

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 4, 2004**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ **N/A** _____

DATE: April 29, 2004

TO: Lee Sparling through Marc Hellman and Bryan Conway

FROM: Ming Peng

SUBJECT: AVISTA CORPORATION: (Docket No. UF 4207) Application for Authority to Issue and Sell Securities.

STAFF RECOMMENDATION:

The Commission should approve Avista Corporation's (Avista or Company) application to issue and sell not more than \$250 million of debt securities and not more than 3,000,000 shares of common stock, subject to the following conditions and reporting requirements:

1. The Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after any issuance. This report shall include any replacement, renewal, or extension of such credit agreements, and that the fees, interest rates, and expenses are consistent with competitive market prices for such agreements.
2. 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. In its next rate proceeding, the Company will be required to show that its capital costs, including embedded expenses, and capital structure are just and reasonable.
3. For any securities issued on or after September 1, 2004, Avista shall provide a report 30 days prior to issuing any such securities. This report will specify the underwriter and other salient details, including call features and pricing terms. If the terms are materially different than the details specified in the application or in other documents provided to Staff, Staff will review the report and evaluate whether an amendment to any Commission Order issued in this docket is warranted. The foregoing reporting requirement shall not apply to any issuance of common stock in respect of debt securities originally issued on or before September 1, 2004, which by their terms are convertible into, or exchangeable for, shares of such common stock.

4. The Company shall provide an analysis that indicates the competitiveness of the rates it achieves and an analysis that indicates the degree to which any early refinancing, exchange or remarketing is cost effective.

DISCUSSION:

On April 15, 2004, Avista filed an application to issue and sell various securities under Oregon Revised Statute (ORS) 757.415, and Oregon Administrative Rules (OAR) 860-27-0030.

Avista proposes to offer, issue and sell the securities for purposes authorized by law, in forms necessary or convenient to its operations. Avista represents that it would only enter into transactions where the fees, interest rates and expenses charged or incurred by Avista in connection with the transactions, and any refunding, extensions, renewals or replacements thereof, are competitive with then-existing market prices for similar transactions. Staff recommends a reporting requirement at least 30 days prior to any transaction that would specify the underwriter and other salient details of the transaction, including call features and pricing terms for securities issued beyond September 1, 2004.

Debt Securities: In the case of debt securities, Avista proposes to issue a total amount of up to, and including, \$250,000,000 of debt securities for terms that may exceed 364 days. Avista represents that debt securities may be issued in one or more series (or tranches within a series), unsecured, long-term or short-term, bearing interest at fixed and/or variable rates, and offered and sold by public offering and/or private placement, all as indicated by market conditions prevailing from time to time. The coupon rate for any debt securities issued under this authority shall not exceed the limits imposed by the Spread Limitations table in page 2 of Attachment 1 (page 6 of this memo).

In addition, the debt securities may be convertible into, or exchangeable for, shares of Avista's authorized and unissued common stock, as indicated by market conditions prevailing from time to time. If such debt securities are convertible into, or exchangeable for, shares of Avista's common stock, such debt securities may have a common stock strike price set at up to 160 percent of the then-existing market price for such common stock, and may have a first put/call feature available after a minimum of five years.

Debt Securities may be issued as part of a program on a continuous or periodic basis. Early redemption or callable provisions will be determined at the time of issuance as indicated by market conditions prevailing at such time.

Common Stock: Avista represents that it may offer, from time to time, up to 3,000,000 shares of its common stock for various corporate purposes, including shares of common stock into or for which any of the foregoing debt securities may be convertible or exchangeable.

Avista represents that since the Securities are expected to be issued and sold from time to time and such issuances and sales are dependent upon factors such as market conditions and investor demand, Avista is not now able to specify the terms for any sale or the names of the underwriters, agents, or other purchasers. Nevertheless, Avista believes that it would be highly desirable to have the flexibility to price each offering whenever conditions are favorable and without the need for further Commission review and approval of the terms for the sale. Conditions 2 and 3 proposed by Staff provide sufficient controls and allow Avista the flexibility they desire.

Expenses

Avista represents that the total amount of debt securities to be issued shall not exceed \$250,000,000 and the total number of shares of common stock to be issued shall not exceed 3,000,000. Underwriting commissions and/or private placement fees to be paid by Avista will not exceed 3.25 percent for any convertible debt issuances and shall not exceed the fees listed in the attached table for straight debt issuances. The total amount of common stock that may be issued shall not exceed 3,000,000 shares. Other costs and fees will not exceed those shown in the Expense Limits tables of Attachment 1.

Use of Proceeds

Avista represents that it may use the funds from the offer, issuance and sale of the Securities for any, or all, of the following purposes: (1) Avista's construction, facility improvement, and maintenance programs; (2) retire or exchange one or more outstanding stock, bond, or note issuances; (3) to reimburse the treasury for funds previously expended; and (4) for such other purposes, as may be permitted by law. To the extent that Avista's treasury is refunded, the original expenditures were made for purposes described by ORS 757.415(1)(a), (b), or (e). To the extent that the obligations are discharged or refunded, those obligations or their precedents were used for purposes described by ORS 757.415(1)(a), (b), or (e).

Avista also represents that its capital expenditure program requires a combination of internally generated cash and external financing. In addition, Avista has \$28.5 million of debt maturities in the next nine months beginning in March 2004 that must be

refinanced. Avista anticipates using the proceeds from the issuance of the securities to refinance debt maturities and to repay funds borrowed under its corporate credit facility. Avista's capital expenditure program is initially funded under its corporate credit facility. Capital expenditures are expected to be \$110 million and \$120 million in 2004 and 2005, respectively.

Based on Staff's review, approval of Avista's application with the proposed conditions will provide reasonable access to the capital markets. The application appears fair and reasonable.

PROPOSED COMMISSION MOTION:

Avista's application for the authority to issue up to \$250 million in debt securities and up to 3,000,000 shares of common stock is approved with Staff's conditions.

ATTACHMENT 1

STRAIGHT BOND AND DEBT COMMISSIONS¹

<u>Range of Maturities</u>	<u>Commission (Percentage of Aggregate Principal Amount of Notes Sold)</u>
From 9 months to less than 1 year	.125%
From 1 year to less than 18 months	.150%
From 18 months to less than 2 years	.200%
From 2 years to less than 3 years	.250%
From 3 years to less than 4 years	.350%
From 4 years to less than 5 years	.450%
From 5 years to less than 6 years	.500%
From 6 years to less than 7 years	.550%
From 7 years to less than 10 years	.600%
From 10 years to less than 15 years	.625%
From 15 years to less than 20 years	.675%
20 years and more	.750%

¹ These rates do not apply to issuances of debt securities convertible into or exchangeable for shares of common stock.

The cost of issuance of medium-term notes to the Company will fall within the spread over the respective U.S. Treasury bond or note as set forth below, where the cost to the Company is calculated as the cost to maturity reflecting the coupon on the medium-term note and the appropriate commission:

BOND AND DEBT SPREAD LIMITATIONS²

<u>Maturity</u>		<u>Maximum Spread Over Benchmark Treasury Yield⁽³⁾</u>
<u>Equal to or Greater Than</u>	<u>Less Than</u>	
9 months	2 years	+180 basis points ⁽⁴⁾
2 years	3 years	+185 basis points
3 years	4 years	+190 basis points
4 years	6 years	+200 basis points
6 years	9 years	+210 basis points
9 years	10 years	+220 basis points
10 years	11 years	+225 basis points
11 years	15 years	+235 basis points
15 years	20 years	+245 basis points
20 years	31 years	+265 basis points
		+275 basis points

² These rates do not apply to issuances of debt securities convertible into or exchangeable for shares of common stock .

³ The Benchmark Treasury Yield with respect to any medium-term note 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 note maturity rate, is generally considered by dealers in such obligations 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 medium-term note, the Benchmark Treasury Yield shall be determined as of the time the commitment to purchase such note is received by the Company and the agents.

⁴ Basis point is defined as one-one-hundredth of a percentage point; i.e., 100 basis points equals 1 percent.

SECURITIES TOTAL EXPENSE LIMITS:

Securities and Exchange Commission Fees	\$ 50,000
Regulatory Agency Fees	5,000
Company's and Underwriter's Counsel Fees	200,000
Accounting Fees	20,000
Printing and Engraving Fees	15,000
Rating Agency Fees	100,000
Miscellaneous Costs	<u>25,000</u>
TOTAL	<u>\$415,000</u>

COMMON STOCK TOTAL EXPENSE LIMITS:

Securities and Exchange Commission Fees	\$ 20,000
Regulatory Agency Fees	5,000
Company's and Underwriter's Counsel Fees	200,000
Accounting Fees	20,000
Printing and Engraving Fees	50,000
Miscellaneous Costs	<u>20,000</u>
TOTAL	<u>\$315,000</u>