

DECISION MEMORANDUM

**TO: COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSIONER KEMPTON
COMMISSION SECRETARY
COMMISSION STAFF
WORKING FILE**

FROM: TERRI CARLOCK

DATE: OCTOBER 30, 2008

**SUBJECT: AVISTA CORPORATION'S APPLICATION FOR AUTHORITY TO
ISSUE UP TO \$225,000,000 OF DEBT SECURITIES;
CASE NO. AVU-U-08-02**

On October 10, 2008, Avista Corporation (Avista) requested authority to issue up to \$150 million in various debt arrangements. On October 17, 2008 an amended request was made to increase the authority to \$225 million. The requested increase was due to the changing unpredictable and volatile market environment along with investor acceptance of various debt instruments at a point in time.

Avista's current bond ratings are Baa2 by Moody's and BBB+ by S&P.

The debt instruments are expected to be secured, fixed or floating rate instruments. Avista will only enter into transactions where the fees, interest rates and expenses are competitive with market prices for similar transactions. The term may exceed 364 days but will be no more than 3 years.

The Company also requests authority to issue, redeem and reissue securities under this authority without further Commission approval to allow additional flexibility. The issuance will allow the Company greater flexibility to manage its funds and minimize borrowing costs, thereby permitting the Company to better manage its debt and capital in a more efficient and cost effective manner.

The proceeds will be used for one or more of the following purposes: (a) the Company's construction, facility improvement, and maintenance programs, (b) to retire or exchange one or more outstanding stock, bond, or note issuances, (c) to reimburse to the treasury

for funds previously expended, and (d) for such other purposes as may be permitted by law. More specifically, the Company anticipates using the proceeds from the issuance of the securities to maintain liquidity and refinance debt maturities. A \$25 million maturity is due in December 2008. Depending on the liquidity of the pollution control bond market, proceeds may be used to meet the mandatory retirement of \$83.7 million of pollution control bonds on December 30, 2008. In March 2009, \$60 million of trust preferred securities can be optionally redeemed when the fixed interest rate period ends. For some time the trust preferred markets have not been liquid so the rates have been very high. It will likely be cost effective for Avista to redeem these securities.

STAFF RECOMMENDATION

Staff recommends approval of the requested \$225 million debt securities. Staff also recommends the authority under this approval be continuing to allow issuance, redemption and reissuance of securities under this authority without further approval. Staff recommends notification of issuances and standard reporting requirements. No debt issuances will be utilized to pay stock dividends.

COMMISSION DECISION

Does the Commission wish to approve the requested authority of \$225 million debt with the recommended notification and reporting requirements?

Terri Carlock

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