

DECISION MEMORANDUM

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

FROM: TERRI CARLOCK

DATE: OCTOBER 14, 2005

**RE: IN THE MATER OF AVISTA CORPORATION'S APPLICATION FOR
AUTHORITY TO ISSUE \$100,000,000 OF DEBT; CASE NO. AVU-U-05-1.**

On September 21, 2005, Avista Corporation (Avista) applied for authority to offer, issue and sale up to and including \$100,000,000 of secured or unsecured, fixed or floating rate bonds, notes or other form of indebtedness. The proceeds will be used for the following purposes:

(a) acquisition of property, or the construction, completion, extension, or improvement of facilities, (b) the improvement or maintenance of service, (c) the issuance of stock dividends, (d) the discharge or refunding of its obligations, or (e) the discharge or reimbursement of treasury for expenditures permitted by law. The expected use is more specifically to refinance \$50 million of debt maturities due over the 12-month period beginning November 2005 and \$56 million associated with the Rathdrum generating facility lease.

The interest rate, depending on market conditions at the time of issuance, is expected not to exceed 7%. The term of the security(ies) is expected to be 10 to 40 years. Avista also requests authority to refund, extend, renew or replace the proposed security(ies) to allow the greatest flexibility.

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 debt authority. However, the possible purpose for use of the proceeds is too broad. The expected use to refund \$50 million debt on the 12-month period beginning

November 2005 and the funding of costs associated with the Rathdrum generation facility are reasonable. This longer-term authority should not be granted to fund the issuance of stock dividends or annual maintenance expenses.

Staff recommends Avista be required to file an annual status report with the Commission showing all actual and proposed activity with this authority and to meet annually with Staff to discuss Avista's current financing status. Staff also recommends that Avista be required to file term sheets prior to refunding, extending, renewing or replacing the proposed security(ies) as a condition of Staff's recommendation that the authority under this initial approval be continuing.

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 will file all final documents from the issuances with the Commission. 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.

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 \$100,000,000 debt.
- 2) Approve Staff's recommended filing requirements.
- 3) Approve Avista's request for the Commission's authority under this Order continue to be in force to allow refunding, extending, renewing or replacing the proposed security(ies).

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