

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 15, 2003**

REGULAR CONSENT EFFECTIVE DATE _____

DATE: April 8, 2003

TO: John Savage through Marc Hellman and Bryan Conway

FROM: Thomas D. Morgan

SUBJECT: AVISTA CORPORATION: (Docket No. UF 4079) Application to Renew and Revise the Terms of the Authority Granted in Order 01-814.

STAFF RECOMMENDATION:

The Commission should approve Avista Corporation's (Avista or Company) application to renew and amend the borrowing authority granted by Commission Orders 92-1387 and revisions 01-169, 01-466 and 01-814. All previous conditions remain in effect unless explicitly amended herein.

The only additional Condition is that the Company will remove the underlying FMBs at its earliest opportunity and ability upon debt upgrading and when cost effective to do so, and will provide the Commission such information immediately upon its occurrence.

DISCUSSION:

On March 17, 2003, Avista filed an application with the Commission to approve the renewal of and amendment to an outstanding credit authority. Authority has been previously granted pursuant to Oregon Revised Statute (ORS) 757.415 and Oregon Administrative Rule 860-27-030. The request is for a renewal of the terms of Order (01-466) that allowed the Company to place First Mortgage Bonds (FMBs) as security for its Revolving Line of Credit (Revolver) and relates to the fees granted in Order 01-814.

The FMBs, provided pursuant to Order 01-466, allowed the Company to secure the Revolver, and granted rights consistent with senior secured long-term debt. In the event of default, the Revolver banks were afforded rights equivalent to secured creditors of the Company.

The Company seeks two revisions to the prior authority in addition to its renewal:

1. The Company is seeking on-going authority rather than annual renewals of the authority; and,

2. The Company seeks authority for a general fee limit, in aggregate, rather than individual fee limits, i.e., for each line item.

The requirement for the FMBs as security for the Revolver is due in large part to economic pressures that faced the Company. The Company has had on-going weaknesses in its bond ratings and needs credit upgrades of at least one to two notches before the risk is mitigated. It is not clear when the pressures will be reduced and when the Company can cost-effectively remove the underlying security offered by the FMBs from the credit facility. I am concerned that the application requests on-going acceptance of the authority without further Commission approval. However, from a regulatory perspective, annual renewals would not add to the regulatory oversight of the Commission. I recommend one additional condition to alleviate my concern.

The Company is not seeking any change to the aggregate fees or expenses associated with the prior authority, which expires May 1, 2003. It is requesting authority to shift some of the limits on the line items. For instance, the Arranger's fees are expected to be higher than those initially approved.

Since the aggregate fees will not be affected and since the Commission reserves the right to consider the prudence and appropriateness of any expenses in its next rate case, I believe that the Company's request can be approved.

Based on Staff's review, approval of Avista's application is recommended. Commission approval will provide continued access to the capital markets and is therefore in the public interest. A Supplemental Order approving the Company's application is warranted.

PROPOSED COMMISSION MOTION:

Avista's application to renew and amend the authority granted by Commission Order 01-466 is approved.