

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UF 4230

In the Matter of)	
)	
AVISTA CORPORATION)	ORDER
)	
Application for Authorization of the)	
Issuance and Sale of Debt Securities not to)	
exceed \$150,000,000.)	

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

On September 22, 2006, Avista Corporation (Avista or Company), filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.415 and OARs 860-027-0025 and 860-027-0030, for authority to issue and sell not more than \$150 million of Securities. The basis for the current request is detailed in Staff's Report, attached as Appendix A, and incorporated by reference.

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 10, 2006, the Commission adopted Staff's recommendation and approved Avista's current request.

ORDER

IT IS ORDERED that the application of Avista Corporation for the authority to issue and sell not more than \$150 million in debt Securities is approved, subject to the conditions and reporting requirements specified in Appendix A.

Made, entered, and effective OCT 12 2006.



BY THE COMMISSION:

Becky L. Beier

Becky L. 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 by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

Carol

ITEM NO. CA4

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 10, 2006

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: October 4, 2006

TO: Public Utility Commission

FROM: Ming Peng *mp*, *us* *mt* *conway* *mc*

THROUGH: Lee Sparling, Marc Hellman, and Bryan Conway

SUBJECT: AVISTA UTILITIES: (Docket No. UF 4230) Application for Authority to Issue and Sell not more than \$150 Million of Securities.

STAFF RECOMMENDATION:

I recommend that the Public Utility Commission of Oregon (Commission) approve Avista Utilities' (Avista or Company) request to issue and sell not more than \$150 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 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 22, 2006, 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 \$150 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 \$150 million of secured or unsecured, fixed or floating rate bonds, notes and other evidences of indebtedness, with a term of no less than 7 years and no more than 40 years.

Avista 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 Company 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.

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 manage its debt and capital in a more efficient and cost-effective manner. Accordingly, Avista believes the requested authority is consistent with the public interest and necessary or appropriate for, or consistent with, the proper performance by the Company of service as a public utility.

Expenses

Avista expects that the underwriting expenses and other fees for the Securities will not exceed 4.0% (\$6 million). The Company's proposed Debt issuance cost is provided in Attachment Table 1. Avista also represents that the Company will make efforts to ensure the debt is issued in the most cost effective manner.

Interest Rate

Avista represents that 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%, 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 Company's proposed Interest Rate Spreads are provided in Attachment Table 2 and Table 3.

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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 Company'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 Company'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 is not contrary to the public interest.

PROPOSED COMMISSION MOTION:

Avista's application for the authority to issue and sell not more than \$150 million debt Securities be approved with Staff's Conditions.

Attachment

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Attachment

Expenses:

Table 1. Avista Estimated Fees and Expenses

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	\$50,000
Total:	<u>\$5,625,000</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