

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: May 22, 2001**

**REGULAR AGENDA**\_\_\_\_ **CONSENT AGENDA**X **EFFECTIVE DATE** \_\_\_\_\_

**DATE:** May 10, 2001

**TO:** Phil Nyegaard through Marc Hellman and Bryan Conway

**FROM:** Ming Peng

**SUBJECT:** UF 4079 – Avista Requests the Commission Amend Order No. 01-169

**SUMMARY RECOMMENDATION:**

I recommend approving the application with reporting requirements.

**DISCUSSION:**

On August 14, 1992, Avista Corporation (Avista) (formerly Washington Water Power Co.) filed an application under Oregon Revised Statute (ORS) 757.415 for authority to borrow not more than \$160,000,000 under two separate revolving credit agreements. On September 22, 1992, Order No. 92-1387 was issued granting the requested authority.

On January 11, 2001, Avista requested the Commission amend Order No. 92-1387 to increase Avista's authority to enter into revolving credit agreements to \$400,000,000 from \$160,000,000, and revise the Company's use of proceeds and its interest rate options. On February 13, 2001, Order No. 01-169 was issued granting the requested authority.

On April 25, 2001, Avista filed an application requesting the Commission amend Order No. 01-169 to revise the Company's fees, expenses, and interest rate options.

Avista requests four specific amendments based on the worst-case scenario to secure its credit facility:

1. The Commitment fees paid on the unused portion of the debt will be no greater than 0.75% from 0.20%.
2. The interest rate spread paid on the debt if using the Fed Funds Rate option will increase to 1.25% from 0.5%.
3. The interest rate spread paid on the debt if using the LIBOR option will increase to 2.25% from 1.5%.
4. The total upfront fees and expenses of establishing these arrangements will not exceed \$1,962,500 from \$755,000.

Avista's fees, expenses, and interest rate options appear reasonable.

**Current Capital Markets Affecting Avista's Spreads:**

Avista has now signed the final term sheet with the lead bank and is in the process of finalizing the documentation necessary to put Avista's credit facility in place. The current capital markets have been changed due to the risks and uncertainties of the industry that are beyond Avista's control. These changes have caused the costs associated with this transaction to increase.

As before, the requested commitment fees and interest rates levels are maximum amounts that Avista would pay if its debt rating was reduced significantly from its current BBB rating to BB+. Consequently, Avista does not presently anticipate having to pay such maximum amounts, but may need the authority to do so in the event of further deterioration in the capital markets. Attached is Exhibit A showing both the pricing grid for this transaction and the total fees and expenses calculation.

**STAFF RECOMMENDATION:**

I recommend the Commission approve Avista's application to amend Order No. 01-169. Such amendment revises the Company's fees, expenses, and interest rate options. 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 conditions, reporting requests, and other terms of Order No. 01-169 should remain in full force and effect.

For ratemaking 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 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.

4/25/2001 Avista Filing

**Exhibit A**

Basis Points per Annum	LIBOR, Commitment & L/C Fees					Usage Fees		
	Level I	Level II	Level III	Level IV	Level V	>33%	>50%	>75%
Debt Rating	BBB+/ Baa1 or greater	BBB/ Baa2	BBB-/ Baa3	BB+/ Ba1	<BB+/ Ba1			
<b>364 Day Revolver</b>						15.00	25.00	50.00
ABR Spread	0.00	25.00	50.00	87.50	125.00			
LIBOR Spread	100.00	125.00	150.00	187.50	225.00			
Commitment Fee	20.00	25.00	40.00	50.00	70.00			
<b>3 Year Revolver &amp; L/C's</b>						15.00	25.00	50.00
ABR Spread	0.00	25.00	50.00	87.50	125.00			
LIBOR Spread	100.00	125.00	150.00	187.50	225.00			
Commitment Fee	25.00	30.00	45.00	55.00	75.00			

**Total Fees and Expenses**

Lenders' Upfront Fees <sup>1</sup> :	\$1,560,000.00
Arranger's fee:	\$250,000.00
Legal counsel fees:	\$150,000.00
State regulatory filing fees:	\$1,000.00
Miscellaneous:	<del>\$1,500.00</del>
Total:	\$1,962,500.00

Lenders' Upfront Fees<sup>1</sup>: (e.g. \$260,000,000 x .006 = \$1,560,000.00)

1. An Upfront Fee will be paid to each lender based upon the amount of such lender's commitment on the Closing date, ranging from 30 bps for a \$20M commitment to 60 bps for a \$40 M commitment.

ABR: Alternate Base Rate

LIBOR: London Interbank Offered Rate