

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UF 4246

In the Matter of)	
)	
AVISTA CORPORATION, dba AVISTA)	ORDER
UTILITIES)	
)	
Application for authorization of the)	
issuance and sale of up to \$350,000,000 in)	
First Mortgage Bonds.)	

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

On January 25, 2008, 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 up to \$350 million in first mortgage bonds. 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 February 26, 2008, 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 up to \$350 million of first mortgage bonds is approved, subject to the conditions and reporting requirements specified in Appendix A.

Made, entered, and effective FEB 29 2008.

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.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 26, 2008

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A

DATE: February 19, 2008

TO: Public Utility Commission

FROM: Steve Storm *SS*

THROUGH: *LS* Lee Sparling, *MH* Marc Hellman, and *BC* Bryan Conway

SUBJECT: AVISTA CORPORATION: (Docket No. UF 4246) Application for authority to issue and sell up to \$350,000,000 of first mortgage bonds.

STAFF RECOMMENDATION:

The Commission should approve Avista Corporation's (Avista or Company) application subject to the following conditions and reporting requirements:

- 1) The total of securities issued under this authority shall not exceed a total of \$350,000,000 or, if the securities are issued at an original issue discount, such greater amount as shall result in an aggregate offering price of not more than \$350,000,000 (or its equivalent amount inclusive of any securities issued under this authority in foreign currencies).
- 2) Any remaining financing authority granted under Order Nos. 04-246, 05-1081, and 05-1228 is withdrawn.
- 3) The Company shall demonstrate that it achieves a competitive rate on any publicly offered security and on any privately placed security.
- 4) The interest rate(s) shall be consistent with the parameters specified in the Company's application and in Attachment A.
- 5) The Company shall demonstrate the cost-effectiveness of any early refunding of existing securities and that any call provision or required sinking fund placed on new issuances is cost-effective.

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- 6) The Company may not issue debt to affiliates without separate, prior authorization.¹
- 7) The authorization is to remain in effect as long as the Company maintains senior secured debt ratings no lower than BBB-/Baa3 (i.e., "investment-grade") from Standard & Poor's and Moody's Investors' Service, Inc., respectively.
- 8) The Company shall file the customary Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after each issuance and sale. This report is to include, in U.S. Dollars, the total value of the issuance; per unit price(s); total expenses and net proceeds of the issuance; and interest costs and credit ratings. Should any issued securities be designated as medium-term notes, the Company shall file a Pricing Supplement with the Commission providing a description of the terms and conditions of each issuance of the medium-term notes.
- 9) The Commission will reserve judgment on the reasonableness for ratemaking purposes of the Company's capital costs, capital structure, and the commissions and expenses incurred for security issuances. The Company will be required in its next rate proceeding to show that its capital costs, embedded expenses, and capital structure are just and reasonable.

DISCUSSION:

The Commission previously granted authorization to Avista for similar arrangements in Order No. 04-246 in UF 4207 and Order No. 05-1081, as amended by Order No. 05-1228 (in UF 4221 and UF 4221(1), respectively). The Company represents that all of the \$150 million in debt securities authorized in Order No. 05-1081, as amended by Order No. 05-1228, have been issued prior to the date of this application. All securities issued under these two Orders were in the form of first mortgage bonds. The Company further represents that no plans exist to issue debt securities authorized in Order No. 04-246.

On January 25, 2008, Avista Corporation filed an application with the Public Utility Commission of Oregon (Commission), pursuant to Oregon Revised Statute (ORS) 757.415 and Oregon Administrative Rules (OAR) 860-027-0025 and 860-027-0030, for the authority to issue up to \$350 million in first mortgage bonds (FMBs).

¹ For example, this condition would not pertain to affiliated transactions previously authorized in Order No. 07-297.

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The Company requests authority to issue first mortgage bonds, which have been the traditional source of debt capital for U.S. utilities. FMBs have the first mortgage and senior claim on an asset or group of assets. Avista represents that all debt securities issued under this authority will have fixed rates.

The Company also requests authority to issue the FMBs without further Commission approval to the extent its cost to maturity does not exceed the maximum total spreads over U.S. Treasury security yields (See Attachment A, Table 1) or is issued with a cost to maturity not exceeding 7.0 percent per annum. This authority is requested in order to provide additional flexibility in the event spreads widen or the Company decides to sell the FMBs through underwriters.

Use of Proceeds

Avista represents that the purposes for which securities are proposed to be issued are any or all of the following: (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 Company's treasury for funds previously expended; and (4) for such other purposes, as may be permitted by law. To the extent the Company's treasury is refunded, the original expenditures, or their precedents, are represented by the Company to have been made for purposes described by ORS 757.415(1)(a), (b), or (e). To the extent that obligations are discharged or refunded, the Company represents those obligations or their precedents were used for purposes described by ORS 757.415(1)(a), (b), or (e). The Company represents that these purposes are believed to be 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.

These purposes are consistent with statutory requirements and are permitted under ORS 757.415.

Pricing

Avista represents that the pricing of FMBs will not exceed 7.0 percent per annum or, alternatively, will fall within a maximum spread over the applicable U.S. Treasury securities for various maturities as listed in Table 1 of Attachment A.

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Avista Corporation Credit Ratings

The Company represents that its outstanding first mortgage bonds, as of February 4, 2008, are rated Baa2 by Moody's Investors Service and BBB+ by Standard & Poor's Ratings Services.

Fees and Expenses

The first mortgage bonds may be issued as public offerings or on a private placement basis. Avista represents that the Company will only enter into transactions where the fees, interest rates and expenses charged or incurred by the Company are competitive with then-existing market prices for similar transactions. The Company further represents that compensation paid to any underwriter, agent, or bank for their services in connection with the handling of the first mortgage bonds is not expected by the Company to exceed 1.5 percent of the aggregate principal amount of the FMBs.

Technical services fees and expenses associated with security issuance are estimated by Avista to total \$1,450,000.² These fees appear reasonable.

PROPOSED COMMISSION MOTION:

The application of Avista Corporation to issue and sell up to \$350 million of first mortgage bonds be approved with Staff's conditions and reporting requirements.

Attachment

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² Technical services fees and expenses associated with debt issuance may include regulatory agency fees, SEC fees, company counsel fees, accounting fees, printing and engraving fees, rating agency fees, and trustee/indenture fees.

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Attachment A

As provided in the Company's application, the following maximum total spreads over Treasury yields represent alternate limitations from the 7.0 percent per annum cost to maturity limitation.

Interest rate on Bonds:

The interest rate on Bonds will be determined at the time of issuance. The proposed maximum spread over the applicable Treasury security for various maturities is listed below.

Table 1
 Taxable Debt Spreads over U.S. Treasury
 Fixed-Rate Spreads

Greater Than or Equal To	Less Than	Maximum Spread over Benchmark Treasury Yield
9 months	2 years	+ 200 basis points
2 years	3 years	+ 210 basis points
3 years	4 years	+ 220 basis points
4 years	6 years	+ 230 basis points
6 years	9 years	+ 235 basis points
9 years	10 years	+ 240 basis points
10 years	11 years	+ 245 basis points
11 years	15 years	+ 255 basis points
15 years	20 years	+ 260 basis points
20 years or more		+ 265 basis points