

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-07 _____

DOCKET NO. UG-07 _____

EXHIBIT NO. ____ (MKM-2)

MALYN K. MALQUIST
REPRESENTING AVISTA CORPORATION

AVISTA CORPORATION
Long-term Securities Credit Ratings

| | Standard & Poor's | Moody's | Fitch |
|-------------------------|-------------------|---|--|
| Last Reviewed | April 2007 | March 2004 | December 2006 |
| Credit Outlook | Positive | Stable | Positive |
| Business Profile | 6 | N/A | N/A |
| AAA | Aaa | | AAA |
| AA+ | Aa1 | | AA+ |
| AA | Aa2 | | AA |
| AA- | Aa3 | | AA- |
| A+ | A1 | | A+ |
| A | A2 | | A |
| A- | A3 | | A- |
| BBB+ | Baa1 | | BBB+ |
| BBB | Baa2 | | BBB |
| BBB- | baa3 | First Mortgage Bonds Secured Medium-Term Notes | BBB- First Mortgage Bonds Secured Medium-Term Notes |
| INVESTMENT GRADE | | | |
| BB+ | Ba1 | Avista Corp./Issuer rating Unsecured Medium-Term Notes Senior Corporate Notes 9.75% | BB+ Unsecured Medium-Term Notes Senior Corporate Notes 9.75% |
| BB | Ba2 | Trust-Originated Preferred Securities | BB Avista Corp./Issuer rating Preferred Stock Trust-Originated Preferred Securities |
| BB- | Ba3 | Preferred Stock | BB- Preferred Stock |

AVISTA CORPORATION
Capital Structure and Overall Rate of Return

| PROFORMA | | | | |
|--|--------------------------------------|------------------------------|-------------------|----------------------------|
| Cost of Capital as of December 31, 2007 | Amount | Percent of Total Capital | Cost | Component |
| L/T Debt (1) | \$1,016,418,053 | 47.54% | 7.70% | 3.66% |
| Trust Preferred Securities | 100,000,000 | 4.68% | 7.04% | 0.33% |
| Common Equity | <u>1,021,679,943</u> | <u>47.78%</u> | 11.30% (2) | <u>5.40%</u> |
| TOTAL | <u><u>\$2,138,097,996</u></u> | <u><u>100.00%</u></u> | | <u><u>9.39%</u></u> |

| EMBEDDED | | | | |
|--|------------------------------------|------------------------------|---------------|----------------------------|
| Cost of Capital as of December 31, 2006 | Amount | Percent of Total Capital | Cost | Component |
| L/T Debt (1) | \$974,171,924 | 47.48% | 7.74% | 3.67% |
| Trust Preferred Securities | 100,000,000 | 4.89% | 7.20% | 0.35% |
| Preferred Stock | 26,250,000 | 1.28% | 7.39% | 0.09% |
| Common Equity | <u>\$942,748,776</u> | <u>46.14%</u> | 10.40% | <u>4.80%</u> |
| TOTAL | <u><u>2,043,170,700</u></u> | <u><u>100.00%</u></u> | | <u><u>8.98%</u></u> |

(1) Includes short term debt

(2) Proposed Return on Common Equity - See Avera testimony

See supporting documentation

All cost are shown before tax