

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

UF 4221

In the Matter of	)	
	)	
AVISTA CORPORATION	)	ORDER
	)	
Application for Authority to Issue and Sell	)	
not more than \$100 Million of Securities.	)	

**DISPOSITION: APPLICATION APPROVED WITH CONDITIONS  
AND REPORTING REQUIREMENTS**

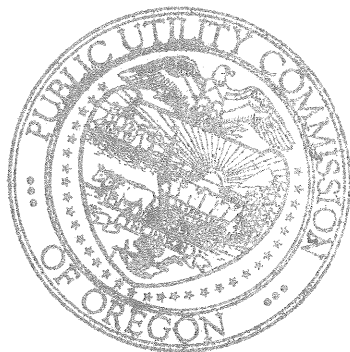
On September 21, 2005, Avista Corporation (Avista) submitted an application to the Public Utility Commission of Oregon (Commission), requesting authority to issue and sell not more than \$100 million of securities. Avista has \$50 million of debt maturities in the 12 months beginning in November 2005 that will be refinanced. Avista represents that the issuance of the requested authority allows Avista greater flexibility to manage its funds and reduce borrowing costs. 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 11, 2005, the Commission adopted Staff's recommendation and approved Avista's current request.

**ORDER**

IT IS ORDERED THAT the application of Avista Corporation for authority to issue and sell not more than \$100 million of debt securities is approved, subject to the conditions specified in Appendix A.

Made, entered and effective OCT 11 2005



BY THE COMMISSION:

*Becky L. Beier*

**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. CA6

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: October 11, 2005

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

DATE: October 3, 2005

TO: Public Utility Commission

FROM: Ming Peng *mp*

THROUGH: *us* Lee Sparling, *MB* Marc Hellman, and *BAC* Bryan Conway

SUBJECT: AVISTA UTILITIES: (Docket No. UF 4221) Application for Authority to Issue and Sell not more than \$100 Million of Securities.

**STAFF RECOMMENDATION:**

The Public Utility Commission of Oregon (Commission) should approve Avista Corporation's (Avista or Company) application to issue and sale not more than \$100 million of securities subject to the following conditions and reporting requirements:

1. Avista shall file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after any issuance. This report shall include the total amount, per unit price, total expenses and net proceeds of the issuance.
2. The Company shall demonstrate that the rate(s) it achieves on new securities is consistent with competitive market rates. The Company shall provide an analysis that indicates the competitiveness of the rates it achieves on any early refinancing, exchange or remarketing, including this issuance, is cost effective.
3. The interest rates and the total expenses for this issuance shall be consistent with those specified in the Company's application and detailed in the Attachment.
4. For ratemaking purposes, the Commission shall reserve judgment on the reasonableness of the Company's capital costs, capital structure and any associated commissions and expenses incurred for security issuances. In its next rate proceeding, the Company will be required to show that its capital costs, including imbedded expenses and structure, are just and reasonable.

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**DISCUSSION:**

On September 21, 2005, Avista filed an application with the Commission, pursuant to Oregon Revised Statutes (ORS) 757.415 and Oregon Administrative Rules (OAR) 860-27-0025 & 860-27-0030 for authority to issue and sell not more than \$100 million of Securities.

The Company proposes to offer, issue and sell Securities for purposes authorized by law, in forms necessary or convenient to its operations, in a total amount no more than \$100 million. The Company has \$50 million of debt maturities in the next 12 months beginning in November 2005 that will be refinanced. In addition, based on the Commission's previous Order, the Company borrowed approximately \$56 million under its corporate credit facility in September 2005 to fund its purchase price obligations upon the termination of the lease for its generating facility located in Rathdrum, Idaho. While no specific transactions are presently pending or contemplated under the proposed authority, the Company will only enter into transactions where the fees, interest rates and expenses charged or incurred by the Company in connection with the transactions, and any refunding, extensions, renewals or replacements thereof, are competitive with then-existing market prices for similar transactions.

Avista represents that the issuance of the requested authority allows the Company the greater flexibility to manage its funds and reduce borrowing costs. The Company represents that the proposed authority would allow the Company to better manage its debt and capital in a more efficient and cost-effective manner.

**Expenses**

Avista expects that the underwriting expenses and other fees for the Securities will not exceed 2.0% (\$2 million). The Company's proposed Debt issuance cost is provided in Attachment Table 1.

**Interest Rate**

The interest rate on the Debt will be determined at the time of issuance. Avista represents that the issuance of debt securities under the requested authority is anticipated before the end of 2005 and could be in the range of \$75-\$100 million with a term of 10-30 years, and the coupon interest rate<sup>1</sup> would not exceed 7.0%, all depending on and subject to then-existing market prices for similar transactions. The Company's proposed Interest Rate Spreads are provided in Attachment Table 2 and Table 3.

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<sup>1</sup> The coupon interest rate includes Treasury rate plus spreads, but excludes issuance cost.

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**Use of Proceeds**

Avista represents that the Company will 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).

Based on Staff's review, approval of Avista's application with the proposed conditions will provide reasonable access to the capital markets. The application appears reasonable, meets the appropriate statutory requirements, and not contrary to the public interest.

**PROPOSED COMMISSION MOTION:**

Avista's application for the authority to issue and sell not more than \$100 million debt Securities be approved with Staff's Conditions.

UF 4202 – Avista's Application to Issue and Sell not more than \$100 Million of Securities

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### Attachment

#### Expenses:

**Table 1. Avista Estimated Fees and Expenses**

Underwriters	\$875,000
Legal counsel fees	\$400,000
Printing	\$100,000
Accounting	\$50,000
Trustee fees	\$50,000
Rating agency fees	\$250,000
Miscellaneous	<u>\$25,000</u>
Total:	<u>\$1,750,000</u>

#### Interest Rate Spreads:

**Table 2. Avista Summary for 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 3. Taxable Debt Securities Maximum Spread Over Index Floating - Rate Spreads**

<u>Term in Years Index</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</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