

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 3, 2003**

REGULAR _____ CONSENT X EFFECTIVE DATE _____

DATE: May 29, 2003

TO: John Savage through Marc Hellman and Bryan Conway

FROM: Thomas D. Morgan

SUBJECT: AVISTA UTILITIES: (Docket No. UF 4198) Application for Authority to Issue up to \$150 Million in Debt Securities.

STAFF RECOMMENDATION:

The Commission should approve Avista Utilities' (Avista or Company) application subject to the following conditions and reporting requirements:

- 1) The Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statement as soon as possible after any issuance. Upon each issuance of Securities the Company shall file documentation with the Commission providing a specific description of the terms and conditions of each issuance of the Securities.
- 2) The Company shall demonstrate that the rate(s) it achieves on new securities is consistent with market rates or otherwise demonstrate that the rate(s) it achieves is competitive. The demonstrations should be filed as soon as possible after each issuance and sale and will include a demonstration that fees for partial issuances are reasonable.
- 3) The Company shall demonstrate that any early refunding or any call provision or required sinking fund placed on the issuance is cost-effective.
- 4) The authorization shall remain in effect as long as the Company maintains debt ratings of at least BBB-/Baa3 (i.e., "investment-grade") from Standard & Poor's and Moody's Investors' Service, Inc., respectively on any debt security type it intends to market, e.g., senior secured versus unsecured.
- 5) For ratemaking purposes, the Commission will reserve 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, including imbedded expenses, and structure are just and reasonable.

- 6) The interest rates and commissions shall be consistent with the parameters specified in the Company's application and detailed in Attachment A.
- 7) If any agents or underwriters are involved in the sale of the Bonds, the names of such, the initial price to the public, any applicable commissions or discounts and the net proceeds to the Company shall be filed with the Commission. If the Debt is sold to an agent or agents as principal, the name of the agents, the price paid by the agents, any applicable commission or discount paid by the Company to the agents and the net proceeds to the Company will be filed with the Commission.
- 8) Upon approval of this application, the Company agrees that the estimated \$141 million authority to issue additional debt, outstanding from UF 4153 (Order 97-392) shall be revoked.

DISCUSSION:

On May 15, 2003, Avista filed an application with the Commission, pursuant to Oregon Revised Statute (ORS) 757.480 and 757.415,¹ for the authority to issue and sell up to \$150 million, in aggregate, of debt securities (Debt). The Company seeks authority to issue either secured or unsecured Debt without further Commission approval.

The Company's outstanding senior-secured debt is currently rated "Baa3" (Negative Outlook) by Moody's Investors Service; and "BBB-" (Stable Outlook) by Standard & Poor's Corporation and Fitch IBCA. These ratings are at the bottom of the investment-grade scale and, as a result, would result in higher interest rates and fees than other financing applications recently approved by the Commission. More details will be provided about these issues.

The Company's outstanding senior-unsecured debt is currently rated "Ba1" by Moody's Investors Service; and "BB+" by both Standard & Poor's Corporation and by Fitch IBCA. The ratings are currently not within the investment-grade ratings scale.

¹ Purposes allowed by law include the acquisition of utility property, the construction, extension or improvement of utility facilities, the improvement or maintenance of service, the discharge or lawful refunding of obligations that were incurred for utility purposes (such as higher cost debt or preferred stock) or the reimbursement of the Company's treasury for funds used for the foregoing purposes, all as permitted under ORS 757.415(1).

The Debt series may be designated as unsecured or secured notes with maturities from nine months to thirty years. Upon each issuance of the Securities, the Company will file the documentation with the Commission providing the terms and conditions of each issuance of the Securities.

RATES AND FEES

The interest rates and total expenses for issuance, underwriting and insurance fees is detailed and will be limited to those specified in Attachment A, which assumes that all of the debt capacity is used. The Company will be expected to show that expenses on a partial issuance are cost-effective.

The Debt may be sold by public sale or private placement, directly by the Company or through agents, underwriters or dealers.

The total fees and interest rate spreads appear higher than those proposed in recent Commission applications. The requested ceilings for the fixed-rate spreads are roughly three hundred basis points² higher than recent Commission approvals and the requested fees are about 10 basis points higher. Based on the Company's current credit rating, an increase in fees is justifiable. Assuming that all of the capacity approved under this application were to be issued, the total expenses will not be greater than the sum of those itemized, although the approval will not place a ceiling on individual expenses. Additionally, although the Commission does not prescribe the terms of the Company's issuances, longer-term maturities would not appear to be in the Company's best interest. Condition 5 requires that the total rates and expenses imbedded in any security are reasonable.

Based on Staff's review, approval of Avista's application with the proposed conditions will provide reasonable access to the capital markets and is therefore in the public interest.

PROPOSED COMMISSION MOTION:

Avista's application for the authority to issue up to \$150 million in Debt Securities is approved with Staff's Conditions.

² Basis point is defined as one-one-hundredth of a percentage point; i.e., 100 basis points equals 1 percent.

ATTACHMENT 1

BOND AND DEBT COMMISSIONS AND FEES

TABLE 1

<u>Range of Maturities</u>	<u>Commission (Percentage of Aggregate Principal Amount of Securities Sold)</u>
From 9 months to less than 1 year	.125%
From 1 year to less than 18 months	.200%
From 18 months to less than 2 years	.250%
From 2 years to less than 3 years	.300%
From 3 years to less than 4 years	.400%
From 4 years to less than 5 years	.500%
From 5 years to less than 6 years	.600%
From 6 years to less than 7 years	.600%
From 7 years to less than 10 years	.625%
From 10 years to less than 15 years	.700%
From 15 years to less than 20 years ³	.875%
From 20 years to less than 30 years ³	.875%

<u>Other Fees and Expenses</u>	<u>Amount assuming full issuance</u>
Legal Fees	\$400,000
Printing Fees	\$150,000
Miscellaneous Fees	\$75,000
Total	\$625,000

TABLE 2

Term in Years	Taxable Debt Securities Maximum Spread Over Index Floating-Rate Spreads						
	1	2	3	4	5	6	7
Index							
LIBOR	+150	+175	+185	+190	+195	+200	+210
CP	+160	+185	+195	+200	+205	+210	+215
T-Bills	+185	+210	+225	+230	+235	+240	+250
Fed Funds	+185	+210	+225	+230	+235	+240	+250

³ Avista requests that the maximum commission be 0.875 percent when the agent purchases the Securities from Avista as a principal.

The cost of issuance of Securities to the Company will fall within the spread over the respective U.S. Treasury bond or note as set forth below, where the cost to the Company is calculated as the cost to maturity reflecting the coupon on the Securities and the appropriate commission:

TABLE 3

BOND AND DEBT SPREAD LIMITATIONS

<u>Maturity</u>		<u>Maximum Spread Over Benchmark Treasury Yield⁽⁴⁾</u>
<u>Equal to or Greater Than</u>	<u>Less Than</u>	
9 months	2 years	+ 370 basis points ⁽⁵⁾
2 years	3 years	+ 380 basis points
3 years	4 years	+ 390 basis points
4 years	6 years	+ 400 basis points
6 years	9 years	+ 405 basis points
9 years	10 years	+ 415 basis points
10 years	11 years	+ 420 basis points
11 years	15 years	+ 430 basis points
15 years	20 years	+ 440 basis points
20 years	30 years	+ 465 basis points

⁴ The Benchmark Treasury Yield with respect to any Securities maturity range means the yield to maturity of that issue of direct obligations of the United States which, out of all actively traded issues of such obligations with a remaining term to maturity within such Securities maturity rate, is generally considered by dealers in such obligations to be the standard for such obligations, whether federal, state or corporate, with approximately the same remaining terms to maturity. With respect to the issuance of any Securities, the Benchmark Treasury Yield shall be determined as of the time the commitment to purchase such Securities is received by the Company and the agents.

⁵ Basis point is defined as one-one-hundredth of a percentage point; i.e., 100 basis points equals 1 percent.