BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4253(1)

In the Matter of

AVISTA CORPORATION, dba AVISTA UTILITIES,

ORDER

Request for amendment to Order No. 08-577.

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS AND REPORTING REQUIREMENTS

On December 4, 2008, in Order No. 08-577, the Public Utility Commission of Oregon (Commission) approved Avista Corporation, dba Avista Utilities' application for authority to issue up to a collective \$83,700,000 in two series of Pollution Control Bonds. On September 29, 2010, Avista filed an Amended Application, amending the Company's application initially filed October 10, 2008. 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 October 26, 2010, the Commission adopted Staff's recommendation and approved Avista's current request, with the conditions and reporting requirements incorporated as Appendix A.

ORDER

IT IS ORDERED that Avista Corporation, dba Avista Utilities' request for an amendment to Order No. 08-577 is approved, subject to the conditions and reporting requirements specified in Appendix A.

Made, entered, and effective

OCT 272010



BY THE COMMISSION:

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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. CA6

PUBLIC UTILITY COMMISSION OF OREGON STAFF REPORT PUBLIC MEETING DATE: October 26, 2010

 REGULAR _____ CONSENT _X EFFECTIVE DATE _____ N/A

DATE: October 19, 2010

TO: Public Utility Commission

FROM: Jorge Ordonez JDO

THROUGH: Lee Sparling, Marc Hellman, and Steve Storm

SUBJECT: <u>AVISTA CORPORATION</u>: (Docket No. UF 4253(1)) Requests amendment to Order No. 08-577 in Docket No. UF 4253.

STAFF RECOMMENDATION:

The Commission should approve Avista Corporation's (Avista or Company) request for an amendment to Order No. 08-577 in Docket No. UF 4253 subject to the following conditions and reporting requirements:

- Subsequent to a Commission Order pursuant to this application, Avista may issue the debt securities as set forth in the Company's September 29, 2010 amended application (Amended Application), as long as all the fees and expenses are no greater than those identified in the Company's amended application and in Appendices 1, 2, and 3 of this Staff Report.
- 2) The Company shall file the customary Report of Securities Issued and Disposition of Net Proceeds statements (Report) no later than 60 days after the securities have been issued and funded. This Report shall include: the total value in U.S. Dollars of the issuance(s); total expenses and net proceeds of the issuance(s); an analysis demonstrating that the coupon(s) and expenses were consistent with competitive market prices for such issuances at the time of issue; the rationale and financial analysis supporting the Company's decision to issue any tax-exempt instead of taxable securities associated with this application; the rationale and financial analysis supporting the Company's decision to issue variable- instead of fixed-rate securities or vice versa; and all documentation associated with the issuance(s).

APPENDIX A PAGE ____ OF ___

> All conditions and reporting requirements associated with Order No. 08-577 continue to apply, except where expressly modified by the amended order issued pursuant to this filing request.

DISCUSSION:

On December 4, 2008, in Order No. 08-577 of Docket No. UF 4253, the Commission approved Avista's application for authority to issue up to a collective \$83,700,000 in two series of Pollution Control Bonds (PCBs).¹

On September 29, 2010, Avista filed an Amended Application, amending the Company's application filed with the Commission on October 10, 2008 (Initial Application) and requesting an amendment to Order No. 08-577 in Docket No. UF 4253.

In Avista's Amended Application, the Company represents that on December 30, 2008, the Applicant refunded the \$17,000,000 series of PCBs. This series of PCBs were issued as Variable Rate Demand Notes (VRDNs) including a letter of credit, which provided credit enhancement. Avista also represents that due to the cost of renewing the letter of credit at the end of 2009, the Company found it appropriate to repurchase the \$17,000,000 series.

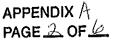
The Company further represents that currently it is the bondholder of both series, which total \$83,700,000, and plans to reissue/refund both series to maintain adequate liquidity. The potential refunding of the \$17,000,000 series repurchased in 2009 is the impetus for this application for an amended Order.

The Company represents that the PCBs to be issued will have either a fixed rate or a variable rate. The Company also represents that the PCBs could be unsecured or secured. If the PCBs are secured, the Company may issue First Mortgage Bonds (FMBs) to secure the PCBs.

Fees and Expenses

The Company has provided estimated fees and expenses in connection with the issuance of the PCBs, which can be found in Attachment 1 for fixed-rate PCBs and in Attachment 2 for VRDN PCBs.

The Company has also provided Staff with the estimated fees and expenses for FMBs the Company may issue in conjunction with any issuance of secured PCBs, as per the following:



¹ The two series of PCBs are the \$17,000,000 series and the \$66,700,000 series.

Type of Expense	Range		
Legal	\$50,000 to \$140,000		
Title Insurance	80,000 to 200,000		
County Filing Fees and Other	10,000 to 70,000		
Total	\$140,000 to \$410,000		

In its Amended Application, Avista represents that, should the Company issue fixed-rate PCBs, the spread between the PCBs coupon and the AAA MMD Municipal Yield^{2,3} for various maturities will not exceed the spreads provided on page four of the Company's application.

In an emailed communication received by Staff on October 06, 2010, the Company provided the all-in spreads over the AAA MMD Municipal Yield for fixed-rate PCBs; Staff has included these all-in spreads in Attachment 3 to this Staff Report.

In its Amended Application, Avista also represents that, should the Company issue VRDN PCBs, the all-in rate will not exceed 8 percent. Staff accepts this hard cap in order to give the Company additional flexibility in issuing VRDN PCBs in case the yield of municipal debt securities increases at the time of issuance. However, in order to provide protections to customers, the Company must demonstrate the rationale of the decision to issue the tax-exempt securities rather than taxable securities at the time of issuance(s) and, if the PCBs are issued, the rationale for issuing VRDN PCBs rather than fixed-rate PCBs or vice versa as Condition 2 of this Staff Report requires.

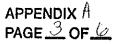
This request appears reasonable.

PROPOSED COMMISSION MOTION:

Avista Corporation's application to amend Order No. 08-577 in Docket No. UF 4253 be approved subject to the conditions contained in Staff's Report dated October 19, 2010.

UF 4253(1) Avista

³ Yields on AAA MMD Municipal indices are benchmark yields on indices of highly-rated general obligation municipal bonds and are, for the tax-exempt market, equivalent to yields on benchmark Treasury bills, notes or bonds in the taxable market. See page 1 of Avista's Amended Application.



² In an emailed communication received by Staff on October 06, 2010, the Company specified that the benchmark index is the AAA MMD Municipal Yield Curve for various maturities.

Attachment 1

Fixed-Rate PCBs Estimated Issuance Fees and Expenses

\$66,700,000 Series Maturing 2032

Type of Expense	Range			
Underwriters	\$500,000 to \$700,000			
Legal	200,000 to 400,000			
Rating Agency	80,000 to 100,000			
Accounting	50,000 to 75,000			
Trustee Fees	10,000 to 15,000			
Printing	20,000 to 30,000			
Miscellaneous	30,000 to 60,000			
Total	\$890,000 to \$1,380,000			

\$17,000,000 Series Maturing 2034

Type of Expense	Range			
Underwriters	\$145,000 to \$300,000			
Legal	50,000 to 75,000			
Rating Agency	70,000 to 85,000			
Accounting	10,000 to 25,000			
Trustee Fees	7,000 to 10,000			
Printing	10,000 to 25,000			
Miscellaneous	5,000 to 20,000			
Total	\$297,000 to \$540,000			

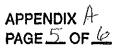
Attachment 2

VRDN PCBs Estimated Issuance Fees and Expenses⁴ \$66,700,000 Series Maturing 2032

Type of Expense	Range			
Underwriting Fee	\$250,000 to \$350,000			
Legal	200,000 to 400,000			
Rating Agency	80,000 to 100,000			
Accounting	50,000 to 75,000			
Trustee Fees	10,000 to 15,000			
Printing	20,000 to 30,000			
Miscellaneous	30,000 to 60,000			
Total	\$640,000 to \$1,030,000			

\$17,000,000 Series Maturing 2034

Type of Expense	Range \$65,000 to \$85,000			
Underwriting Fee				
Legal	50,000 to 75,000			
Rating Agency	70,000 to 85,000			
Accounting	10,000 to 25,000			
Trustee Fees	7,000 to 10,000			
Printing	10,000 to 25,000			
Miscellaneous	5,000 to 20,000			
Total	\$217,000 to \$325,500			



⁴ Direct letter-of-credit fees are estimated to be between 2.00% and 3.00%.

Attachment 3

Fixed-Rate PCBs Maximum Spreads

The coupon rate on the PCBs will be determined at the time of issuance. The proposed maximum spreads and all-in spreads over the applicable AAA MMD Municipal Yield for various maturities are listed below. The Bonds may have a feature that allows redemption prior to maturity at specified prices. The Company calculated the all-in spreads using AAA MMD Municipal Yields as of September 29, 2010.

\$66,700,000 Series Maturing 2032

Greater Than or		Maximum (basis p		Maximum All-in Spread (basis points)	
Equal To	Less Than	Unsecured	Secured	Unsecured	Secured
9 months	2 years	275	225	490	482
2 years	3 years	285	235	394	365
3 years	4 years	290	240	364	328
4 years	6 years	300	250	347	305
6 years	9 years	305	255	337	293
9 years	10 years	310	260	340	295
10 years	11 years	320	270	348	302
11 years	15 years	330	280	352	306
15 years	20 years	340	290	360	313
20 years	25 years	350	300	369	322

\$17,000,000 Series Maturing 2034

Greater Than or		Maximum Spread (basis points)		Maximum All-in Spread (basis points)	
	Less Than	Unsecured	Secured	Unsecured	Secured
9 months	2 years	275	225	608	645 ⁵
2 years	3 years	285	235	454	447
3 years	4 years	290	240	405	384
4 years	6 years	300	250	372	340
6 years	9 years	305	255	355	317
9 years	10 years	310	260	356	317
10 years	11 years	320	270	363	323
11 years	15 years	330	280	365	323
15 years	20 years	340	290	370	327
20 years	25 years	350	300	379	335

⁵ The Company represented that, for a PCB with less than a two year maturity, the maximum secured all-in spread is higher than the maximum unsecured all-in spread due to the cost of issuing FMBs. The FMBs could be issued to secure the PCBs. The cost incurred to issue the FMBs is amortized over the life of the PCB, which in this case is less than two years.

