

DECISION MEMORANDUM

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

FROM: TERRI CARLOCK

DATE: MAY 7, 2004

**RE: IN THE MATER OF AVISTA CORPORATION'S APPLICATION FOR
AUTHORITY TO ISSUE NOT MORE THAN \$250,000,000 OF DEBT AND
NOT MORE THEN 3,000,000 SHARES OF COMMON STOCK;
CASE NO. AVU-U-04-2.**

On April 12, 2004, Avista Corporation (Avista) applied for authority to offer, issue and sale up to and including \$250,000,000 of unsecured bonds, notes and other indebtedness, which may be converted into or exchangeable for shares of Avista's common stock. These debt instruments may be at fixed or variable rates. If debt securities were converted for common stock the shares issued would be not more than 3,000,000 shares of common stock. If converted or exchanged the amount and price of conversion or exchange will be negotiated at the time of offering. The requested authority also includes ongoing authority to refund, extend, renew or replace any of these issuances to fully utilize the flexible nature of these markets and funds. Avista will only enter into transactions where the all-in cost is competitive with the-existing market prices of similar transactions. The proceeds will be used general corporate purposes, to refinance debt maturities and to repay funds borrowed under Avista's credit facility.

Avista will file information pertaining to the types of issuances to be made and the expected terms as soon as practical prior to the issue, but no later than the date of issuance. Avista acknowledges that for ratemaking purposes, that the determination of capital costs, capital structure and any associated ratemaking decision is reserved for the appropriate proceeding.

The current capital structure for Avista consists of 42% common equity, 7.3% preferred securities and 50.7% long-term debt. If the full \$250,000,000 was issued as debt, the proforma capital structure would consist of 36.9% common equity, 6.4% preferred securities and 56.7%

long-term debt. I believe this is unlikely, but if the full amount were converted or exchanged for common stock, the proforma capital structure would consist of 49.1% common equity, 6.4% preferred securities and 44.5% long-term debt.

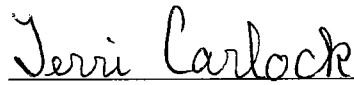
STAFF RECOMMENDATION

The proposed debt issuance and conversion authority provides an opportunity for Avista to reduce borrowing costs and to increase flexibility with future refinance options. Staff recommends approval of the requested authority. Staff recommends Avista be required to file an annual status report with the Commission showing all actual and proposed activity with this authority. Staff recommends that the authority under this initial approval be continuing. Avista will file all final documents from the issuances with the Commission. Avista will retain documentation showing the reasonableness and cost effectiveness of all issues, refunding, replacements, conversions or exchanges.

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 \$250,000,000 of unsecured bonds, notes and other indebtedness, which may be converted into or exchangeable for no more than 3,000,000 shares of Avista's common stock.
- 2) Approve Staff's recommended additional annual filing requirement.
- 3) Approve Staff's recommendation that the Commission authority under this order continue to be in force.



Terri Carlock

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