

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: September 11, 2001**

REGULAR  CONSENT  EFFECTIVE DATE \_\_\_\_\_

**DATE:** September 10, 2001

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

**FROM:** Thomas D. Morgan and Ming Peng

**SUBJECT:** UF 4079 - Avista Requests the Commission Amend Order No. 01-466

**SUMMARY RECOMMENDATION:**

I recommend approving the application with a condition and reporting requirement.

**DISCUSSION:**

On August 14, 1992, The Washington Water Power Co. (Avista) 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. One of these agreements provided for a three-year credit facility extending through September 30, 1995. On September 22, 1992, the Commission granted the requested authority and issued Order No. 92-1387.

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

On April 25, 2001, Avista filed an application requesting an amendment to Order No. 01-169, to increase the limits on the fees, expenses and interest rate options with respect to the same authorized debt. On May 24, 2001, the Commission granted the requested authority and issued Order No. 01-466. On June 8, 2001, the Commission issued Order No. 01-466 approving the increased fees, expenses and interest rate options.

On September 10, 2001, Avista requested the Commission amend Order No. 01-466. The Company requests four specific amendments:

- 1.) The interest rate spread paid on the debt if using the Fed Funds Rate option will increase from 1.25% to a maximum of 2%, depending upon Avista's debt rating.
- 2.) The interest rate spread paid on the debt if using the LIBOR option will increase from 2.25% to a maximum of 3%, depending upon Avista's debt rating.
- 3.) The waiver fee for the required amendment will not exceed 0.25% of the total revolving credit facility commitment.
- 4.) Avista may secure its obligations under the existing revolving credit facility with First Mortgage Bonds issued under Avista's existing Mortgage and Deed of Trust, dated as of June 1, 1939, pursuant to the provisions of ORS 757.480

**Reasons for Avista's Request to change its revolving credit facility to a secured facility:**

Avista has informed us that shortfalls in its ability to recover purchased power and gas costs through its regulated rates have led to Avista's inability to satisfy certain financial covenants under the existing revolving credit facility. Specifically, Avista does not expect to be able to meet the fixed charge coverage ratio requiring that the cash income of the utility be at least 1.25 times the cash interest charges over the previous 12 months.

On September 4, 2001, the revolving credit facility lenders informed Avista that no further borrowings would be permitted under the revolving credit facility unless Avista agrees (i) to secure its obligations under the revolving credit facility with First Mortgage Bonds issued under Avista's existing Mortgage and Deed of Trust, dated as of June 1, 1939, (ii) to pay a one time waiver fee equal to 0.25% of the revolving credit facility commitments, and (iii) to increase the interest rate spread otherwise payable under the revolving credit facility by 0.75%.

Without access to the revolving credit facility, Avista represents that it will not be able to meet its payment obligations. More specifically, Avista states that it has an immediate need for this money to cover its power and gas contracts and other obligations in September. Avista is not requesting authority to issue any new debt, rather the Company seeks authority to take the steps necessary to be able to access funds under its existing revolving credit facility.

In Avista's proposed waiver agreement with the credit revolver banks, Avista is required to represent and warrant to the revolving credit facility lenders that:

the granting of the Additional Collateral in respect of the Obligations as required under paragraph (a) above (the "*Additional Collateral Requirement*") (i) will not (i) violate any provision of any the First Mortgage or any other agreement or indenture, or other instrument evidencing or relating to borrowed money, to which the Borrower or any of its Subsidiaries is bound or, (ii) will not require the Borrower or any Subsidiary to grant any Lien in respect of any other existing or future Indebtedness of the Borrower or any Subsidiary and (iii) will result in the Banks obtaining the benefit of a security interest in the Additional Collateral on terms no less favorable than obtained by holders of other bonds issued under the First Mortgage.

Finally, Avista has assured us that the need for these amendments to its existing revolving credit facility is not related to the activities of its non-regulated subsidiaries, such as Avista Energy.

**STAFF OBSERVATIONS:**

Avista has indicated that the current circumstances are not an effect of its non-regulated power-trading activities. Avista should assist Staff in Staff's efforts to monitor Avista's activities to assess and advise the Commission on the circumstances relating to Avista's current financial situation. However, there is some uncertainty regarding the extent to which the subsidiaries' operations may be linked. Avista has informed Staff that both gas and electric operations have contributed to the current cash flow crisis. Avista has estimated that roughly 80 percent of this problem is due to the electric operations.

**STAFF RECOMMENDATIONS:**

I recommend the Commission approve Avista's application to amend Order No. 01-466, subject to the following condition and requirement. The condition is that Avista is authorized to secure its obligations under the existing revolving credit facility with First Mortgage Bonds for one year, beginning on September 11, 2001. Any extension must have prior approval by this Commission.

The requirement is that Avista should continue to demonstrate that it achieves competitive rates on its loans. The conditions, reporting requirements, and other terms of Order No. 01-466 not amended hereby should remain in full force and effect.

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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.

The Commission reserves judgment on the reasonableness of potential rate increases due to this order. The Commission reserves judgment on whether any ratemaking adjustment is necessary to preclude the existence of any cross-subsidization among ratepayers or across subsidiary companies and whether Avista's open-market trading program fairly affects ratepayers.