

**PUBLIC UTILITY COMMISSION OF OREGON
ADMINISTRATIVE HEARINGS DIVISION REPORT
PUBLIC MEETING DATE: November 20, 2001**

REGULAR X CONSENT EFFECTIVE DATE _____

DATE: November 15, 2001

TO: Phil Nyegaard through Marc Hellman and Bryan Conway

FROM: Thomas D. Morgan

SUBJECT: AVISTA UTILITIES: UF 4185 - Requests an order authorizing the issuance and sale of securities not to exceed \$83,700,000.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Avista Utilities' (Avista or Company) application to refinance its Pollution Control Bonds (PCBs) subject to the following conditions and reporting requirements:

1. Avista should demonstrate that the rates it achieves on the new securities are consistent with market rates or otherwise demonstrate that the rates it achieves are competitive. The demonstrations should be filed as soon as possible after each issuance and sale.
2. The Company should demonstrate that any early refunding is cost-effective.
3. The Company should file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after each sale.
4. Staff proposes that such authorization remain in effect as long as the company maintains senior secured debt ratings of at least BBB-/Baa3 (i.e., "investment-grade") from Standard & Poor's and Moody's Investors' Service, Inc., respectively.
5. Staff proposes that such authorization remain in effect as long as the all-in costs of the security do not exceed 5.60% including all fees and commissions pursuant to the issuance.

For ratemaking purposes, the Commission reserves judgment on the reasonableness 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 and structure are just and reasonable.

DISCUSSION:

On October 31, 2001, Avista Utilities (Avista or Company) filed an application for the proposed offering of up to \$83,700,000 to be used in connection with the refunding or conversion¹ of certain obligations related to PCBs issued by the City of Forsyth, Montana with the proceeds having been loaned to Avista.

The Company has not provided specific details as to the form of the issuance, only that the terms are currently being negotiated and that the fees, interest rates and expenses charged or incurred by the Company will be competitive with market prices for similar transactions. During a follow-up communication with the Company, Commission Staff was informed that the interest rate is expected to be 5.5% with \$63,700,000 maturing in 2032 and \$17,000,000 maturing in 2034. The overall costs for the PCBs are anticipated to be approximately as indicated in Table 1:

Underwriters Counsel	\$25,000
Underwriter Fees	\$575,000
Bond Counsel	\$25,000
Company Counsel	\$25,000
CUSIP & Other	\$15,000
Bond Insurance	\$210,000
TOTAL	\$875,000

This interest rate appears to be reasonable and the fees, representing just over one percent of the overall issuance amount, are reasonable. The initial expenses increase the all-in cost of the issuance by roughly 7.12 basis points.² The Company has represented to Staff that the bond insurance premium will provide the equivalent rating of AAA for the bonds.

The proposed interest rate and fees are consistent with previous Commission authorizations.

PROPOSED COMMISSION MOTION:

Avista's application, UF 4185, should be approved, subject to the conditions and reporting requirements specified in Staff's recommendations.

¹ Conversion in this docket refers to converting from the 28 day auction cycle bonds to a fixed rate to maturity.

² A basis point is defined as one-one-hundredth of a percentage point, i.e. 100 bps equals 1.00 percent.