

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT**

PUBLIC MEETING DATE: March 6, 2001

REGULAR AGENDA **CONSENT AGENDA** **EFFECTIVE DATE**

DATE: March 2, 2001
TO: Phil Nyegaard through Marc Hellman and Bryan Conway
FROM: Ming Peng
SUBJECT: UF 4166 — Avista's Request To Amend Order No. 99-412 and Its Supplemental Order No. 00-410

SUMMARY RECOMMENDATION:

I recommend approving the application, with reporting requirements.

DISCUSSION:

On April 26, 1999, Avista Corp. (Avista) filed an application pursuant to Oregon revised statutes (ORS) 757.415, 757.480, and Oregon Administrative Rule 860-27-030 for authority to issue not more than \$400,000,000 of unsecured debt securities (Debentures), unsecured medium-term notes (MTNs), or convertible debt. On June 22, 1999, Order No. 99-412 was issued granting the requested authority.

On June 16, 2000, Avista filed a request to have a temporary adjustment made to the bond spreads condition authorized in Order No. 99-412. Avista requested that 300 basis points be added to each term category as long as the 30-year U.S. Treasury Bond is lower than 6.5%. On July 28, 2000, the Commission approved the supplemental application Order No. 00-410.

On February 26, 2001, Avista requested the Commission amend Order No. 99-412. The Company requests four specific amendments (shown in bold):

- (1) Amend the Company authority by increasing the aggregate amount of unsecured debt securities (Debentures), unsecured medium-term notes (MTNs), or convertible debt to **\$650,000,000** from \$400,000,000.
- (2) Amend the Full Description of Securities Proposed to be Issued section to read as follows:

(h) ~~Full Description of Securities Proposed to be Issued.~~ Each issue of Securities may contain a provision allowing it to be redeemed or repaid prior to maturity. An early redemption provision may allow the Securities to be redeemed or repaid at any time, or it may allow the Securities to be redeemed or repaid only after a certain restrictive period. In either case, the Securities will be redeemable at par or at a premium over par. Securities may bear a fixed or floating rate of interest and may be issued at par or with an original issue discount or premium. In all series' issuances, the terms for the sale of each series will be determined at the time of issuance, and underwriters, agents, or other purchasers will be selected at that time. **If any such series is sold through a private**

placement¹ agent that agent will be selected prior to the issuance. The terms for the sale of each series and the names of the underwriters, agents, or other purchasers will be supplied at the time of issuance.

In all series' issuances, the terms for the sale of each series will be determined at the time of issuance, and underwriters, agents, or other purchasers will be selected at that time. **If any such series is sold through a private placement agent that agent will be selected prior to the issuance.** The terms for the sale of each series and the names of the underwriters, agents, or other purchasers will be supplied at the time of issuance.

- (3) (j) ~~Fees to Persons Other than Attorneys & Accountants.~~ Compensation to the underwriters for their services in connection with the marketing of the securities is not expected to exceed **2.5%** (from 1.5%).
- (4) Avista requests to have an additional **150** basis points added to its spreads authorized in Order No. 00-410. (See attached revised table 4).

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 discharge or lawful refunding of its obligations (such as relatively higher-coupon debt and maturing debt previously authorized by the Commission); and, refunding the company's treasury expended on utility purposes. To the extent the company's treasury is refunded, the original expenditures, or their precedents, were made for purposes described by ORS 757.415 (1) (a), (b), or (e). To the extent that 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 represented to Staff that this financing was necessary to improve the financial flexibility of the Company in order for the construction of Coyote Springs 2, LLC (CS2), a 280 MW electric generation facility, to be secured. Since this increase in borrowing is associated with the CS2 project Avista agrees to exclude, if Staff so requests, any debt issued under this order above the \$400,000,000 previously approved in Order 99-412 and 00-410, for purposes of calculating Avista's long-term debt in Avista's next rate case.

The project started construction January 2, 2000, and the company is incurring cost on an ongoing basis. Avista has been working with various agents and underwriters to come up with a plan to finance the company's cash flow needs. The timing of the project transaction and the cash flow flexibility of Avista are the main reasons for the timing of this amendment.

¹ Private Placement is the sale of a bond or other security directly to a limited number of investors.

² Spread is the difference between the bid and asked price of a security. It is a fee for the service of the underwriting syndicate.

Current Market Conditions Affecting Avista's Spreads:

Avista stated that the impact of the current markets and the unrest in California's utility industry has made the financing of the CS2 project more difficult than first anticipated. Avista originally anticipated having the financing for that project in place by the middle of March. Avista now anticipates the completion of the financing of the project in the June-July time frame. In the current market conditions, spreads have increased to be so unusually large that Avista can no longer issue debt under the amendment of July 2000. Avista requests to have an adjustment made to the rate spreads condition. Avista proposes a new revised spread Table 4 to replace the old one in July 2000, as long as the rate on the thirty-year U.S. Treasury security is below 6.5 percent. The request appears reasonable.

STAFF RECOMMENDATION:

I recommend the commission amend Order No. 99-412 and its Supplemental Order No. 00-410 by amending the following:

- Table 4 of the order with Table 4 Revised attached
- Fees to Persons Other than Attorneys & Accountants to not exceed 2.5%
- Aggregate amount of unsecured debt securities (Debentures), unsecured medium term notes (MTNs), or convertible debt to \$650,000,000
- Inserting If any such series is sold through a private placement³ agent that agent will be selected prior to the issuance into the Full Description of Securities Proposed to be Issued.

Avista should file the usual Report of Securities Issued and Disposition of Net Proceeds Statements after each issuance and sale, and continue to demonstrate that it achieves a competitive rate on its securities. The other terms and conditions of Order No. 99-412 and 00-410 should remain in full force and effect.

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.

Additionally, to the extent Avista issues more than \$400,000,000 in debt securities under this Order, Avista agrees to exclude, if Staff so requests, such debt when calculating the long-term cost of debt in any rate proceeding.

³ Private Placement is the sale of a bond or other security directly to a limited number of investors.

Table 4 (July 28, 2000)
Temporary Fixed-Rate Spreads over US Treasury
(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 ⁴
9 months	2 years	+370 basis points ⁵
2 years	3 years	+380 basis points
3 years	4 years	+ 390 basis points
4 years	6 years	+400 basis points
6 years	9 years	+405 basis points
9 years	10 years	+415 basis points
10 years	11 years	+420 basis points
11 years	15 years	+430 basis points
15 years	20 years	+440 basis points
20 years or more		+465 basis points

Table 4 (New Revised)
Temporary Fixed-Rate Spreads over US Treasury
(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 ⁴
9 months	2 years	+ 520 basis points ⁵
2 years	3 years	+ 530 basis points
3 years	4 years	+ 540 basis points
4 years	6 years	+ 550 basis points
6 years	9 years	+ 555 basis points
9 years	10 years	+ 565 basis points
10 years	11 years	+ 570 basis points
11 years	15 years	+ 580 basis points
15 years	20 years	+ 590 basis points
20 years or more		+ 615 basis points

⁴ 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.

⁵ Basis point is defined as one-hundredth of a percentage point; ie, 100 basis points is 1 percent.