

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA)	
CORPORATION'S APPLICATION FOR)	CASE NO. AVU-U-13-01
AUTHORITY TO ISSUE UP TO 7,250,000)	
SHARES OF COMMON STOCK)	ORDER NO. 32991
)	

On December 4, 2013, Avista Corporation applied to the Idaho Public Utilities Commission for an Order allowing it to issue up to 7,250,000 authorized but unissued shares of common stock to be used for the limited purpose described in the Application. Based on our review of the record, we issue this Order approving the Application as noted below.¹

THE APPLICATION

Avista is a Washington corporation that is qualified to do business in the State of Idaho. It is engaged in the generation, transmission, distribution and sale of electricity in northern Idaho, eastern Washington, and western Montana. With this Application, Avista asks the Commission to authorize it to issue up to 7,250,000 shares² of common stock for use in funding its merger with Alaska Energy and Resources Company ("AERC"). By way of background, Avista explains that on November 4, 2013, it entered into an Agreement and Plan of Merger ("Merger Agreement") with Alaska Merger Sub, Inc. ("Merger Sub") and AERC. Merger Sub is a wholly owned corporation of Avista and was created to facilitate Avista's acquisition of AERC, which includes the utility operations of Alaska Electric Light and Power ("AEL&P"). Upon receiving all necessary approvals, Merger Sub will merge with AERC and dissolve as a separate corporate entity, leaving AERC as Avista's wholly owned subsidiary. AEL&P is a vertically integrated electric utility providing electric service to the City and Borough of Juneau, Alaska. It is regulated by the Regulatory Commission of Alaska.

¹ *Idaho Code* § 61-904 requires the Commission to dispose of a securities application within 30 days "unless it is necessary, for good cause, to continue same for a longer period." Here, the Company filed the Application on December 4, 2013, but asked the Commission to issue its Order within 60 days. *See* Application at 5. In addition, Staff represents the Company agreed to further extend the deadline past the 60-day period to allow Staff more time to complete its examination of the proposal. *See* February 28, 2014, Decision Memorandum. Based on these facts, we find that good cause exists to continue this case beyond the 30-day period specified in statute, and until the date of the issuance of this Order.

² The requested authority to issue the 7,250,000 shares of common stock is in addition to the authority previously granted by the Commission through Order Nos. 25362, 29947, and 32381.

The Merger Agreement provides that when Avista acquires AERC, AERC's issued and outstanding common stock will be exchanged for Avista common stock. Avista will buy AERC for \$170 million, less the assumption of then outstanding debt and other closing adjustments. Avista estimates it will issue \$145 million in common stock in exchange for the AERC stock. But the actual number of shares Avista issues will depend on the closing price of Avista's shares. Avista's estimate of \$145 million in net consideration will change at closing based on the actual amount of AERC debt that Avista assumes and other adjustments.

Avista asks to issue up to 7,250,000 shares of common stock for the limited purpose acquiring AERC, and Avista will terminate any unused shares related to the AERC acquisition. After the transaction closes, AEL&P and AERC will issue debt to rebalance the capital structure to achieve a capital structure for AERC that is similar to Avista's capital structure. AERC and AEL&P's assets will back any debt assumed on AERC and AEL&P's books, and any new debt. In the end, Avista's utility customers will experience the same capital structure after the transaction closes that they do now.

As part of the rebalancing of AEL&P and AERC's capital structure, AERC will transfer funds to Avista that Avista will use to finance its utility capital budget and operating costs. Thus, besides funding the merger investment, Avista will use part of the proceeds from the initial common equity issuance to fund its capital budget and operating costs. Avista says that without its issuance of common stock related to the AERC transaction, it would otherwise have to issue about \$70 million of common equity to fund its utility operations.

AEL&P is AERC's wholly owned subsidiary and will remain so after Avista acquires AERC. The employees that operate AEL&P today, including its existing management team of AEL&P, will continue to operate AEL&P. AEL&P's customers, service territory, facilities and generating resources are geographically and electrically isolated, which limits Avista's opportunity to integrate AEL&P's operations with its existing utility operations in Washington, Idaho and Oregon. Avista intends to hold and manage AEL&P as a stand-alone utility.

If Avista employees dedicate time and incur costs to support AERC's operation, Avista will track and assign those costs to AERC and AEL&P. Likewise, if AEL&P employees support Avista's utility operations, AEL&P will assign those costs to Avista. Avista expects the cost assignment to and from AEL&P to be relatively small because AEL&P will continue to operate as a stand-alone utility. But if opportunities arise to consolidate certain Avista and

AEL&P utility functions, Avista may propose some form of cost allocation between the two utilities.

Avista will directly assign costs to the proposed AERC and AEL&P subsidiary operations just as it does with its existing subsidiaries. When Avista's employees provide services and support to existing subsidiaries, Avista charges those costs to suspense accounts (Deferred Debit Account No. 186), loads them for benefits, and establishes them as a receivable (FERC Account No. 146) when billed to the subsidiary. And if Avista expends other resources during this work, like travel or consulting services, Avista also charges those costs to suspense accounts and bills the subsidiary. Avista directly bills its subsidiaries for all corporate services provided, and costs incurred, at Avista's cost. No additional margin or profit is included and no assets are allocated. This assignment of Avista employee costs is then billed back to the subsidiary at cost and reduces the utility's expenses. Where the costs are included in Avista's utility rates, Avista's customers will see a slight cost reduction (benefit) from this cost assignment.

Documents filed with the Application indicate that no person has received or will be entitled to receive from Avista any fee (1) for services in connection with the consummation of the issuance and sale of the above-referenced securities, other than fees for underwriting, private placement, legal, accounting or similar professional or technical services, or (2) for services in securing underwriters, sellers or purchasers of the securities.

STAFF REVIEW

Commission Staff reviewed Avista's Application. Based on that review, Staff recommended the Commission approve the requested common stock issuance authority. Staff observes, however, that it is Avista's ongoing responsibility to demonstrate that its acquisition of AERC and AEL&P will not harm Avista's Idaho customers. Staff thus recommended the Commission require Avista to:

- (1) File all merger closing documents with the Commission;
- (2) File all final closing journal entries with the Commission;
- (3) Maintain its own utility operating books and records, separate from AERC books and records, and notify Commission Staff before any future consolidation of the operating books in the future. Further, Avista must maintain separate Subaccounts;

- (4) Provide Staff with access to all books and records including final merger tax elections, and adequate audit trails for all affiliated operations related to any affiliated transactions;
- (5) Exclude from Avista utility operations for recovery from existing utility customers, any costs related to Alaska Merger Sub AEL&P, AERC or any purchase premium or goodwill without express approval from this Commission; and
- (6) File status reports with the Commission reflecting pertinent quarterly financial information to include the following: (a) Debt to Equity Ratio, (b) Enterprise Value, (c) Net Income Available to Common Stock, and (d) Common Shares Outstanding.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Commission finds that Avista Corporation is a Washington corporation that is qualified to do business in Idaho. The Company is a public utility engaged in the generation, purchase, transmission, distribution and sale of electric energy and the purchase, distribution, and sale of natural gas. The Company is a gas corporation within the definition of *Idaho Code* § 61-117, an electric corporation within the definition of *Idaho Code* § 61-119, and a public utility within the definition of *Idaho Code* § 61-129. The Commission has jurisdiction over this Application pursuant to the provisions of *Idaho Code* § 61-901, *et seq.*

Avista's Application reasonably conforms to Rules 141 through 150 of the Commission's Rules of Procedure (IDAPA 31.01.01.141-150), and Avista has paid all fees required by *Idaho Code* § 61-905.

The proposed issuance is for a lawful purpose, is within Avista's corporate powers, and is compatible with the public interest.

The Commission's approval of the issuance is not a finding of fact or a conclusion of law that the particular use to which these funds are to be put is approved by this Order. The issuance of an Order authorizing the proposed issuance does not constitute agency determination or approval of the type of financing or the related costs for ratemaking purposes. The Commission does not have before it for determination in this case and therefore does not determine the effect of issuance on rates to be charged by Avista for gas or electric service to consumers in the State of Idaho.

O R D E R

IT IS HEREBY ORDERED that Avista's Application for authority to issue up to 7,250,000 authorized but unissued shares of common stock for the limited purpose of funding Avista's acquisition of AERC is granted.

IT IS FURTHER ORDERED that Avista shall file the following as they become available:

1. The "Report of Securities Issued" required by 18 C.F.R. § 34.10; and
2. Verified copies of any agreement entered into in connection with the Company's sales and issuances of the Shares.

IT IS FURTHER ORDERED that Avista shall:

1. File all merger closing documents with the Commission;
2. File all final closing journal entries with the Commission;
3. Maintain its own utility operating books and records, separate from AERC books and records, and notify Commission Staff before any future consolidation of the operating books in the future. Further, Avista must maintain separate Subaccounts;
4. Provide Staff with access to all books and records including final merger tax elections, and adequate audit trails for all affiliated operations related to any affiliated transactions;
5. Exclude from Avista utility operations for recovery from existing utility customers, any costs related to Alaska merger sub AEL&P, AERC or any purchase premium or goodwill without express approval from this Commission; and
6. File status reports with the Commission reflecting pertinent quarterly financial information to include the following: (a) Debt to Equity Ratio, (b) Enterprise Value, (c) Net Income Available to Common Stock, and (d) Common Shares Outstanding.

IT IS FURTHER ORDERED that the issuance of this Order does not constitute acceptance of Avista's exhibits or other material accompanying this Application for any purpose other than the issuance of this Order.

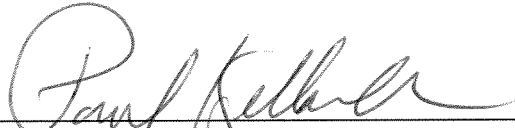
IT IS FURTHER ORDERED that nothing in this Order or any act or deed performed in connection with this Order shall be construed to obligate the State of Idaho to pay or guarantee

in any manner whatsoever any security authorized, issued, assumed or guaranteed under the provisions of this Order.

IT IS FURTHER ORDERED that this authorization is without prejudice to the Commission's regulatory authority regarding rates, service, accounts, evaluation estimates or determination of costs or any other matter which may come before the Commission pursuant to its jurisdiction and authority as provided by law.

THIS IS A FINAL ORDER. Any person interested in the Order (or in issues decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order and in this case. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code §§ 61-626 and 62-619.*

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 5th day of March 2013.



PAUL KJELLANDER, PRESIDENT

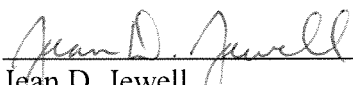


MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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