

ITEM NOs. CA10  
CA11  
CA12

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: November 23, 2004**

**REGULAR** \_\_\_\_\_ **CONSENT**   X   **EFFECTIVE DATE** \_\_\_\_\_ **N/A** \_\_\_\_\_

**DATE:** November 18, 2004

**TO:** Lee Sparling through Marc Hellman and Bryan Conway

**FROM:** Thomas D. Morgan

**SUBJECT:** AVISTA CORP: (Docket No. UF 4153(1)) Application for Authority to Amend Previous Financing Order 97-392.

AVISTA CORP: (Docket No. UF 4185(1)) Application for Authority to Amend Previous Financing Order 01-1002.

AVISTA CORP: (Docket No. UF 4079(1)) Application for Authority to Amend Previous Financing Order 03-220.

**STAFF RECOMMENDATION:**

The Commission should approve Avista Corporation's (Avista or Company) application to amend the requested orders, subject to the original conditions and reporting requirements. These conditions include expense limits on issuances and interest rates. All existing Conditions not hereby amended shall remain in effect. Staff also proposes that the additional following conditions be adopted:

1. The Company shall file the usual Report of Securities Issued and Disposition of Net Proceeds statements as soon as possible after any issuance. This report shall include any replacement, renewal, or extension of such credit agreements, and that the fees, interest rates, and expenses are consistent with competitive market prices for such agreements.
2. The Commission reserves judgment on the reasonableness for ratemaking purposes 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 embedded expenses, and capital structure are just and reasonable.

3. The Company shall provide an analysis that indicates the competitiveness of the rates it achieves and an analysis that indicates the degree to which any early refinancing, exchange or remarketing is cost effective.

## **DISCUSSION:**

On November 4, 2004, Avista filed an application to amend the terms and conditions of previous Commission orders, to wit, Orders 97-392, 01-1002, 01-1101 and 03-220. These Orders authorized the issuance of debt securities consistent with the requirements Oregon Revised Statutes (ORS) 757.415 and 757.480; and Oregon Administrative Rule (OAR) 860-27-0030.

The Company is requesting three specific amendments to the existing orders, which are discussed in detail below. To summarize, the Company is requesting authority to issue secured obligations that would secure currently existing, unsecured debt. The Company represents that such changes are necessary in order to remove negative covenants contained in the agreements related to such existing, unsecured debt. The other amendment requested would allow the Company to renew and restructure its revolving credit facility, including a committed term up to five years.

The Company is not requesting increases in the expenses or rates that were approved in the previous orders, nor is it seeking increases in the outstanding debt capacity authorized.

The Company asserts that the authorization will help it to reduce its overall costs and expenses related to its credit facilities and borrowings.

**Order 97-392; Debt Securities:** The Company received authorization to issue up to \$250 million in debt securities. Of this capacity, the Company issued certain debt securities totaling \$109 million as Series C Notes (Notes). Of this amount, a total of \$88.85 million are currently outstanding.

The initial notes were unsecured and the provisions contained in the agreements related to the Notes limit the amount of secured debt that the Company can issue, unless the Company secures the Notes. The Company represents that it has several favorable financing opportunities and that it desires to issue additional secured debt. Because of the financing restrictions discussed above, the Company now requests authority to secure the Notes.

**Orders 01-1002 and 01-1101; Pollution Control Bonds:** The Company received authorization to issue up to \$83.7 million of securities in connection with the refunding of certain Pollution Control Bonds (Bonds) issued by the City of Forsyth, Montana. The proceeds of the Bonds were loaned to the Company by the City of Forsyth, Montana and in exchange the Company entered into certain unsecured obligations to repay the loan. The Bonds are presently insured pursuant to a bond insurance agreement. Similar to the Notes discussed above, the Bond Insurance Agreement limits the amount of secured debt that the Company can issue unless it secures its obligations with respect to the Bonds.

**Order 03-220; Revolving Credit Facility:** The Company received authorization to renew and amend its existing one-year revolving credit facility (Revolver) to include securing the Revolver with First Mortgage Bonds.

The Company represents that the lead lender under the Revolver has approached the Company with a proposal to renew and restructure the Revolver, including an extension to a five-year term. The Company expects to receive competitive rates that may reduce the borrowing costs under the Revolver. The extension of the credit facility is anticipated to provide the Company with additional flexibility.

#### **Use of Proceeds**

Avista may use the funds from the offer, issuance and sale of the Securities for any, or all, of the following purposes: (1) Avista's construction, facility improvement, and maintenance programs; (2) retire or exchange one or more outstanding stock, bond, or note issuances; (3) to reimburse the treasury for funds previously expended; and (4) for such other purposes, as may be permitted by law. To the extent that Avista's treasury is refunded, the original expenditures were made for purposes described by ORS 757.415(1)(a), (b), or (e). To the extent that the obligations are discharged or refunded, those obligations or their precedents were used for purposes described by ORS 757.415(1)(a), (b), or (e).

#### **Conclusion**

Based on Staff's review, approval of Avista's application with the proposed conditions will provide reasonable access to the capital markets. The application appears fair and reasonable.

#### **PROPOSED COMMISSION MOTION:**

Avista's application for the authority to secure certain existing unsecured debt and for the authority to enter into a revolving credit agreement for up to a five-year term is approved with Staff's conditions.