

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UF 4253

In the Matter of)	
)	
AVISTA CORPORATION, dba AVISTA)	ORDER
UTILITIES)	
)	
Application for approval of an order)	
authorizing security issuance.)	

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

On October 10, 2008, Avista Corporation (Avista or Company) filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.405, ORS 757.410(1), ORS 757.415) and OAR 860-027-0030, for authority to issue up to \$83,700,000 of debt securities in connection with the refunding or conversion of certain obligations related to the PCBs issued by the City of Forsyth, Montana, the proceeds of which have been loaned to the Company. A description of the filing and its procedural history is contained in the Staff 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 November 25, 2008, the Commission adopted Staff's recommendation and approved PGE's current request, with the conditions and reporting requirements incorporated as Appendix A.

ORDER

IT IS ORDERED that the application of Avista Corporation for authority to issue not more than \$83,700,000 of Debt Securities is approved, subject to the conditions and reporting requirements specified in Appendix A.

Made, entered, and effective DEC 04 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.

ITEM NO. CA8

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 25, 2008

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: November 18, 2008

TO: Public Utility Commission

FROM: Steve Storm *AS*
lin *AS lu*

THROUGH: Lee Sparling and Marc Hellman

SUBJECT: AVISTA CORPORATION: (Docket No. UF 4253) Application for authority to issue not more than \$83,700,000 of Debt Securities to facilitate the refunding or conversion of obligations related to Pollution Control Bonds (PCBs) issued by the City of Forsyth, Montana; and enter into agreements or arrangements to effect the borrowings and to provide credit enhancement for the Debt Securities, including arrangement for a bank Line of Credit and issuance of First Mortgage and Collateral Trust Bonds.

STAFF RECOMMENDATION:

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

- 1) Securities issued under this authority shall not exceed a total of \$83,700,000 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 \$83,700,000 (or its equivalent amount inclusive of any securities issued under this authority in foreign currencies).
- 2) The Company shall demonstrate the cost-effectiveness of any early refunding of existing securities and that any put or call provision or required sinking fund placed on new issuances is cost-effective.
- 3) 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. The Company has the burden of proof to demonstrate that its financing activities; capital costs, including embedded expenses; and capital structure are just and reasonable.

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- 4) Subsequent to a Commission Order pursuant to this application, Avista may issue the debt securities as set forth in the Company's October 10, 2008, filing, without further Commission approval, if the all-in rate¹ does not exceed 7.5% for a five year fixed rate option, if all-in rate does not exceed 8.2% for the fixed to maturity option,² or if the all-in rate of the variable rate option is less than 5.50% inclusive of the cost of a line of credit arrangement. For the purposes of calculating the all-in rate of the variable rate option, the Company is to assume the initial variable rate pertains until the respective maturities of the two PCB series.
- 5) The use of estimated expenses, other than for underwriting spread or commissions and discounts from par to adjust pricing, for the purpose of calculating pre-issuance all-in rates, is allowed if actual values are unavailable.
- 6) The relevant share of expenses to be included for each specific issuance of securities in all-in calculations is the pro rata portion of the estimated total issuance expenses based upon the principal amount of securities in the specific issuance as compared with the \$83,700,000 total issuance authorized.
- 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.

DISCUSSION:

The Commission approved Avista's application to refinance \$83,700,000 in pollution control bonds in UF 4185, Order No. 01-1002, entered on November 29, 2001. Avista filed an application October 10, 2008, pursuant to ORS 757.405, 757.410(1), 757.415, and OAR 860-027-0030, for authority to issue up to \$83,700,000 of debt securities in connection with the refunding or conversion of certain obligations related to the PCBs

¹ The terms "all-in rate" and "all-in cost" as used here include all associated issuance expenses, the coupon rate, and any discount or premium from par value at issuance. The terms refer to the percentage Internal Rate of Return (IRR) when all costs, such as floatation and insurance costs, as well as the actual cash flows of the security, are included. See page 747 of "Futures, Options, and Swaps," Fifth Edition; by Robert W. Kolb and James A. Overdahl; Blackwell Publishing, Ltd; 2007.

² For fixed rate options between five years and the respective PCBs maturities, the all-in rate is to be calculated as a linear combination of the five year fixed rate option's maximum all-in rate of 7.5% and the fixed to maturities option's maximum all-in rate of 8.2%, with the latter option's nominal fixed rate period for the purpose of the calculation(s) to be 23 years ; i.e., maximum all-in rate = 7.5% +(fixed rate period (years) -5) times (8.2% - 7.5%)/18.

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issued by the City of Forsyth, Montana, the proceeds of which have been loaned to the Company.

Avista's representation of the Company's capital stock, as of June 30, 2008, includes two Series of pollution control bonds: the Series due October 1, 2032, with \$66,700,000 authorized and outstanding, and the Series due March 1, 2034, with \$17,000,000 authorized and outstanding. Avista's October 10, 2008, application represents that the term interest rate period for these two Series of pollution control bonds is scheduled to end on December 30, 2008, and that on December 31, 2008, the Company will be required to repurchase and remarket these pollution control bonds. The current bonds are presently insured, and Avista represents in the Company's application that it has been advised that removal of the insurance policy, or replacement of the insurance policy with a credit enhancement arrangement, would require the Company to pay the present value of all remaining bond insurance premiums. Avista therefore believes the course of prudence and following the Company's best interests is to redeem the entire two series of pollution control bonds at the first optional redemption date of December 31, 2008. The Company represents that the redemption price will be 100 percent of par value, or \$83,700,000.

The Company additionally represents that, due to the current instability in the financial markets, the Company may be required to repurchase the two Series of pollution control bonds on December 31, 2008, and complete remarketing in 2009.

Pricing and Expense

The Company's application did not provide specific details as to the form of the issuance, only that the terms are currently being negotiated and that the fees, interest rates and expenses charged or incurred by the Company will be competitive with market prices for similar transactions. The Company's application provided estimates of total fees and expenses as below and affirmed that total fees would not exceed \$1,674,000:

Underwriters fees and commissions	\$835,000
Legal counsel fees	350,000
Title insurance	85,000
Printing	75,000
Accounting	50,000
Trustee fees	35,000
Rating agency fees	200,000
Miscellaneous	<u>44,000</u>
Total:	\$1,674,000

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The estimated maximum of \$1,674,000 in total fees represents approximately two percent of the \$83,700,000. These fees appear reasonable given the size of the proposed issuance.

In an e-mailed communication from Avista on October 16, 2008, the Company provided more information on the potential issuance. The interest rate could be either variable or fixed. The period for which the rate is fixed could be as short as one day and as long as the maturities of the PCBs; i.e., 2032 and 2034.³ The Company provided in this communication a range of interest rates, including a range estimated at 2.00 percent to 5.50 percent annually, including the cost of a supporting line of credit, for the initial interest rate in the variable rate options. Avista provided a range of 5.75 percent to 7.00 percent annually for a five year fixed option and a range of 7.00 percent to 8.00 percent annually for fixed rates to maturity.

The upper end of the fixed rate ranges provided were used by Staff, in conjunction with Avista's estimated \$1,674,000 in total issuance fees to calculate a maximum all-in rate for a five year fixed rate option of 7.5 percent and a maximum all-in rate for a fixed rate to maturity of 8.2 percent.⁴ These all-in rates are "hard cap" rates; i.e., the maximum all-in rates authorized for the fixed rate five year and to maturity options, respectively.

PROPOSED COMMISSION MOTION:

The application of Avista for authority to issue not more than \$83,700,000 of Debt Securities to facilitate the refunding or conversion of obligations related to Pollution Control Bonds issued by the City of Forsyth, Montana; and enter into agreements or arrangements to effect the borrowings and to provide credit enhancement for the Debt Securities, including arrangement for a bank Line of Credit and issuance of First Mortgage and Collateral Trust Bonds be approved with Staff's conditions and reporting requirements.

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³ One PCB series matures October 1, 2032 and the other PCB series matures March 1, 2034.

⁴ Both all-in rates have been rounded to the nearest one-tenth of a percentage point.