ORDER NO. 01-230

ENTERED MAR 13 2001

This is an electronic copy. Attachments may not appear.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UF 4177

In the Matter of the Application of AVISTA CORPORATION for an Order Authorizing the Issuance, Sale, Delivery, and/or Guarantee of Debt Securities, in one or more series, with an aggregate stated value of not more than $200,000,000.	))))))	ORDER

DISPOSITION: APPLICATION APPROVED WITH REPORTING REQUIREMENTS

On February 16, 2001, Avista Corporation (Avista) filed an application pursuant to Oregon Revised Statutes (ORS) chapter 757. The application requests authority to borrow a term loan, up to three years, with an aggregate stated value of not more than $200,000,000, at competitive market rates, terms, and conditions, to finance the construction of the Coyote Springs 2, LLC (CS2).

The basis for the current request is detailed in Staff's recommendation memo, attached as Appendix A. 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 March 6, 2001, the Commission adopted Staff's recommendation and approved Avista Corporation's current request.

ORDER

IT IS ORDERED THAT the application of Avista Corporation for authorization to issue, sell, deliver, and/or guarantee additional debt securities, in one or more series, with an aggregate stated value of not more than $200,000,000, is granted, subject to the conditions and reporting requirements, 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 party may appeal this order to a court pursuant to ORS 756.580.

ITEM NO. CA1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 6, 2001

REGULAR AGENDA ____ CONSENT AGENDA __X__ EFFECTIVE DATE

DATE: February 26, 2001

TO: Bill Warren through Marc Hellman and Bryan Conway

FROM: Ming Peng

SUBJECT: UF 4177 Avista's Application for Authority to Borrow Not More than $200,000,000

SUMMARY RECOMMENDATION:

I recommend approving the application with reporting requirements.

DISCUSSION:

On February 16, 2001, Avista Corporation filed an application pursuant to Oregon Revised Statute (ORS) chapter 757. The application requests authority to borrow a term loan, up to three years, with an aggregate stated value of not more than $200,000,000 at competitive market rates, terms, and conditions to finance the construction of the Coyote Springs 2, LLC (CS2). CS2 will be a 280 MW electric generation facility.

Through a subsidiary, Avista acquired CS2 from Enron North America Corp., who had acquired the assets of CS2 from Portland General Electric, all in July, 2000. See *In the Matter of PORTLAND GENERAL ELECTRIC COMPANY's Amended Application for Sale of Property at Coyote Springs and an Associated Contract with an Affiliate*, OPUC Order No. 00-389, Docket No. UP 173 (July 19, 2000). Initially, Avista planned to operate CS2 as a merchant plant and sell its power output on the wholesale market through its marketing affiliate. During the initial stages of developing the project as a merchant plant, Avista applied for, and obtained, Exempt Wholesale Generator (EWG) status and power marketer authority from the Federal Energy Regulatory Commission under the Federal Power Act. Since the facility is not yet operational, no sales of power have been made under the EWG and power marketing authorities.

During the late spring and early summer of 2000, Avista's Utilities division reviewed its electric generation resources in view of the volatile wholesale electric markets, and updated its 1997 Integrated

Resource Plan (IRP). Avista submitted its IRP update to the state regulatory commissions in Washington and Idaho soon after it was released on July 12, 2000. Avista determined that its Utilities division needed additional generation resources, and accordingly issued a Request for Proposal (RFP) for Power Supply Resources in August 2000. On December 1, 2000, at the conclusion of the RFP process, Avista determined that the CS2 facility offered the most economic opportunity for generation to meet the anticipated load requirements of its Utilities division. Consequently, Avista decided that the CS2 electric generation facility should be transferred from its affiliate, Avista Power, to Avista and dedicated to serving the electric load requirements of its Utilities division.

Avista will seek to cancel CS2's EWG status and power marketer authorities at FERC as soon as the transfer of CS2 to Avista is approved by the Oregon Energy Facilities Siting Council (now anticipated on February 16, 2001). A copy of such notice of cancellation will be provided to this Commission. (*Attached 3/12/01 as Appendix B*)

Avista states that it will make all necessary affiliated interest filing in accordance with ORS 757.495(1) within 90 days of the execution of the CS2 financing documents. Avista further states that the acquisition of CS2 and its financing will have no impact on Avista's customers in Oregon because Avista's retail utility service in the State of Oregon is limited to the provision of natural gas.

Use of Proceeds

Avista will use the proceeds for the following purposes: the acquisition of utility property or the construction, extension or improvement of utility facilities; the improvement or maintenance of service. The funds will be used to finance the construction of the CS2 electric generation facility. Such uses are permissible uses of proceeds under ORS 757.415 (1).

Interest Rate

Avista desires to obtain a term loan, up to three (3) years with banks of Toronto Dominion (Texas) Inc and BNP Paribas or other qualified commercial banks. The interest rate paid on the debt will be one of two options:

1. The higher of the bank's prime rate or the Fed Funds Rate plus 50 basis points (100 basis points equals 1%); or
2. The London Interbank Offered Rate (LIBOR - a widely used index) plus up to 250 basis points.

Regarding option number two, Avista has informed me that the 250 spread only applies if Avista's long-term debt rating drops to BB or below which, is materially below investment grade. Currently, Avista's rating is "BBB" which is within the investment grade category. For the 250 spread ever to apply, Avista's ratings would have to drop several notches. It appears that the Banks wanted to address the worst-case scenario for Avista's long-term debt ratings.

Within three months of the closing date, these spreads are subject to increase based upon prevailing market conditions in order to syndicate the full amount of the facility. Avista represented that this is necessary because California's financially crippled investor owned utilities made banks nervous about electric utility investment. In this particular situation, Avista believes banks might ask for higher spreads to compensate for increased risk. Avista states that it will choose the best (lowest) rate available at closing appropriate to its current funding needs.

Expense
The Commitment Fee will be between 25 and 75 basis points per annum on the unutilized commitments of the facility, depending upon the long-term debt ratings of Avista. In addition, Avista will pay an up front fee equal to 1% of the aggregate amount of commitments under the facility on the closing date. The interest rate options, fees, and expenses appear reasonable.

Concerns
My three concerns with the application are that (1) Avista's borrowing shall be at competitive market rates, terms, and conditions on the new debt. (2) Although Avista states that this financing will have no impact on Oregon ratepayers, I am concerned that the Company's increased debt might increase the Company's cost of equity. (3) I am also concerned that any early refundings be cost-effective. I recommend reporting requirements below to address my concerns.

STAFF RECOMMENDATION:

I recommend the Commission approve Avista's application subject to the following reporting requirements: Avista should demonstrate that it achieves competitive rates on any of the borrowings associated with this application. Avista should demonstrate that any early refundings are cost-effective. I also recommend that the company be required to file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after each sale.

For rate-making purposes, the Commission reserves judgment on the reasonableness of the Company's capital costs and capital structure. In its next rate proceeding, Avista will be required to show that its capital costs and structure are just and reasonable. In the event, the Commission has before it the issue of Avista's cost of common equity, during the three year term of the debt issuance, Staff reserves the right to adjust such cost of equity, if warranted, if Staff determines the issuance of this debt likely increased Avista's cost of common equity.