

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
LEGAL
WORKING FILE**

FROM: TERRI CARLOCK

DATE: MARCH 10, 2004

**RE: IN THE MATER OF AVISTA CORPORATION'S APPLICATION FOR
AUTHORITY TO ISSUE \$62,000,000 OF SUBORDINATED
DEBENTURES; CASE NO. AVU-U-04-1.**

On February 19, 2004, Avista Corporation (Avista) applied for authority to offer, issue and sale up to and including \$62,000,000 of Subordinated Debentures. These debentures may be at fixed or variable rates. The proceeds will be used to redeem the outstanding amount of \$60 million for the 7.875% Junior Subordinated Deferrable Interest Debentures, Series A, due 2037 and the Avista Capital I 7.875% Trust Originated Preferred Securities, Series A. The original securities were issued pursuant to Order No. 26669 dated November 1, 1996 in Case No. WWP-U-96-1. The covenants of the existing securities only allow retirement of the securities with securities holding like subordination. These Subordinated Debentures and the Trust Preferred Securities meet these covenant requirements and will allow some financing flexibility for Avista.

The initial issuance will have a fixed interest rate not to exceed 7% for the first five years when the Preferred Securities can be redeemed or reissued with either a fixed or floating interest rate. The entire term of the securities can range from 30 to 40 years. Avista also requests authority to refund, extend, renew or replace the proposed debentures to fully utilize the flexible nature of these debentures.

STAFF RECOMMENDATION

The proposed issuance and redemptions provide an opportunity for Avista to reduce borrowing costs and to increase flexibility with future refinance options. Staff recommends approval of the requested debenture authority. However, because the issuance is initially for a period of 5 years with the ongoing terms of the security to be determined at that time, Staff recommends Avista be required to file a status report with the Commission at least 30 days prior to any changes in the terms at the 5-year timeframe. Unless an objection is raised regarding the changes for the security terms, Staff recommends that the authority under this initial approval be continuing. Avista will file all final documents from the issuances with the Commission.

COMMISSION DECISION

Does the Commission accept Staff's recommendations to:

- 1) Approve Avista's request for authority to issue and sell up to and including \$62,000,000.
- 2) Approve Staff's recommended additional filing requirement in 5 years.
- 3) Approve Staff's recommendation that absent any objections to the refinancing or changes in the terms of these securities in 5 years, that the Commission authority under this order continue to be in force.



Terri Carlock

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