

ORDER NO. 04-638

ENTERED OCT 27 2004

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4209

In the Matter of)	
)	
AVISTA UTILITIES)	ORDER
)	
Application for approval of sale of up to)	
and including 1,000,000 additional shares)	
of Common Stock under its Investment)	
Employee Stock Ownership Plan.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On September 28, 2004, Avista Utilities (Avista) submitted an application to the Public Utility Commission of Oregon (Commission), requesting authority to issue and sell up to and including 1,000,000 additional shares of common stock under the terms of the Investment Employee Stock Ownership Plan. The shares will be sold to Vanguard Fiduciary Trust Company, as trustee under Avista's 401(K) plan. The basis for the current request is detailed in Staff's Report, attached as Appendix A.

Based on a review of the application and the Commission's records, the Commission finds that this application satisfies applicable statutes and administrative rules. At its public meeting on October 19, 2004, the Commission adopted Staff's recommendation and approved Avista's current request.

ORDER

IT IS ORDERED THAT the application of Avista Utilities for authorization to issue and sell up to and including 1,000,000 additional shares of common stock is approved, subject to the conditions specified in Appendix A.

Made, entered and effective _____.

BY THE COMMISSION:

Becky Beier
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

ITEM NO. CA7

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 19, 2004**

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

DATE: October 8, 2004

TO: Lee Sparling through Marc Hellman and Bryan Conway

FROM: Ming Peng

SUBJECT: AVISTA UTILITIES: (Docket No. UF 4209) Application for Authority to Issue and Sell Up To 1,000,000 additional share of Common Stock.

STAFF RECOMMENDATION:

The Commission should approve Avista Corporation's (Avista or Company) application to issue and sell not more than 1,000,000 additional shares of common stock, under its Investment Employee Stock Ownership Plan, subject to the following conditions and reporting requirements:

1. The Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after any issuance.
2. The Commission reserves judgment on the reasonableness for ratemaking purposes of the Company's capital costs, capital structure and the commissions and expenses incurred for security issuances. In its next rate proceeding, the Company will be required to show that its capital costs, including embedded expenses, and capital structure are just and reasonable.

DISCUSSION:

On September 30, 1991, the Company filed an application pursuant to Oregon Revised Statutes (ORS) 757.415, and Oregon Administrative Rule (OAR) 860-27-030 for authority to issue and sell up to and including 424,153 shares of Common Stock, no par value, under its Investment and Employees Stock Ownership Plan (ESOP). The Commission approved stock sale under the plan in Order No. 91-1347 on October 15, 1991.

APPENDIX A
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On October 10, 1994, the Company filed a request, under ORS 757.415 and OAR 860-27-030, to issue and sell up to 1,000,000 additional shares of common stock under the terms of its ESOP. At its October 25, 1994, public meeting, the Commission reviewed the staff report and approved the application (Order No. 94-1598). Staff also recommended that the authority granted in that docket would expire 10 years from the date of the Order, effectively ending the authority by October 25, 2004.

On September 28, 2004, Avista filed an application to extend the authority to issue and sell up to and including 1,000,000 additional shares of common stock under the terms of its Investment Employee Stock Ownership Plan (ESOP).

The common stock, with no face value, will be sold to Vanguard Fiduciary Trust Company, as Trustee under the Company's 401(k) Plan, for allocation to the accounts of eligible employees of the Company and its eligible affiliates. These shares will be used to fulfill the requirements related to employee contributions, and the portion of the employer contributions not funded by the Company's leveraged ESOP and reinvested dividends on such shares.

The actual price for the common stock will be determined by the closing sales price of the stock quoted on the New York stock exchange for the trading day immediately preceding the date on which the match is made. For example, today, the common stock would be sold at a price of about \$18.00 per share. Therefore, the Company estimates the gross proceeds from the sale would be at \$18 million, assuming current pricing. The shares are expected to be sold over a period of years.

Capital Structure

Avista requests authority to issue up to an additional 1,000,000 shares of its common stock in connection with its ESOP. On September 30, 2004, Avista had 280,492 shares that were unissued from the 1994 Order (No. 94-1598) that is expiring and for which the current application is seeking renewal.

Avista had 48,439,664 common shares outstanding at the end of September. The additional shares requested in this application represent an approximate 2% increase in outstanding shares and an approximate 1% increase in common equity based on September 30, 2004 data.

Expenses

Avista projects gross proceeds of about \$18 million with no additional incremental cost anticipated. The application will extend the existing authority and all of the costs to establish that authority were incurred in 1994.

Use of Proceeds

Avista represents that it may use the proceeds from the offer, issuance and sale of the common stock for any or all of the following purposes: (1) Company's construction, facility improvement, and maintenance programs, (2) retire or exchange one or more outstanding stock, bond, or note issuances, (3) reimburse the treasury for funds previously expended, and (4) for such other purposes as may be permitted by law. To the extent that Company's treasury is refunded, the original expenditures, or their precedents, were made for purposes described by ORS 757.415.

Based on Staff's review, approval of Avista's application with the proposed conditions appears fair and reasonable.

PROPOSED COMMISSION MOTION:

Avista's application for the authority to issue up to 1,000,000 additional shares of its common stock is approved with Staff's conditions.

UF 4209 – Avista's Application for Authority to Issue and Sell Up To 1,000,000 additional share of Common Stock