

Exhibit No. ____ (MKM-2)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-08 _____

DOCKET NO. UG-08 _____

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	February 2008	December 2007	August 2007
Credit Outlook	Stable	Stable	Positive
A+	A1	A+	A+
A	A2	A	A
A-	A3	A-	A-
BBB+ First Mortgage Bonds Secured Medium-Term Notes	Baa1	BBB+	BBB+
BBB	Baa2	BBB	BBB First Mortgage Bonds Secured Medium-Term Notes
BBB- Avista Corp./Corporate rating Senior Corporate Notes 9.75%	Baa3	BBB-	BBB- Senior Corporate Notes 9.75%
INVESTMENT GRADE			
BB+	Ba1	BB+	BB+ Avista Corp./Issuer rating Trust-Originated Preferred Securities
BB	Ba2	BB	BB
BB-	Ba3	BB-	BB-

AVISTA CORPORATION
Capital Structure and Overall Rate of Return

PRO FORMA				
Cost of Capital as of December 31, 2008	<u>Amount</u>	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Component</u>
Total Debt (1)	\$1,149,158,000	53.70%	6.38%	3.43%
Common Equity	<u>990,683,000</u>	<u>46.30%</u>	10.80% (2)	<u>5.00%</u>
TOTAL	<u><u>\$2,139,841,000</u></u>	<u><u>100.00%</u></u>		<u><u>8.43%</u></u>
EMBEDDED				
Cost of Capital as of December 31, 2007	<u>Amount</u>	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Component</u>
Total Debt (1)	\$1,075,395,583	53.45%	7.88%	4.21%
Common Equity	<u>936,501,238</u>	<u>46.55%</u>	10.40%	<u>4.84%</u>
TOTAL	<u><u>\$2,011,896,821</u></u>	<u><u>100.00%</u></u>		<u><u>9.05%</u></u>

(1) Includes short term debt

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

See supporting documentation

All costs are shown before tax

Assumptions

1. Started with 12-31-2007 actual
2. Proforma through 12-31-2008
3. The forecasted equity and debt numbers come from forecast DEC6 model run
4. Equity is adjusted for Other Comprehensive Income and capital stock expense of \$21,921,000
5. Forecasted issuance of \$12.5 million of additional equity through different company programs

AVISTA CORPORATION
 Proforma Cost of Long-Term Debt Detail
 December 31, 2008

Description	Coupon Rate	Maturity Date	Settlement Date	Principal Amount	Issuance Costs	Loss/Reacq Expenses	Net Proceeds	Yield to Maturity	Principal Outstanding 12/31/2008	Effective Cost	Line No.
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	
SMTN Series A	Series Costs	8/31/2010	5/1/1993		373,693					21,663	1
SMTN Series A	6.67%	7/12/2010	7/12/1993	5,000,000	35,081	690,464	4,274,455	8.275%	5,000,000	413,765	2
SMTN Series A	7.18%	8/11/2023	8/12/1993	7,000,000	54,364		6,945,636	7.244%	7,000,000	507,064	3
SMTN Series A	7.37%	5/10/2012	5/10/1993	7,000,000	49,114	1,227,883	5,723,003	9.455%	7,000,000	661,877	4
SMTN Series A	7.39%	5/11/2018	5/11/1993	7,000,000	54,364	1,227,883	5,717,753	9.287%	7,000,000	650,114	5
SMTN Series A	7.45%	6/11/2018	6/9/1993	15,500,000	170,597	2,140,440	13,188,963	8.953%	15,500,000	1,387,715	6
SMTN Series A	7.53%	5/5/2023	5/6/1993	5,500,000	42,712	963,011	4,949,277	9.359%	5,500,000	514,744	7
SMTN Series A	7.54%	5/5/2023	5/7/1993	1,000,000	7,726	175,412	816,862	9.374%	1,000,000	93,742	8
SMTN Series B	Series Costs	5/1/2009	5/1/1994		329,022					21,935	9
SMTN Series B	6.90%	7/1/2010	6/9/1995	5,000,000	37,944		4,962,056	6.982%	5,000,000	349,077	10
5.70% FMB's	5.70%	7/1/2037	12/15/2006	150,000,000	8,646,793		141,353,207	6.119%	150,000,000	9,178,493	11
6.125% FMB's	6.125%	9/1/2013	9/8/2003	45,000,000	931,413	815,824	43,252,763	6.664%	45,000,000	2,998,615	12
5.45% FMB's	5.450%	12/1/2019	11/18/2004	90,000,000	1,435,924		88,564,076	5.608%	90,000,000	5,047,387	13
6.25% FMB's	6.250%	12/1/2035	11/17/2005	150,000,000	-2,185,830	1,696,694	150,489,136	6.226%	150,000,000	9,338,427	14
PCB's Kettle Falls	6.00%	12/1/2023	7/29/1993	4,100,000	282,248		3,817,752	6.523%	4,100,000	267,441	15
PCB's Series 1999A	5.00%	10/1/2032	9/11/1999	66,700,000	2,700,581	4,751,984	59,247,435	5.759%	66,700,000	3,941,467	16
PCB's Series 1999B	5.125%	3/1/2034	9/11/1999	17,000,000	954,386	1,266,265	14,779,349	6.029%	17,000,000	1,050,432	17
MTN's Series C	Series Costs	6/15/2013	6/15/1998		610,794					40,720	18
MTN's Series C	6.37%	6/19/2028	6/19/1998	15,000,000	174,178		14,825,822	6.458%	15,000,000	968,711	19
MTN's Series C	6.37%	6/19/2028	6/19/1998	10,000,000	172,775		9,827,225	6.502%	10,000,000	650,164	20
MTN's Series C	8.02%	10/26/2010	10/26/1999	25,000,000	161,287	707,527	24,131,186	8.513%	25,000,000	2,128,207	21
Trust Preferred Securities	6.50%	4/1/2034	4/5/2004	60,000,000	3,389,726		56,610,274	6.951%	60,000,000	4,170,403	22
Proforma Debt	6.28%	5/1/2018	5/17/2008	250,000,000	2,500,000		247,500,000	6.417%	250,000,000	16,042,591	23
Proforma Debt	6.75%	9/1/2038	9/1/2008	100,000,000	1,000,000		99,000,000	6.829%	100,000,000	6,828,799	24
							1,035,800,000	6.495%	1,035,800,000	67,273,554	25
Repurchase	4	6/5/2028	5/24/2002	10,000,000		-2,228,153	12,228,153	6.981%	5	-188,085	26
Repurchase	4	6/5/2028	4/3/2003	10,000,000		-407,637	10,407,637	8.435%	5	-39,153	27
Repurchase	4	12/29/2022	3/11/2003	5,000,000		92,363	4,907,637	9.029%	5	10,570	28
Repurchase	4	9/10/2012	7/7/2003	12,000,000		357,674	11,642,326	8.848%	5	64,258	29
	6	Var. Rate Long-Term Debt		40,000,000			40,000,000	4.363%	40,000,000	1,745,258	31
	7	Short-Term debt		73,358,000			73,358,000	6.066%	73,358,000	4,449,791	32
		TOTAL LONG-TERM DEBT					1,039,521,230	6.401%	1,075,800,000	68,866,403	32
		TOTAL PRO FORMA COST OF DEBT 12/31/2008					Cost	6.380%	1,149,158,000	73,316,194	33

1 Includes the annual insurance premium
 2 Forecasted issuance of \$250 million of FMB's with a 10-year life and a weighted average coupon rate of 6.28%
 The weighted average rate is a combination of a \$75 million swap at 7.0%, \$50 million swap at 6.44% and \$125 million of a forecasted rate at 5.78%
 3 Forecasted issuance of \$100 million of FMB's with a 30-year life and a forecasted coupon of 6.75%
 4 The coupon rate used is the cost of debt at the time of the repurchases
 5 The amounts are calculated using the IRR function
 6 Information pulls from the - Var. Rate Long-Term tab
 7 Information pulls from the - Short-Term tab

AVISTA CORPORATION
Proforma Cost of Long-Term Variable Rate
December 31, 2008

	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Avg of
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)
1 Trust Preferred	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	40,000,000
2 Total Short Term Debt	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000
3														
4														
5														
6 Number of Days in Month	31	31	29	31	30	31	30	31	31	31	30	31	30	31
7 Forecasted Trust Preferred Borrowing Rate	5.13%	5.13%	5.13%	5.13%	4.63%	4.63%	4.63%	4.13%	4.13%	4.13%	3.88%	3.88%	3.88%	3.88%
8 Trust Preferred Interest Expense	176,700	176,700	165,300	176,700	154,333	159,478	154,333	142,256	142,256	142,256	133,644	129,333	133,644	1,805,644
9 Total Interest Expense	176,700	176,700	165,300	176,700	154,333	159,478	154,333	142,256	142,256	142,256	133,644	129,333	133,644	1,805,644
10 Forecasted Monthly Borrowing Rate	5.13%	5.13%	5.13%	5.13%	4.63%	4.63%	4.63%	4.13%	4.13%	4.13%	3.88%	3.88%	3.88%	3.88%
11														4.51%
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Average borrowing rate used in the calculation of the effective costs below

Description	Coupon Rate	Maturity Date	Settlement Date	Principal Amount	Issuance Costs	Loss/Reacq Expenses	Net Proceeds	Yield to Maturity	Principal Outstanding 12/31/2008	Effective Cost
Trust Preferred	4.51%	6/1/2037	6/3/1997	40,000,000	1,362,388	(2,500,000)	41,137,612	4.363%	40,000,000	1,745,258

