conditions are reasonable and in the public interest.
- (f) The finance or refinance of bondable conservation investment as described in ORS 757.455”

However, an order of the Commission is required before a public utility may issue stocks and long-term bonds (of duration more than one year), notes or other evidences of indebtedness, and any security. ORS 757.410. The Commission may grant permission for the amount requested by the public utility, for a lesser amount, or for none at all. Further, the Commission may include in its order such conditions to approval that it deems reasonable and necessary. ORS 757.430.

Application requirements and a list of exhibits that must be attached to the public utility's application are set forth in OAR 860-027-0030.

Background

On February 26, 2020, Avista filed an application requesting authorization to enter into a new or refreshed Credit Agreement having a term of up to seven years total in an aggregate amount up to \$500 million. The Company expects to close the new credit agreement by the end of calendar year 2020. Approval of this application will permit Avista to amend, amend and restate, or replace its current \$400 million credit facility which will expire in April 2021.

At close, the Company will have \$400 million in total aggregate credit with an accordion feature option allowing enlargement to \$500 million. Similarly, Avista can extend the initial five-year term by up to two years for an aggregate term of no more than seven years. Avista's Prior Credit Facility would similarly permit the Company to borrow up to \$500 million. However, the requested authorization allows the Company to lock in historically low fees associated with credit agreements and reduce future refinance risk.

Subject to the recommended conditions as provided herein, the proposed issuance satisfies the Commission's and the statutory criteria.

<u>Docket No.</u>	<u>Initial \$ Amount</u>	<u>Maximum \$ Amount</u>
UF 4285 ²	\$400 million (Current)	\$500 million
<u>UF 4315</u>	<u>\$400 million (Proposed)</u>	<u>\$500 million</u>
	\$400 million (At Close)	\$500 million

Other Securities Covered by This Application:

Avista may choose either fixed or floating borrowing rates. The Company may prepay Adjustable Base Rate (ABR) loans in a minimum amount of \$1 million without premium or penalty at any time, and may prepay Eurodollar loans in a minimum amount of \$1 million without premium or penalty at the end of an interest period.

Letters of Credit:

Letters of Credit may be issued in an aggregate amount up to \$400 million outstanding at any one time, and \$500 million in the aggregate if the credit facility is subsequently increased by \$100 million.

² Commission Order No. 14-083, entered March 17, 2014, in Docket No. UF 4285, authorized the Company's current outstanding \$400 million credit agreement with a \$100 million optional increase.

Securing the Credit Agreement:

Avista may issue and deliver non-transferable First Mortgage Bonds (FMB) to the Administrative Agent to secure the Credit Agreement. Any issued FMBs will mature on the expiration date of the Credit Facility. Maximum aggregate principal amount of the FMBs will not exceed the amount of the commitment under the Credit Agreement.

Extensions Authorized Beyond an Initial Five Year Term:

The Credit Facility will have an initial term of five (5) years, with an option to extend the term up to two years if the Applicant and participating banks agree. Costs for extending the Credit Facility beyond the initial five year term must comply with Conditions 3 and 4.

Credit Ratings:

Avista's Current Credit Ratings	S & P ³	Moody's
Senior Secured Debt Ratings	A-	A3

The Credit Agreement will not require a rating, but its costs are directly driven by the Company's credit ratings. Avista's debt ratings from Moody's and Standard and Poor's affect both the credit facility fee and borrowing spreads, each of which is capped for the applicable credit rating. While the company's credit ratings have slipped one notch from when last Avista came before the Commission for this purpose, Avista has controlled costs appropriately and taken advantage of market conditions to the benefit of ratepayers.

Diversity of Participating Banks:

The Company will maintain just one credit facility. Avista represents in reviewing this memo that the Company will preserve both geographic and institutional diversity in bank participants in the Credit Agreement. The Company's representation satisfies Staff concerns in this regard.

Caution: Before filing for bankruptcy in 2008, Lehman Brothers Holdings, Inc. (Lehman) was the fourth-largest investment bank in the US. Lehman offered reduced fees for increased proportion of a client's business, inclusive of credit facilities. However, in Lehman's bankruptcy, concentration reduced alternatives for former clients.

Use of Proceeds:

Avista may issue notes to banks participating in the Credit Agreement for amounts equal to the individual bank's commitment level. The Company may also use the Credit Agreement for any utility purpose authorized by ORS 757.415, e.g. the low cost credit and liquidity enhancement of:

³ S&P refers to Standard & Poor's Rating Service, a division of The McGraw-Hill Companies, Inc., while Moody's refers to Moody's Investors Service, Inc.

- The acquisition of property, or the Company's construction, completion; extension or improvement of its facilities;
- The improvement or maintenance of its service;
- The discharge or lawful refunding of its obligations;
- The reimbursement of money actually expended consistent with 757.415(d); and
- For such other purposes, as permitted by law.

Expenses:

Avista represents in its Application that fees and expenses incurred will be market based costs typical for this type of facility. The Company is not required to subject the Credit Agreement or related LCs to competitive bidding. However, Avista must still demonstrate in reporting and in subsequent general rate cases that fees and expenses incurred reflect competitive contemporaneous market conditions.

Review Summary:

Approval of the Avista's application will do no harm to ratepayers, investors, or the Company. Staff's review of Avista's Application finds the terms reasonable and more beneficial to ratepayers than the current credit facility. The Company represents that funds obtained under this replacement Credit Agreement will be used solely for ongoing lawful utility purposes. Avista will not use the Credit Agreement to guarantee its activities in Alaska. The Company agrees, after review of this Staff Report, that the proposed conditions will allow Avista all necessary flexibility to negotiate favorable market fees and margins.

Sizing of the Credit Agreement is consistent with the Company's prior similar revolving credit facilities and with the Company's demonstrated financing needs.

The Company may take either or both of the following actions without returning to the Commission for further authorization: First, Avista may arrange for an accordion feature⁴ that will enlarge the proposed credit facility up to \$500 million. The Company may also extend the term of the refreshed credit facility by two years for up to a total term of seven years, if it is cost effective to do so. This flexibility is usual and customary.

Staff has considered the use of data provided in Avista's prior credit facility compliance reports. Conditions herein require that Avista continue to capture and maintain the same level of quarterly detail as in the past. However, the Company need only submit this data

⁴ An accordion feature is an optional feature of a credit agreement the Company can purchase giving it the right, but not the obligation, to increase the size of its credit facility. This feature can benefit ratepayers by allowing the Company to more quickly take positive net present value financing actions than would be the case in the absence of such a feature.

to Staff upon request. This approach minimizes the burden of frequent confidential financial reporting, without materially impairing compliance.

PROPOSED COMMISSION MOTION:

Approve Avista's revolving credit agreement for a term of up to seven years in an amount of up to \$500 million, subject to Staff's 10 recommended conditions.

Expedited handling requested:

Avista requests a certified copy of the Commission order be sent to Jason Lang, Assistant Treasurer so as to be in hand at Avista's headquarters on or before March 26, 2020. The Company understands that there is an applicable \$10 fee therefore.

Attachment A

Shading indicates the current applicable spread.

Annual Facility Fees: A bank's annual facility fee may not exceed the following bps of average commitment amounts based on Standard and Poor's (S&P) and Moody's (M) applicable rating⁵ in effect in the relevant period:⁶

S&P	M	S&P	M	S&P	M	S&P	M	S&P	M	S&P	M
A+	A1	A	A2	A-	A3	BBB+	Baa1	BBB	Baa2	BBB-	Baa3
◀ 7.5 bps		10.0 bps		12.5 bps		17.5 bps		20.0 bps		25.0 bps ▶	

◀ Also applies for higher credit ratings

▶ Also applies for lower credit ratings

Variable Rate Borrowing: The Adjustable Base Rate (**ABR**), for borrowings of under two weeks, with floating-rate borrowing under the Credit Agreement will not exceed the highest of the following, reset daily:

- Federal Funds Effective Rate plus the base rate margin shown in the table below,
- Prime Rate, or
- The 30-day LIBOR Rate (or replacement interest rate benchmark) plus 1.00 percent.

Plus the spread applicable to the company's prevailing S&P and Moody's rating in effect:

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⁵ When S&P and Moody's credit ratings differ by 1 notch, the factor for the higher rating will apply. If the difference is greater than one notch, the factor for one notch less than the higher rating will apply.

⁶ Caution: While interest and fees hereunder are generally computed on the basis of a year of 360 days, annual commitment charges and ABR rates are computed on the basis of a year of 365 days (or 366 days for a leap year). Thus the applicable annual facility fee is determined as follows: Fee = Annual Average Commitment Amount X Current Credit Spread X 365 / 360 (for non-leap year)

Attachment A (Continued)

Shading indicates the current applicable spread.

S&P	M	S&P	M	S&P	M	S&P	M	S&P	M	S&P	M
A+	A1	A	A2	A-	A3	BBB+	Baa1	BBB	Baa2	BBB-	Baa3
◀ 0.0 bps		0.0 bps		0.0 bps		0.0 bps		5 bps		25 bps ▶	

◀ Also applies for higher credit ratings

▶ Also applies for lower credit ratings

Fixed rate Borrowing: The rate associated with fixed-rate borrowing with a term of at least two week under the Credit Agreement will not exceed the applicable 1-, 2-, 3-, or 6-month maturity LIBOR Rate (or replacement interest rate benchmark) plus the following Eurodollar Margin based on S&P or Moody's applicable rating, as in effect on the day of borrowing.

S&P	M	S&P	M	S&P	M	S&P	M	S&P	M	S&P	M
A+	A1	A	A2	A-	A3	BBB+	Baa1	BBB	Baa2	BBB-	Baa3
◀ 67.5 bps		77.5 bps		87.5 bps		95.0 bps		105.0 bps		125.0 bps ▶	
Spreads are Shown as All-In Drawn (Including Facility and Utilization Fees) Below											
◀ 75.0 bps		87.5 bps		100.0 bps		112.5 bps		125.0 bps		150.0 bps ▶	

◀ Also applies for higher credit ratings

▶ Also applies for lower credit ratings

Letter of Credit Participation Fee: The rate associated with letters of credit issued under the Credit Agreement will not exceed the following based on S&P or Moody's applicable rating, as in effect.

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Attachment A (Concluded)

Shading indicates the current applicable spread.

S&P	M	S&P	M	S&P	M	S&P	M	S&P	M	S&P	M
A+	A1	A	A2	A-	A3	BBB+	Baa1	BBB	Baa2	BBB-	Baa3
◀ 67.5 bps		77.5 bps		87.5 bps		95.0 bps		105.0 bps		125.0 bps ▶	

◀ Also applies for higher credit ratings

▶ Also applies for lower credit ratings