

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 15, 2001**

REGULAR AGENDA ___ **CONSENT AGENDA** **X** **EFFECTIVE DATE**

DATE: June 4, 2001

TO: Phil Nyegaard through Marc Hellman and Bryan Conway

FROM: Ming Peng

SUBJECT: UF 4177 - Avista Requests the Commission Amend Order No. 01-230

SUMMARY RECOMMENDATION:

I recommend approving the application with reporting requirements.

DISCUSSION:

On February 16, 2001, Avista Corporation filed an application requesting authority to borrow not more than \$200,000,000, at competitive market rates, terms, and conditions, to finance the construction of the Coyote Springs 2 generating station. On March 13, 2001, the Commission granted the requested authority and issued Order No. 01-230.

On May 25, 2001, Avista filed an application requesting the Commission amend Order No. 01-230. The amendment revises the Company's fees, expenses, and interest rate options.

Avista has now signed the final term sheet with the lead bank and is in the process of finalizing the documentation necessary to put a \$120 million construction loan credit facility in place. The current capital markets have 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. Accordingly, Avista requests the following specific amendments based on the worst-case scenario to secure its credit facility:

1. Amend the interest rate spread paid on the debt if using the Fed Funds Rate option to 1.625% from 0.5%;
2. Amend the interest rate spread paid on the debt if using the LIBOR option to 2.625% from 2.5%;
3. Amend an up front fee to 1.25% of the aggregate amount of the commitments from 1%;
4. Add a structuring fee equal to 0.25% of the aggregate amount of the commitments.

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

Current Capital Markets Affecting Avista's Capital Raising:

The increases in the cost of raising capital are driven by current capital market changes in energy industry. The amendments in this application are based on the worst-case scenario. As before, the requested interest rate levels are maximum amounts that Avista would pay if its debt rating were significantly reduced from its current BBB rating to BB (Standard & Poor's Bond Ratings). Consequently, Avista does not 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 even absent any change in Avista's present credit ratings.

STAFF RECOMMENDATION:

I recommend the Commission approve Avista's application to amend Order No. 01-230. 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. 01-230 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 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.