

ORDER NO. 99-621

ENTERED OCT 13 1999

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UF 4153

In the Matter of the Application of Avista)
Corporation to Amend Order No. 98-458.) ORDER

DISPOSITION: ORDER NO. 98-458 AMENDED

On August 21, 1997, Washington Water Power (WWP) (now known as Avista Corporation) filed an application pursuant to ORS 757.415 for authority to sell taxable debt, tax-exempt debt, and to enter into interest rate swaps.

On October 9, 1997, Order No. 97-392 was issued granting the requested authority but with conditions and reporting requirements. Condition 1 was that WWP demonstrate that any security issued is competitively priced and that outstanding debt is cost-effectively refinanced. Condition 2 was that taxable debt securities should be authorized subject to the rate spreads set forth in the original Staff memo from John S. Thornton dated September 29, 1997, regarding this financing.

On September 29, 1998, WWP filed a request to have a temporary adjustment made to the rate spreads condition imposed in Order No. 97-392. WWP requested that 100 basis points be added to each term category in Table 1 from the original September 29, 1997, Staff memo as long as the 30-year U.S. Treasury Bond yield is at 6.5 percent or lower. Staff's recommendation that the 100 basis points be added to each term category of Table 1 of the original Staff memo when the 30-year Treasury Bond yield is 6 percent or lower was approved at the November 3, 1998, Public Meeting and was memorialized in Order No. 98-458.

On September 22, 1999, Avista Corporation filed an application to amend Order No. 98-458 so that it would have additional flexibility pursuant to its debt issuance authority in this docket.

Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its October 5, 1999, Public Meeting, the Commission adopted Staff's recommendation to approve the application to amend Order No. 98-458. Staff's recommendation is attached as Appendix A and is incorporated by reference.

OPINION

Jurisdiction

ORS 757.005 defines a “public utility” as anyone providing heat, light, water, or power service to the public in Oregon. The Company is a public utility subject to the Commission’s jurisdiction.

The Commission believes that the proposed transaction is reasonably required for the purposes stated, is compatible with the public interest, and is consistent with the proper performance of the Company’s public utility service. The proposed transaction will not impair the Company’s ability to perform that service.

For ratemaking purposes, the Commission reserves judgment on the reasonableness of the Company’s capital costs and capital structure. In its next rate proceeding, the Company will be required to show that its capital costs and structure are just and reasonable. *See* ORS 757.210.

CONCLUSIONS

1. The Company is a public utility subject to the Commission’s jurisdiction.
2. The application should be granted.

ORDER

IT IS ORDERED that the application of Avista Corporation to amend Order No. 98-458 is granted as specified in Appendix A.

Made, entered, and effective _____.

BY THE COMMISSION:

Vikie Bailey-Goggins
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 of 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. A party may appeal this order pursuant to ORS 756.580.

ITEM NO. CA 1

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 5, 1999**

REGULAR AGENDA CONSENT AGENDA X EFFECTIVE DATE

DATE: September 28, 1999

TO: Bill Warren through Marc Hellman

FROM: John S. Thornton

SUBJECT: UF 4153 Avista Corporation's Application to Amend Order No. 98-458

SUMMARY RECOMMENDATION:

I recommend approving the application.

DISCUSSION:

On September 22, 1999, Avista Corporation (Avista) filed an application to grant it additional flexibility pursuant to its debt issuance authority in this docket.

The Commission first granted Avista authority to issue securities in this docket under Order No. 97-392. The company found that it could not issue debt under the spreads and so it filed to have wider spreads put in place as long as thirty-year U.S. Treasuries were yielding less than 6.0 percent. The Commission granted Avista such authority in Order No. 98-458. Thirty-year U.S. Treasuries have been yielding over 6.0 percent recently and Avista finds that it still cannot meet the spreads. Its current application requests that the "temporary" and greater spreads be authorized as long as thirty-year U.S. Treasuries are yielding less than 6.5 percent (as opposed to 6.0 percent). The Commission approved similar spreads for Avista in UF 4166 with the 6.5 percent U.S. Treasury rate ceiling. Avista's request is reasonable.

My one concern is that Avista's utility debt spreads are widening because of negative bond rating effects of Avista's non-regulated subsidiaries.¹ The subject of any disallowance of debt costs would be

¹ *Clearing Up* of August 23, 1999, reported that Duff and Phelps, a credit rating agency, downgraded Avista on risk of unregulated ventures.

Bill Warren
September 28, 1999
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a matter for Avista's next general rate case, however, and through this Public Meeting Staff Report, staff is alerting the company that it intends to review this issue in such a filing.

STAFF RECOMMENDATION:

I recommend the Commission approve Avista's application to amend Order No. 98-458 such that the "temporary" spreads are valid as long as thirty-year U.S. Treasuries are yielding less than 6.5 percent. The proposed temporary spreads are attached.

Table
Temporary Fixed-Rate Spreads over US Treasury Rates
(Valid if 30-Year US Treasury Bond Rates are Below 6.5%)

Greater Than or Equal To	Less Than	Maximum Spread Over Benchmark Treasury Yield ²
9 months	2 years	+ 170 basis points ³
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

² The Benchmark Treasury Yield, with respect to any MTN maturity range, means the yield to maturity of that issue of direct obligations of the United States which, out of all actively traded issues of such obligations with a remaining term to maturity within such MTN maturity range, is generally considered by dealers in such obligation to be the standard for such obligations whether federal, state, or corporate, with approximately the same remaining terms to maturity. With respect to the issuance of any MTN, the Benchmark Treasury Yield shall be determined as of the time the commitment to purchase such MTN is received by the Company and the Agents.

³ Basis point is defined as one-hundredth of a percentage point; i.e., 100 basis points equals 1 percent.