

DECISION MEMORANDUM

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

FROM: TOM MCKEOWN AND TERRI CARLOCK

DATE: OCTOBER 11, 2006

**RE: IN THE MATTER OF AVISTA CORPORATION'S APPLICATION FOR
AUTHORITY TO OFFER UP TO \$150 MILLION IN DEBT SECURITIES;
CASE NO. AVU-U-06-2.**

On September 25, 2006, Avista Corporation (Avista) applied for authority to offer, issue and sell up to and including \$150,000,000 in debt securities, ("the Securities"). The proceeds will be used for one or more of the following purposes: (a) the acquisition of property, or the construction, completion, extension, or improvement of its facilities, (b) the improvement or maintenance of service, (c) the issuance of stock dividends, (d) discharge or refunding of its obligations, (e) the reimbursement of moneys actually expended from income or from the treasury of Avista to the extent permitted, or (f) for other purposes permitted by law. The expected use is more specifically to refinance \$170 million of debt maturities beginning in December 2006 and \$150 million that matures January 1, 2007.

The interest rate, depending on market conditions at the time of issuance, is expected not to exceed 7.0%. The term of the security(ies) is expected to be 7 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. However, Staff believes the possible purpose for the use of proceeds is too broad. The expected use to refund \$170 million debt starting in December and January 2007 are reasonable. However, debt authority should not

be granted to fund the issuance of stock dividends. Stock dividends are appropriately paid from earnings not debt issuances. Staff will be conducting meetings with Avista to discuss the 10-year history of stock dividends paid through the issuance of debt and a 5-10 year-financial plan. These discussions will likely coincide with the filing of Avista's annual report.

Staff recommends approval of the proposed issuance. Staff also recommends that Avista be required to file term sheets prior to refunding, extending, renewing or replacing the proposed Securities as a condition of Staff's recommendation and 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 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 \$150,000,000 debt?
2. Approve Staff's recommended additional 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 securities?

A handwritten signature in black ink, appearing to read 'Tom McKeown', is written over a horizontal line.

Tom McKeown