

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UF 4327

In the Matter of

AVISTA CORPORATION dba AVISTA
UTILITIES,

Application for an Order Authorizing the
Issuance of Debt Securities not to
Cumulatively Exceed \$710,000,000.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on December 28, 2021, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.



BY THE COMMISSION:

A handwritten signature in blue ink, appearing to read "Nolan Moser".

Nolan Moser
Chief Administrative Law Judge

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 28, 2021**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ **Upon Commission Approval**

DATE: December 17, 2021

TO: Public Utility Commission

FROM: Curtis Dlouhy

THROUGH: Bryan Conway, John Crider, and Matt Muldoon **SIGNED**

SUBJECT: AVISTA UTILITIES:
(Docket No. UF 4327)
Requests authority to issue up to \$710,000,000 of debt and enter into credit support arrangements.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Avista Utilities' (Avista, AVA, or Company) application to issue and sell or exchange up to a total of \$710 million of debt securities and enter into credit support arrangements (hereinafter the "Application"), subject to Staff's recommended eight conditions and reporting requirements listed herein (Conditions).

DISCUSSION:

Issue

Whether the Commission should approve Avista's request to issue or sell or exchange up to and not to exceed \$710 million of aggregate debt securities, with and without credit support, including in international financial markets, and cancel that unissued portion of Avista's previously approved outstanding bond issuance authority, including that authorized in Order No. 19-249 in Docket No. UF 4313.¹

¹ Order No. 19-249 in Docket No. UF 4313 of Avista entered July 30, 2019.

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Applicable Law

Under ORS 757.405, a utility must obtain Commission approval prior to issuing stocks and bonds, notes, and other evidence of indebtedness. The Commission may authorize an issuance if it is for one of the permissible purposes listed in ORS 757.415(1), satisfies the criteria of ORS 757.415(2)(b), and, except as permitted, the purpose of the issuance is not reasonably chargeable to operating expenses or income, ORS 757.415(2)(c). Permissible purposes for an issuance under ORS 757.415(1) include the acquisition of property, the construction, completion, extension or improvement of its facilities, the improvement or maintenance of its service, and the discharge or lawful refunding of its obligations.

Finally, OAR 860-027-0030 requires utilities to provide certain information when seeking authority to make an issuance under ORS 757.405-757.415.

Analysis

Avista's Application

Avista seeks authority to issue an additional \$400 million in debt securities in one or more series in addition to the \$310 million that remains from previous authorizations, for a total of \$710 million.² The Company proposes to use the proceeds of the issuance(s) to enhance service and system reliability, replace aging infrastructure, acquire property, construct, complete, extend or improve facilities, replenish the Company's treasury for expenditures against which securities have not been issued, or for the discharge or lawful refunding of obligations that were incurred for utility purposes permitted under ORS 757.415.³

Avista intends that the remaining authorized but unissued amount of \$310 million still be authorized, resulting in a total authorized but unissued amount of \$710 million.⁴ Avista asks that it be authorized to issue first mortgage bonds ("FMBs") and unsecured notes issued under the Company's unsecured indenture ("Unsecured Notes"). The Company notes that it seeks authority to issue both fixed and floating interest rate debt.⁵ The Company does not explicitly ask for a delayed settlement feature in the Application, in which case the fixed interest rate will be determined on the date the Company and the purchaser(s) enter into a binding purchase and sale agreement.

² UF 4327 Application of Avista at Cover and Page 4.

³ UF 4327 Application of Avista at Page 6.

⁴ UF 4327 Application of Avista at Page 4.

⁵ Id.

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The Company proposes a matrix for the maximum interest and coupon rates for issuances under any order approving Avista's Application, but asks for authority to issue Debt Securities so long as the interest rate or coupon does not exceed **8.0** percent per annum.⁶

Staff Analysis and Recommendations

In the following analysis, Staff addresses whether the proposed issuances comply with ORS 757.415(1) and satisfies the Commission's no harm standard, specifically addressing Avista's proposal with respect to: the \$400 million incremental amount and \$710 million aggregate amount; the maturity of future debt issuances; use of Debt Securities including Medium-Term Notes, other FMBs, and Unsecured Notes; fixed and floating rates for Unsecured Notes; interest rate hedges; the maximum spread over U.S. Treasury Yields and alternate **8 percent** hard cap within which Avista is authorized to do issuances; Avista's credit rating; and recovery of fees and commissions associated with the issuances. In making this recommendation, Staff incorporates the Federal Reserve's (FED) response to rising inflation as a result of the post-COVID recovery.

Cancelling Previous Authorizations

Staff has generally recommended that any new authorization of debt cancels all previous authorizations, as can be seen in the conditions approved by the Commission for the recent authorizations for Portland General Electric in UF 4317, PacifiCorp in UF 4318, Northwest Natural in UF 4325, and Cascade Natural Gas in UF 4326. Staff recommends cancelling previous authorizations in this docket as well as can be seen in Condition 2.

Use of Proceeds

Avista had \$1.985 billion of long-term debt outstanding as of September 30, 2021.⁷ Authorization as requested will allow Avista to address capital-spending needs and/or repay or replace maturing debt shown on page 5 of its application.

This \$710 million debt would support usual utility purposes as described above, consistent with statutory requirements.⁸ In general, ratepayers benefit to the extent that the Company can optimize timing and cost of financing cash flows to meet utility needs described above. In addition, the requested authority provides certainty that Avista can meet its trading and contractual obligations and that the Company has adequate resources to require counterparties to meet theirs.

⁶ Id.

⁷ UF 4327 Application of Avista at Page 3.

⁸ The Company's intended uses mirror those authorized in ORS 757.415(1).

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\$710 Million Debt in Aggregate Debt

Staff supplemented the information provided by the Company with its filings with the SEC, Wall Street Journal (WSJ) articles, investor presentations, compiled data, S&P investor resources, Moody's Analytics and Market Risk Projections, Value Line market snapshots, Bloomberg analysis, forward data, and trend curves. Staff also reviewed recent bond issuance spreads and costs by credit rating of issuing energy utilities for each bank that also participated in a Commission authorized securities issuance in the last five years. Staff does not publish that aggregated confidential information herein.

Debt Securities

The Company's FMBs are secured by a lien on substantially all of the Company's property under its Mortgage and Deed of Trust as amended and supplemented by various supplemental indentures since inception and as may be further amended and supplemented ("Mortgage"). The mortgaged property acts as collateral for bondholders, which in current market conditions results in a higher credit rating than the Company's unsecured rating and lower coupon rate at issuance, as compared with otherwise similar unsecured debt. Covenants for some FMBs may require that corporate cash flows be adequate to serve interest obligations before dividends may be paid to shareholders. All of Avista's long-term debt outstanding currently consists of FMBs. That reflects Avista's careful and considered financial management to date.

Authority to issue unsecured debt provides Avista with additional flexibility, but imposes a burden on the Company to establish at a subsequent general rate case that the cost of issuing unsecured debt was prudent and cost effective compared to the cost of issuing FMBs, given market conditions and any restrictions Avista operated under at time of issuance. Unsecured debt backed only by the full faith and credit of the issuing company typically requires higher interest rates than those required by collateral-backed FMBs. As shown in Attachment A, unsecured debt can bear higher cost than secured debt, so utilizing this flexibility merits greater scrutiny. Conversely, issuing FMBs requires both adequate interest coverage cash flows, and an adequate pool of qualified assets. FMBs generally are senior in rights to receive corporate proceeds than unsecured debt.

Authority to issue floating or variable rate debt also provides Avista with additional flexibility. In no case will the secured-rate spread exceed 255 basis points (bps) over benchmark treasury yields. Avista's Exhibit L provides a schedule of debt maturities spreads and the relevant benchmark treasury yield. These spreads are largely consistent with the amounts Staff recommends in Attachment L.

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The FED signaled in September that a rate hike could be warranted as early as next year, but maintained its key borrowing benchmark of 0-0.25 percent.⁹ Under Staff's proposed Condition 6, the Company's choice to issue floating rate Unsecured Notes would have to be explained within 30 days after the close of the transaction, and at the next general rate case, the Company will have to establish that the variable rate debt was prudent and cost effective compared to alternatives the Company examined. Therein Avista will also need to establish that a variable rate was the best match to the nature and longevity of any capital spending on facilities supported by said issuance.

In reviewing debt carrying capacity, Staff considers carefully the covenants and provisions of each utility's indenture. The Company addresses certain covenants and restrictions in the issuance of FMBs. In general, in the event Avista is not able to pass the 'annual interest requirements' test under the Mortgage so as to issue FMBs, Avista could lean on its revolving credit facilities and short-term debt markets. Avista could also look at unsecured debt in reviewing its options.

Because a Commission jurisdictional gas utility may face unexpected contingencies, which temporarily impair cash flows, it may need to issue other Debt Securities. Staff recommends Avista be authorized this flexibility.

This flexibility assures credit rating agencies and investors that Avista will consistently be able to meet its utility obligations to provide reliable, resilient energy at reasonable rates. However, Avista must justify deviation from reliance on FMBs, which under most circumstances offer lowest all-in issuance cost of long-term debt for ratepayers.

Credit Ratings

Avista's Credit Rating is currently rated as:

	S&P	Moody's
Senior Secured Debt	A-	A3
Senior Unsecured Debt	BBB	Baa2
Outlook	Stable	Stable

In general, the interest rate or coupon is higher for unsecured debt because the debt is not backed by any Avista assets and therefore bond-rating agencies set the unsecured ratings below secured ratings. Commission authorization as recommended herein is directly supportive of the prudent maintenance of the above credit ratings. Staff therefore recommends that the Commission view the requested refreshment of authority to issue and sell or exchange FMBs and Debt Securities, at this time, as reasonably necessary for efficient Avista utility operations.

⁹ See "Fed divided on 2022 interest rate hike, signals bond-buying taper coming 'soon'" by Sarah Foster – Bank-rate – Sep. 22, 2021.

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Staff reiterates that it is harder to raise credit ratings than to trigger their fall. Staff will continue to monitor factors and metrics that in conjunction with effective communication from the Company may lead to an upgrade by Moody's and S&P.

Debt issued in the private placement market may also be advantageous versus a public offering, because it may provide flexibility of timing and size, and lower issuance costs. Private placements generally do not require that a particular issue receive a rating by rating agencies, but they can have implied ratings based on the Company's current ratings.

Under Staff's proposed Condition 8, the Company's authorization to issue Debt Securities granted by an order issued pursuant to the Application is terminated if either S&P's or Moody's credit rating for Avista's long-term secured debt falls below Investment Grade.¹⁰

Maturities of no more than 50 years

In its Application, the Company does not explicitly state the maximum debt maturity for which it is seeking authorization. However, Staff recommends authorizing the Company to issue debt with maturity up to 50 years, as is consistent with past Commission finance dockets. Confidential benchmarking by Staff indicates that up to 50-year issuances at reasonable costs may be available to Avista. Such longer maturities may lock in historically low coupon rates while reducing pressure on the Company's debt maturity profile. Staff finds such arrangements can help reduce debt maturity concentration while lowering aggregate cost of long-term debt to ratepayer benefit.

Hedging Authority

To the extent Avista wishes to engage in interest rate hedging arrangements other than delayed settlement in private placement transactions with *de minimis* incremental cost and risk with respect to issuances authorized under this order, Staff recommends that the Commission adopt Staff's Condition 4 requiring the Company to either conduct its own analysis or obtain an independent third-party analysis of any hedging transactions prior to execution of the transactions.¹¹

Credit Support

In the next general rate case filed after the pending Docket UG 433, the Company must show that the all-in issuance cost of debt supported by a letter of credit (LC) or other

¹⁰ Investment grade long-term debt is rated BBB– or better by S&P, or Baa3 or better by Moody's. Staff does not foresee a loss of ratepayer perceived protection or value absent ratings by Fitch.

¹¹ Such hedging transactions could include treasury interest rate locks, treasury interest rate caps, treasury interest rate collars, treasury options, forward starting interest rate swaps, and swap option combinations (swaptions).

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credit support arrangement was cost competitive with other reasonable issuance alternatives available to the Company at the times of arrangement and issuance, including, but not limited to FMBs in private placement with delayed settlement and FMBs in public offering, both absent credit support. Also in the next general rate case after the pending Docket UG 433, Avista must again show that it investigated whether unsecured letters of credit provided adequate support at lower all-in cost than secured letter of credit alternatives. Staff notes that Avista does not ask for any LC or other forms of credit support, but Staff includes this condition in order to be consistent with other recent Commission authorizations.

Recommended Hedging Analysis

Staff believes that a robust hedging analysis should:

- Be informed by, but should not solely rely on, investment bank provided materials;
- Place minimal weight on unverified indicative data and select range of years “snapshot” trend analysis;
- Clearly identify material assumptions and answer the question, “Who wins and who loses and how much, if assumptions and correlations do not hold true?”;
- Capture contemporaneous cost quotes for hedging products, customized to allow the Company to avoid taking on incremental cost and risk in excess of the underlying volatility the Company strives to manage, inclusive of swaps with asymmetric distribution of outcome tails that trade some likelihood of surplus upside potential gain for elimination of downside risk should hedging assumptions and expected correlations not hold true;
- Disaggregate any vanilla swaps and standardized hedging product from Debt Securities issuances, and compare the cost of those products sourced via investment banks against the cost of exchange traded derivatives; and
- Be benchmarked against alternatives inclusive of no hedge and delayed settlements in private placement, addressing outcomes under potential outlier events as well as most likely outcomes.

To the extent Avista obtains third-party quantitative cost and risk analysis, such analysis should be provided by a directly-retained independent third-party expert firm not associated with investment banks and not in the business of finding or acting as hedging counterparties.

The Company has represented to Staff that it will draw upon experience gained from previous hedging transactions to control the cost of like future hedging activity, in part to reduce the costs of customized hedging arrangements, including investment bank fees and legal costs of delayed settlements in private placements.

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Spreads over UST Yields

Staff recommends using a different set of spreads over UST Yields than those requested by Avista in Exhibit L of its Application. Instead, Staff proposes that the Company use the values shown in Attachment B to this memorandum, which are identical to the spreads approved in UF 4318 for PacifiCorp and UF 4325 for Northwest Natural. Although Avista's proposed spreads do not vary much from those included in Attachment B, Staff recommends using its spreads in order to maintain regulatory consistency. Staff's recommended values in Attachment B are based in part on Bloomberg data summarized by the graphs in Attachment D. Limits shown in Attachment B still allow adequate headroom for the Company to issue FMBs based on the most recent spreads according to the US Treasury and Bloomberg.¹²

Further, Staff sees few, if any, recent U.S. utility bond issuances with 15-, 20-, or 25-year maturities. Note the high premium paid in spread over pertinent maturity U.S. Treasuries for a 20-year bond in comparison to that for a 30-year A rate utility bond, as illustrated in Attachment D. When those less utilized maturities are removed from Attachment C, Staff's recommended spread over UST provides adequate headroom for the Company's likely 10-year or less, and 30- to 40-year FMB or Unsecured Note issuances. Staff's review of 50-year maturities shows these can have both issuance and carrying costs comparable to 30-year debt, but allow for greater management flexibility to manage the Company's portfolio of outstanding debt to reduce risk of debt maturity concentration. Authorization inclusive of this longer maturity benefits Avista customers.

Hard Cap Alternative

Staff recommends that the Commission impose Staff's recommended condition that in the event all-in spreads exceed the relevant maximum spread over UST set forth in Attachment A, the Company may still issue FMB or Unsecured Notes without further Commission approval if the all-in rate does not exceed a "hard cap" of **7.0** percent instead of the Company's suggested 8.0 percent, subject to additional reporting requirements outlined in Condition 6.¹³ Although the Company requests an 8.0 percent hard cap, Staff's suggested 7.0 percent all-in rate "hard cap" allows adequate headroom to assure Company access to debt markets, while providing reasonable cost controls to protect ratepayers and is consistent with the hard cap approved in UF 4318 for PacifiCorp and in UF 4325 for Northwest Natural. Staff notes that this level differs from that asked by the Company. The level is based on Staff's news feeds and both Staff

¹² Staff accessed the daily UST Yield curve on October 18, 2021, and examined spreads over utility bonds on October 20, 2021.

¹³ See the definition for "All-in Cost" by browsing to the lower right corner of the Commission's home webpage at: <http://www.puc.state.or.us/Pages/index.aspx>. Then, click the Quick Link: "Standard Data Requests for Energy Rate Cases" and scroll to page 32, "Terms."

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and U.S. Federal Reserve analysis. This level is neither overly permissive nor excessively constricting. It represents analysis that is current, comprehensive, and reflective of best available information at this time.

Provision for New Fees

Additionally, the Company may incur a new prevailing fee(s), not to exceed an aggregate 10 basis points of affected principal. If relying on this provision, Avista's next reporting to the Commission should include materials to demonstrate that this cost was new and market-pervasive at time of issuance. This flexibility addresses the potential for additional fee(s) or charge(s) by investment banks, agents, organizers, or other parties that is not part of itemized bond issuance costs routinely encountered in December 2021 bond markets that are not already enumerated in other parts of this memo.

Underwriter and Agent Fees

Appendix A shows Staff's recommendation regarding the maximum range of allowed agent and underwriting commissions for issuances. Underwriters' commissions represent the maximum commission to be paid by the Company and vary depending on the maturity of the Debt Securities issued (e.g., 0.875 percent is estimated to be the fees for issuances with maturity dates of approximately 30 years). Shorter maturities typically require lower commissions than do longer maturities.

Staff's recommended limits on underwriting commissions are stated in basis points (bps) or percentages of aggregate issuance amounts. Under Staff's recommendations, underwriting commissions will not in any case exceed 0.875 percent of gross proceeds (approximately \$3.5 million in aggregate across the requested authorization).¹⁴ Staff's proposed Underwriter and Agent Fees vary only slightly from those proposed by Avista in its Application and were chosen to be consistent with the underwriter and agent fees approved in UF 4318 for PacifiCorp and in UF 4325 for Northwest Natural.

Other Technical Expenses

After netting-out issuance fees as illustrated in the Table on Page 5 of the Company's application, the Company expects to achieve approximately \$392.78 million in aggregate net proceeds, not including any Original Issue Discount (OID) determined at the time of issuance. Representative aggregate fees and charges in this table are higher than for recent benchmark issuances.¹⁵ The Company may issue multiple separate sets of Debt Securities spread out over time rather than a single set of coordinated issuances within the same quarter. However, Avista stands ready to show

¹⁴ See page 5 of the Company's Application.

¹⁵ Staff captured 2020-2021 debt issuance detail reported by the Wall Street Journal, Bloomberg, and SNL Financial LC, for electric utilities that Value Line covers, including Avista.

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that issuance costs were consistent with component costs for like stand-alone issuances in future audits or general rate cases.

Early Redemption Features

Avista's request for authority does not explicitly include the option to utilize an early redemption feature to provide financial flexibility. However, Staff has granted this authority in the past and believes that this flexibility is reasonable. And, the Company will stand ready to demonstrate how any early redemption executed was cost effective based on prevailing market conditions at the time of any decision to redeem.

Allowing the early redemption feature is reasonable because shorter maturity debt may be more cost effective in the near term until Avista's financial metrics allow for the issuance of additional FMB.

A make-whole redemption feature allows an issuer to call bonds at any time at a cost equal to the future debt service discounted back to the redemption date. Such provisions are usual and generally to ratepayers' benefit. The discount rate for a make-whole provision within a call feature is likely to be a rate that is based on the prevailing treasury yield to current maturity plus 50 basis points. This type of redemption does not typically require the issuer to pay a higher coupon or fee since the bondholder is effectively made whole.

The Company may also choose to implement other redemption features that would allow Avista an option to call Debt Securities in the future at a rate determined at the time of issue. The redemption rate can be set at par or at some premium and is dictated by market conditions at the time of sale. These types of call provisions usually require that the issuer pay a higher coupon or interest rate to compensate the bondholder for the risk that their bonds may be called prior to maturity. Such provisions may also require a breakage fee or indemnification for any loss or costs.

Capital Structure

Avista has historically targeted and Staff has traditionally advocated for a 50/50 Debt/Equity capital structure over time. An order authorizing the Company to issue Debt Securities in the form and quantity requested would refresh Avista's authorization to issue long-term debt consistent with the Company's current utility obligations. Further, it would allow Avista to make strategic changes in capital structure as might be consistent with future finance strategy and regulatory context.

Selection of Agents

Selection of agents, underwriters, and external counsel may include entities associated with the Company's outstanding debt based in part on knowledge of the Company's business, and proven ability to place debt, and to provide cost effective services. The

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Company may select additional service providers for the issuance of the Debt Securities, as it deems appropriate.

Continued Commission Reliance on S&P and Moody's Ratings

Staff recommends the Commission require S&P and Moody's ratings where ratings are appropriate or required rather than alternatives that sound impressive but may substitute fluff for substance or be otherwise less reliable. The dual use of S&P and Moody's is not cheap, but is exceedingly less expensive than omitting early warning indicators for the Commission. In contrast, sticking to S&P and Moody's ratings helps to ensure that the Commission becomes aware of jurisdictional energy utility challenges promptly, allowing for a broader and more cost-effective spectrum of timely remedies. Further, the Commission has relied on S&P and Moody's ratings in all recent finance dockets and Staff finds no reason to change that practice at this time.

Conclusion

Staff review of this application indicates that the Debt Securities issuance and sale with maturities equal to or less than 50 years as requested will do no harm and can be expected to benefit ratepayers. The Company wants the flexibility to engage in other activities that may not be demonstrated to be necessary or cost effective at this time, but that may be cost effective in the future. Avista agrees to Staff Condition 4 that the Company perform its own case-by-case, in-house analysis or retain its own independent third-party experts to ensure that ratepayers bear no unnecessary incremental cost or risk from activities described in Staff Condition 4, other than a delayed settlement of up to one year, as described in Staff Condition 4. In addition, Avista agrees that the Company will include the cost of unwinding swaps, caps or foreign currency positions, as applicable, so as to make decisions based on comparable all-in-costs.

Staff concludes that, subject to Staff's recommended conditions, the proposed issuance facilitates flexibility for executing Commission orders in pending and future rate cases and satisfies the Commission's statutory criteria. Accordingly, Staff recommends that the Commission approve the Application, subject to the following Conditions:

1. Authorization Limit
Total Debt Securities issued, sold, or exchanged under this authority shall not exceed \$710 million and shall have maturities not exceeding 50 years.

Note: If the Debt Securities are issued at an Original Issue Discount (OID) not to exceed one percent, such greater amount shall result in an aggregate offering price of not more than \$710 million.

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2. Withdrawal of Prior Authorization

Order No. 19-249 in Docket No. UF 4313 will expire 60 calendar days after the Commission's order is entered in this docket, and no further securities may be issued under that order.

3. Cost Requirements

Subsequent to an authorizing Commission order pursuant to this Application, the Company may issue Debt Securities without further Commission approval provided that proceeds are used for lawful utility purposes, and provided either:

- A. All-in rate spread(s) over yield(s) on like maturity U.S. Treasury (UST) do not exceed the limits set forth in Attachment A. Interest rates on the Unsecured Notes may be periodically reset based on a fixed spread over 1-, 2-, 3-, or 6-month London Interbank Offering Rates (LIBOR) as reported on Bloomberg, Reuters, or other customary LIBOR sources. In no case for Unsecured Notes will the fixed spread over pertinent LIBOR exceed 1.75 percent. In the event that LIBOR is not reported or is unavailable, the parties may use a rate from another recognized source or a rate agreed to by the parties intended to approximate or replace LIBOR; or
- B. The all-in rate does not exceed a 7.0 percent "hard cap." However, the agreements related to Debt Securities may contain customary or market terms and conditions required by lenders or holders, including without limitation, yield protection, capital adequacy requirements, and tax indemnification, which will not be included in the hard cap.

Both "A" and "B" above incorporate the restriction that all costs of any hedging associated with any issuance under the authority requested must be accomplished within the all-in spreads or rate specified above.

The Company may also incur a new prevailing fee(s) (Unanticipated Fee Allowance), not to exceed an aggregate 10 basis points of affected principal. Such Unanticipated Fee Allowance is in addition to the hard caps described above. The Company should include materials in its next reporting to the Commission demonstrating that this cost was new and market pervasive at issuance.

4. Hedging Limitations

Authorization to enter into Interest Rate Hedging Arrangements and international financing are predicated upon the Company's completion of the Company's own affirmative comprehensive analysis or use of independent third-party analysis. Regardless of any prevailing hedging and accounting policies, and regardless of the presence of associated materials generated by investment banks or hedge

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counterparties, prior to executing any hedging or international finance or financial derivative agreement, other than a delayed settlement arrangement of up to one year under a private placement at *de minimis* incremental cost, the Company will perform its own comprehensive analysis¹⁶ regarding hedging costs, international benefits costs and risks, or will obtain expert advice from an entity not associated with investment banks and not offering hedging contracts. The Company will stand ready to present its hedging and international financing analysis to the Commission upon request and will maintain its analysis as described in the body of this report.

5. Cost Competitive

Agent and underwriting commissions for the issuance of Debt Securities will not exceed the fees as shown in Attachment A, and will not in any case exceed 0.875 percent of gross proceeds. The Company shall demonstrate for all debt issuances and associated activities that the Company achieved all-in rates that contemporaneously were both competitive and cost effective.

6. Timely Reporting

- A. The Company will promptly provide a written summary notice through the PUC filing center and through email directly to PUC Staff named on the service list for this docket of any issuance or execution of a bond purchase and sale agreement with a delayed settlement feature occurring under an Order pursuant to this application. A summary notice need only show series name, maturity, coupon rate, principal, agreement date, and any allocation of proceeds sustainability component.
- B. The Company will also provide the Commission with the customary Report of Securities Issued and Disposition of Net Proceeds statements (Reports) no later than 30 calendar days after any transaction has been closed and funded. Reporting denominated in U.S. dollars will include, but not be limited to: total value of the issuance; total and per unit fees and expenses (including external legal costs); interest costs; credit ratings; and an explanation of the Company's choice and cost of placement. To the extent that fees, expenses, and invoices are not available within the 30-day period, they will be provided to the Commission in final Reports within 120 days after the transaction has been closed and funded.
- C. For each securities issuance under condition 3-B, the Company shall report to the Commission within 30 calendar days after any transaction is closed and funded regarding the prevailing market conditions and if applicable, the causes

¹⁶ See "Recommended Hedging Analysis" on page 8 of this report.

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for all-in spreads exceeding the relevant spreads specified in Attachment B over the UST benchmark yields.

- D. Avista will annually recap provisions of the covenants and restrictions for issuing First Mortgage Bonds and provide Staff with a copy of any form 8-K filed with the SEC reporting that the Company is no longer in compliance with its mortgage covenants to the extent that such filing is made.

7. Termination of Authority

The Company's authorization to issue further Debt Securities granted by an order issued pursuant to this application is terminated if either S&P's or Moody's credit rating for Avista's secured debt falls below Investment Grade.¹⁷

8. Authorization End Date(s)

Provided all conditions and reporting requirements are fulfilled, authorization under an order issued pursuant to this application will remain in effect until superseded or exhausted. Hedging authority ends when securities issuance authority ends.

Debt Securities with or without green features may be issued under this new authority in any proportion and in any combination of differently sized public offerings, which may be issued pursuant to a shelf registration filed with the SEC, or private placements, provided that the combined aggregate total of these offerings does not exceed \$325 million, inclusive of any OID.

The Company has reviewed and agrees with this memo including the Staff proposed conditions and reporting requirements.

PROPOSED COMMISSION MOTION:

Approve the Company's application for authority to issue and sell or exchange an aggregate principal amount not to exceed \$710 million of total debt, and enter into credit support arrangements subject to eight conditions and reporting requirements set forth in the Staff Memorandum.

See Attachments A through D.
AVA UF 4327 \$710 Million Debt and Credit Support Arrangements

¹⁷ Investment grade long-term debt is rated BBB– or better by S&P, or Baa3 or better by Moody's. Staff does not foresee a loss of ratepayer perceived protection or value absent ratings by Fitch.

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Attachment A

Maximum Allowable Agent and Underwriter Commissions for Debt Securities in Normal Market Conditions

<u>Maturity</u>		<u>Maximum Underwriters Commission/Discount in Normal Market Conditions</u>
<u>At Least</u>	<u>But Less Than</u>	<u>Percentage of Aggregate Principal Amount of Medium-Term Notes Sold</u>
<u>Years</u>		
1	1.5	0.150%
1.5	2	0.200%
2	3	0.250%
3	4	0.350%
4	5	0.450%
5	7	0.600%
7	10	0.625%
10	12	0.650%
12	15	0.675%
15	20	0.750%
20	50	0.875%

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Attachment B

Maturity		Maximum Annual	
		All-In Spread	
		Over Benchmark	
		U.S. Treasury (UST) Yields	
Years		Basis Points (bps)	
Over	Not More Than	Secured Debt Securities	Unsecured Debt Securities
1	2	100	125
2	3	125	150
3	5	150	175
5	7	175	200
7	10	200	225
10	20	225	250
20	30	250	275
30	50	275	300

Note: Comparing Bloomberg data¹⁸ for like rated utility bonds, Staff finds that the above limitations provide access to capital with reasonable headroom for likely combinations of issuances in public offerings, and private placement with delayed settlement at no or minimal incremental cost that could be beneficial to ratepayers, over at least the next two years.

¹⁸ Staff referenced Bloomberg FMB and Unsecured USD indexed data on October 21, 2021. One Basis Point (bp) is defined as one-one hundredth of a percentage point. i.e., 100 bps equals one percent.

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Attachment C¹⁹

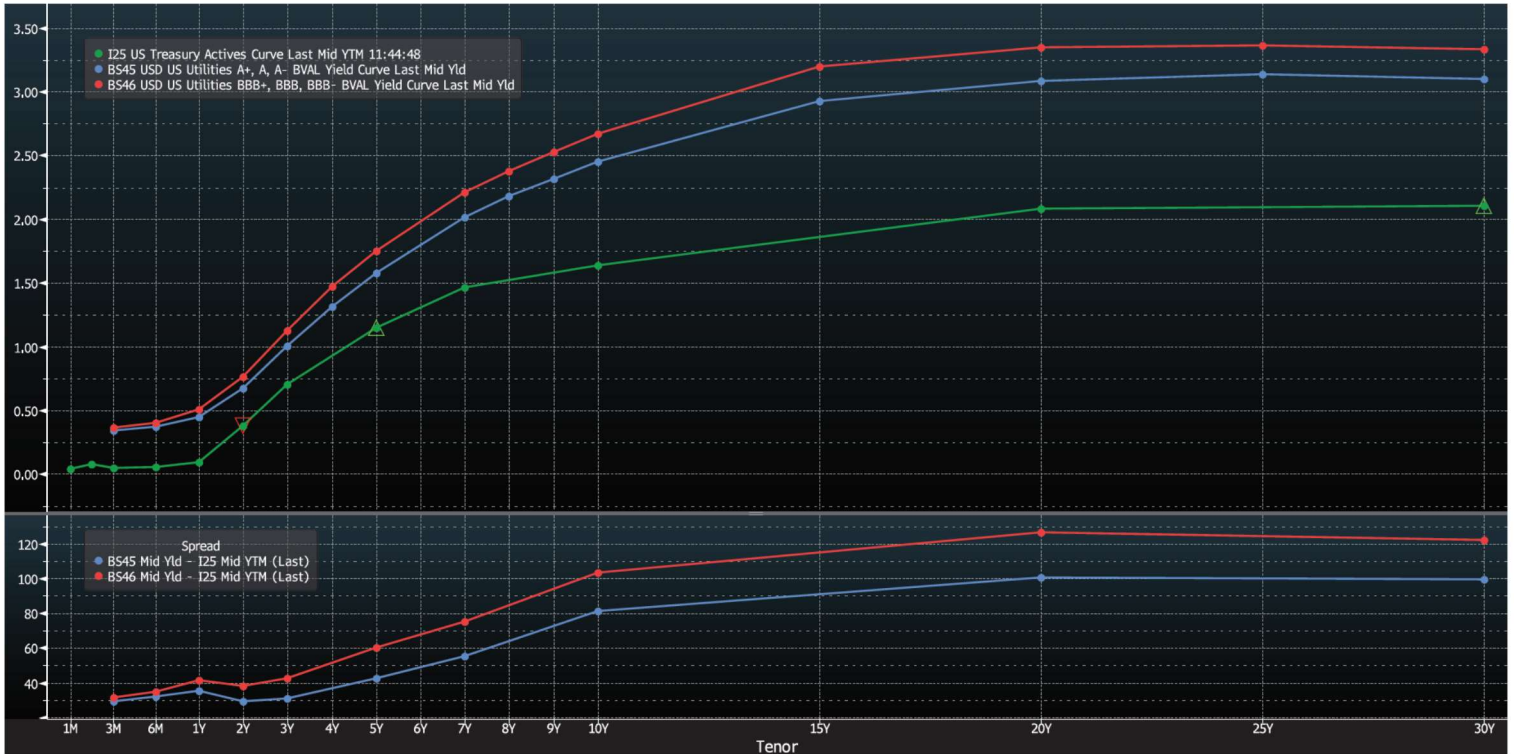
Estimated Net Proceeds ⁽¹⁾			
	Total		Percent of Total
Gross Proceeds	\$400,000,000		100.00%
Less: Agents/Underwriters Compensation	3,500,000		0.875%
Proceeds Payable to Applicant	396,500,000		99.125%
Less: Other Issuance/Technical Services Expenses ⁽²⁾⁽³⁾⁽⁴⁾	3,720,000		0.93%
Net Proceeds	<u>\$392,780,000</u>		<u>98.20%</u>
(1) Assumes the issuance of First Mortgage Bonds.			
(2) Estimated Other Issuance/Technical Services Expenses			
Rating agency fees	\$300,000	to	\$500,000
Legal fees	300,000	to	500,000
Regulatory fees	50,000	to	75,000
Accounting fees	50,000	to	100,000
Printing	50,000	to	75,000
Miscellaneous expenses	80,000	to	120,000
Total	<u>\$830,000</u>	to	<u>\$1,370,000</u>
(3) Estimated First Mortgage Bonds Issuance Fees and Expenses			
Legal	\$75,000	to	\$150,000
Title Insurance	80,000	to	\$240,000
County Filing Fees and Other	30,000	to	\$100,000
Total	<u>\$185,000</u>	to	<u>\$490,000</u>

¹⁹ Based on an assumed average maturity for Medium-Term Notes of 20 years.

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Attachment D

Bloomberg Current Investment Grade Utility Spreads Over UST Bloomberg CRVF Function Plot Accessed by Staff on October 20, 2021



Referent Points of Interest:

10 Year Maturity Range from **A rated 81 bps** to B rated 103 bps,
30 Year Maturity Range from **A rated 99 bps** to B rated 122 bps.