

DECISION MEMORANDUM

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

FROM: TERRI CARLOCK

DATE: NOVEMBER 24, 2004

**RE: IN THE MATTER OF AVISTA CORPORATION'S APPLICATION TO
MODIFY EXISTING ORDERS: CASE NO. AVU-U-04-3.**

On November 12, 2004, Avista Corporation (Avista) revised its Application to modify the authority contained in Order No. 27153 issued in Case No. WWP-U-97-1 and in Order No. 28899 issued in Case No. AVU-U-01-3. Specifically, Avista proposes to secure these debt obligations. Currently they are unsecured with negative covenants restricting the issuance of additional secured debt. Market opportunities to issue new secured debt make it cost effective to secure the Series C Medium-Term Notes and the Colstrip Pollution Control Bonds and issue the additional debt as secured debt rather than as shorter term unsecured debt. Removal of these negative covenants will provide Avista more flexibility on issuing debt; enable it to restructure its credit facility on more favorable terms and at competitive rates. Avista expects that these opportunities will allow it to reduce its overall costs and expenses related to its credit facilities and borrowings. The outstanding debt authorities and other terms will not change.

Summaries of the outstanding issuances to be secured are as follows:

(1) In October 1997, Avista received approval from the Commission to issue up to \$250,000,000 of debt securities (and to refinance \$85,000,000 of securities related to certain tax-exempt debt securities, which was later supplemented by the authority granted in Order No. 28899). Avista issued \$109,000,000 of Series C Notes under the authority granted in Order No. 27153. \$88,850,000 of Series C Notes are presently outstanding. The Series C Notes are unsecured obligations of Avista. Certain provisions of the Series C Notes limit the amount of secured debt Avista can issue, unless it secures the Series C Notes.

(2) In November 2001, Avista received approval from the Commission to issue up to \$83,700,000 of securities in connection with the refunding of certain pollution control bonds issued by the City of Forsyth, Montana, the proceeds of which had been loaned to Avista. Avista issued \$83,700,000 of securities related to the Colstrip Pollution Control Bonds under the authority granted in Order No. 28899. \$83,700,000 of Colstrip Pollution Control Bonds are presently outstanding. The securities issued by Avista related to the Colstrip Pollution Control Bonds are unsecured obligations of Avista. Conditions in the bond insurance agreement, pursuant to which bond insurance policies for the Colstrip Pollution Control Bonds were issued, similarly limit the amount of secured debt Avista can issue, unless it secures its obligations related to the Colstrip Pollution Control Bonds.

Because of the anticipated time schedule and steps necessary to secure its obligations related to the Colstrip Pollution Control Bonds by delivery of its first mortgage bonds to the trustee for the holders of such bonds, Avista believes that it would be prudent, as an initial interim step, to deliver first mortgage bonds directly to the bond insurer. This interim step will operate to eliminate the negative covenant contained in the bond insurance agreement until such time as Avista is able to deliver its first mortgage bonds to the trustee for the benefit of the holders of the Colstrip Pollution Control Bonds. In this way, Avista hopes to pursue the present financial market opportunities, while it works to satisfy the necessary steps for delivery of first mortgage bonds to the trustee for the holders of the Colstrip Pollution Control Bonds. Any first mortgage bonds delivered to the bond insurer would be returned and surrendered upon the issuance and delivery of first mortgage bonds to the trustee for the benefit of the holders of such bonds.

STAFF RECOMMENDATION

The proposed securitization 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 to modifying Order No. 27153 and Order No. 28899 to allow Avista to issue secured obligations in order to remove the negative covenants contained in the conditions of the Series C Notes and the bond insurance agreement for the Colstrip Pollution Control Bonds. 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 approve Avista's request for authority to modifying Order No. 27153 and Order No. 28899 to allow Avista to issued secured obligations in order to remove the negative covenants contained in the conditions of the Series C Notes and the bond insurance agreement for the Colstrip Pollution Control Bonds?



Terri Carlock

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