

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 3, 2009**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ N/A

DATE: October 27, 2009

TO: Public Utility Commission

FROM: Jorge Ordonez

THROUGH: Lee Sparling, Marc Hellman, and Steve Storm

SUBJECT: AVISTA CORPORATION: (Docket No. UF 4260) Application requesting authorization to enter into a credit facility agreement in a total amount of up to and not exceeding \$100 million for a term of no more than 3 years.

STAFF RECOMMENDATION:

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

- 1) The Company shall file a copy of the executed Credit Agreement no later than one month after the agreement has been signed.
- 2) The Company shall file the customary Report of Securities Issued and Disposition of Net Proceeds statements no later than 30 days after any issuance. Such reports shall demonstrate, upon any replacement, renewal, or extension of the credit agreement, that any fees, interest rates, and expenses are consistent with competitive market prices for such agreements.
- 3) Rates, fees, and the maximum dollar amount of the credit agreement shall be no greater than those identified in the application.
- 4) The Company shall file reports with the Commission no less frequently than annually, with each report including the outstanding balances of revolving credit under the new facility and the outstanding letters of credit issued under the credit agreement. Filing of such reports shall continue as long as this credit facility remains in effect.
- 5) 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. The Company has the burden of

proof to demonstrate that its financing activities; capital costs, including embedded expenses; and capital structure are just and reasonable. Approval of this application and the conditions and requirements herein by the Commission does not constitute a precedent or finding as to whether any or all of this revolving credit agreement shall be treated as long-term debt for purposes of any minimum capital requirement pursuant to a Commission order.

DISCUSSION:

Avista filed an application on October 2, 2009, under Oregon Revised Statutes (ORS) 757.415(1) and Oregon Administrative Rule (OAR) 860-027-0030 for authorization to enter into a credit facility agreement in a total amount of up to and not exceeding \$100 million for a term of no more than three years.

Avista represents in the Company's application that the Company currently has a \$200 million 364-day credit facility that expires on November 24, 2009; that the requested authority will allow the Company to maintain greater liquidity and more flexibility in managing its daily cash requirements and upcoming debt maturities and redemptions; and that in any time of uncertainty and instability in the credit markets, the Company believes it is in public interest to maintain as much liquidity and flexibility as possible.¹

Avista amended its application on October 12, 2009, replacing section (k), which served to correct a scrivener's error in the anticipated Base Rate margin range.

Use of Proceeds

Avista represents that the Company may use the added liquidity for any or all the following purposes: (1) the Company's construction, facility improvement, and maintenance programs, (2) retire or exchange one or more outstanding stock, bond, or note issuances, or other evidences of indebtedness, (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 the Company's treasury is refunded, the original expenditures, or their precedents, 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).²

¹ See page 3, section 'i' of Avista's application.

² See page 3, section 'l' of Avista's application.

In Avista's amended application filed on October 27, 2009, the Company represents that it will supply letters from the investment bank or agent participating in the transaction, stating their opinion that the terms for the new revolving credit facility are competitive with those of similar facilities in the market being offered to utilities with similar credit.

These purposes are consistent with statutory requirements and are permitted under ORS 757.415(1).

Expenses

Avista represents that the Company expects to have the option to borrow under the new facility at either the LIBOR³ margin or the base rate margin. The LIBOR margin will apply for borrowings with more than two weeks and the base rate margin will apply for borrowings of less than two weeks.

Based on the Company's amended application the following proposed maximum margins and facility fees are anticipated under the new facility:

Borrowing spread:		
LIBOR margin	237.5 – 325	basis points
Base rate margin	237.5 – 325	basis points
Facility fees:	37.5 – 75	basis points
Upfront fees:	50.0 – 100	basis points

The LIBOR-based rate option will be the existing applicable LIBOR rate at the time of any loan plus the applicable margin. The base rate margin on any day means the higher of: (a) the Prime Rate in effect on that day; (b) the Federal Funds Rate in effect on that day, as announced by the Federal Reserve Bank of New York, plus the base rate margin; and (c) the 30 day LIBOR rate plus the base rate margin.⁴

Staff has reviewed the Avista application. The terms appear reasonable and the Company represents that any funds obtained under this agreement will be used solely for lawful purposes.

³ LIBOR is an acronym for the term London Interbank Offered Rate, which is a reference rate, updated daily, based on the interest rates at which banks borrow unsecured funds from other banks in the London wholesale money market (or interbank market).

⁴ See Avista's amended application.

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PROPOSED COMMISSION MOTION:

The application of Avista Corporation to enter into a credit facility agreement in a total amount of up to and not exceeding \$100 million for a term of no more than 3 years be approved with Staff's conditions and reporting requirements.