

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-170485

DOCKET NO. UG-170486

EXH. MTT-7

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REPRESENTING AVISTA CORPORATION



Financing Update



Washington Utilities and Transportation Commission
July 30, 2013



Agenda

- Background
- Market Overview
- Interest Rate Risk
- Interest Rate Risk Mitigation

Financing Update: Background

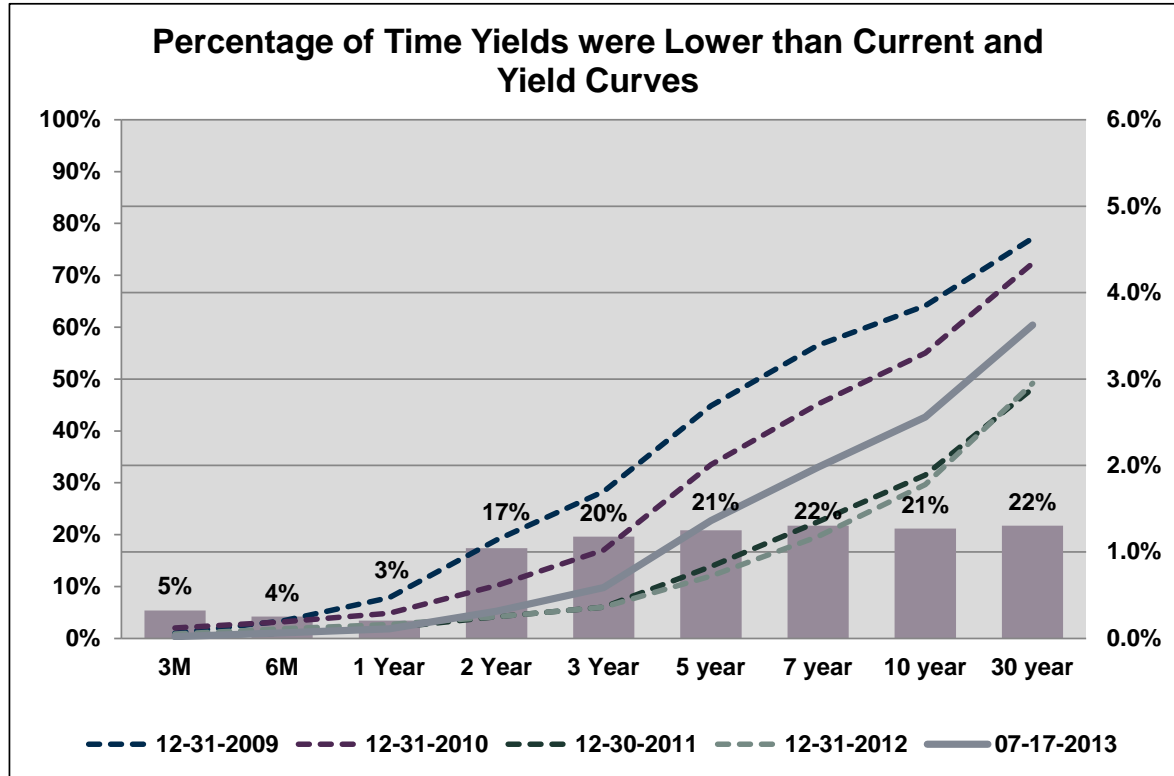
Avista Corp. utilizes the following instruments to finance the Company

- Short-term debt
 - \$400 million Credit Facility with an expiration date of February 2017
- Long-term debt
 - Secured debt under the Company's mortgage
- Common stock
 - New shares primarily issued through a periodic offering program



Market Overview

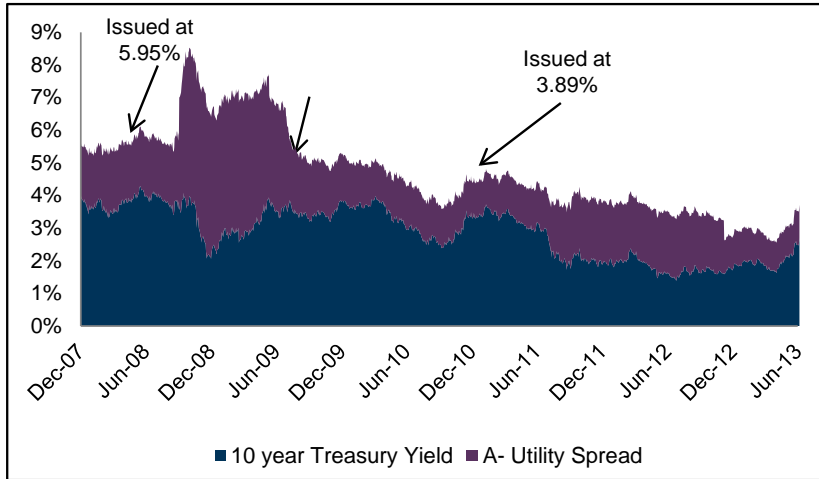
Market Overview: Yield Curve



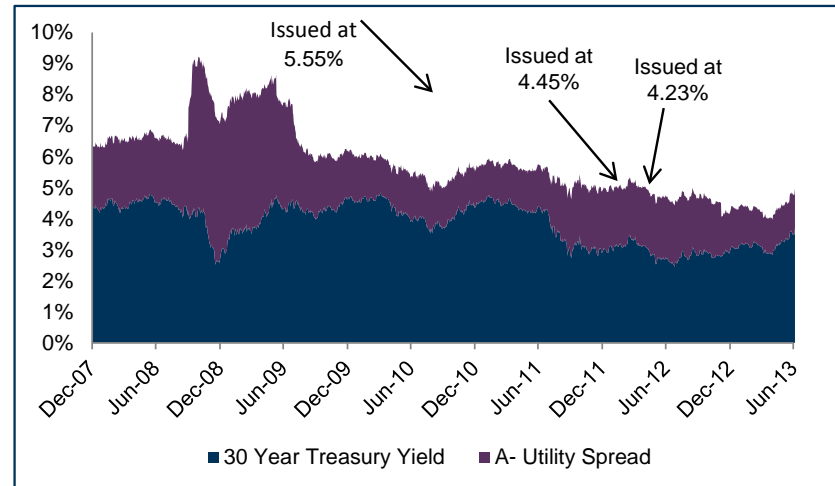
Note: Bar chart represents percent of time yields were less than current rates are based upon the period from Dec. 31, 2003 through July 17, 2013



Market Overview: Utility Yields 10 and 30 Year

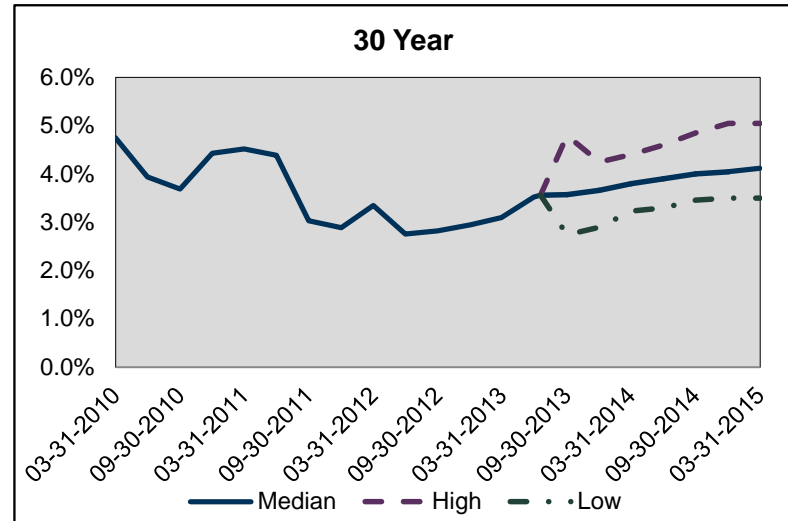
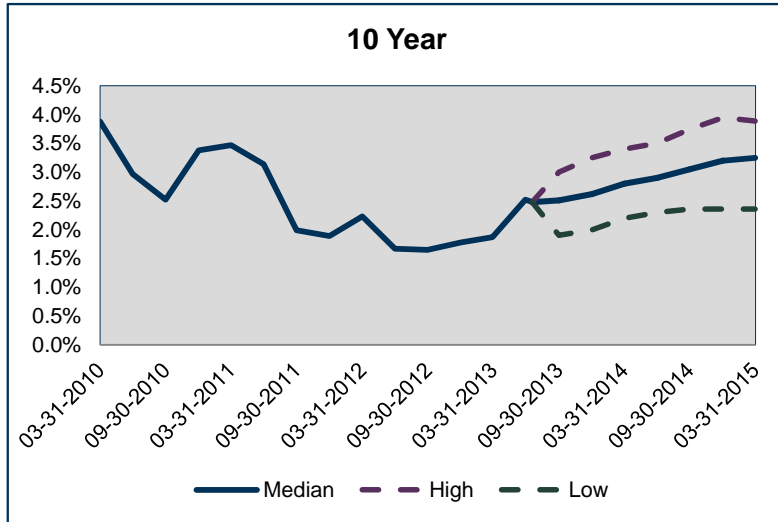


Historical Treasury Rates and Credit Spreads 10 and 30 year



Source: Reuters

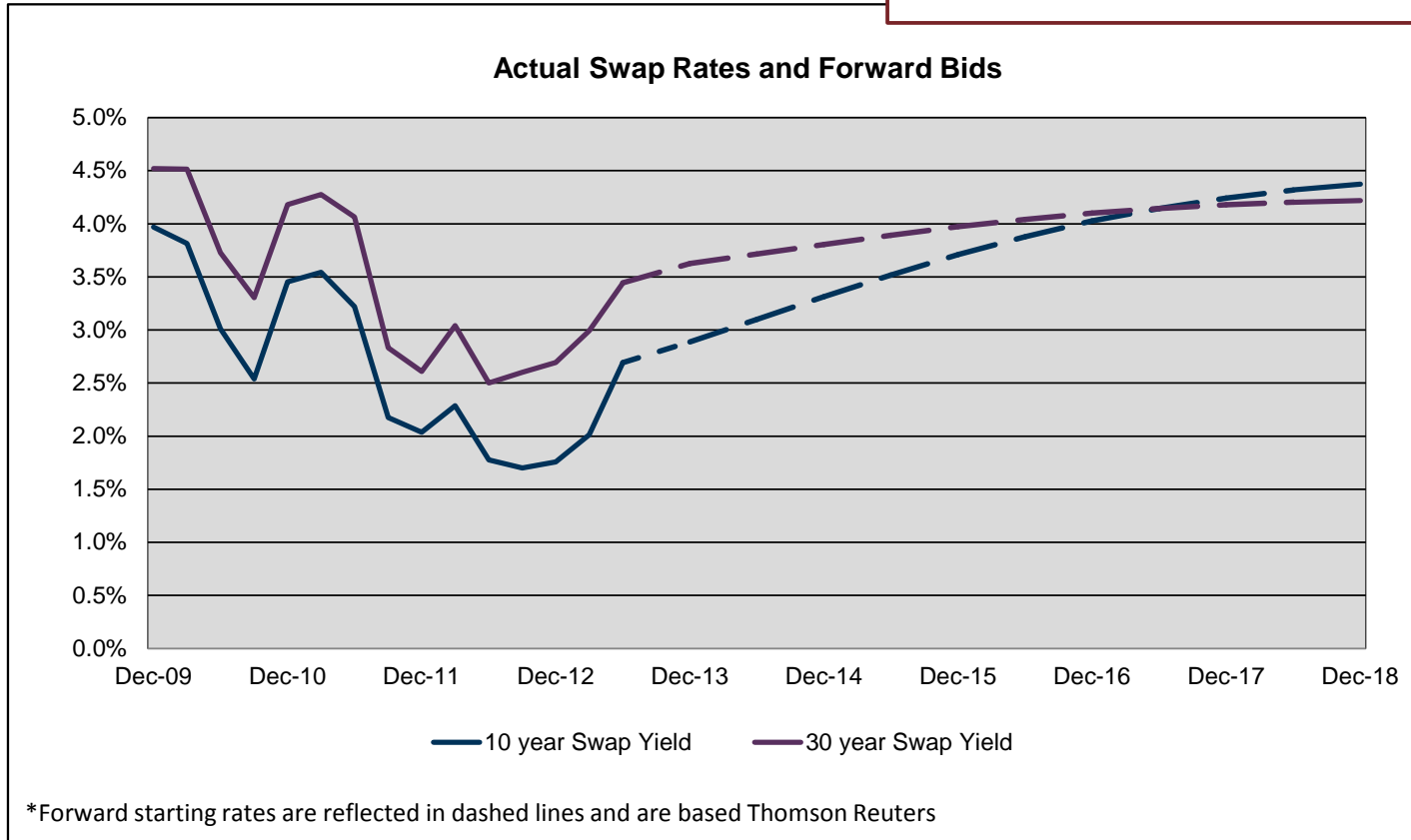
Market Overview: Treasury Yields: 10 and 30 Year



Note: Forecasted rates are reflected in dashed lines and are based on Bloomberg Survey Results as of July, 11 2013



Market Overview: Spot and Forward Swap Rates





Market Overview: Key Themes

- Out of the 12 districts of the Fed 11 are reporting modest to moderate growth, the 12 is reporting strong growth
- May begin tapering the \$85 billion quantitative easing plan as early as 3rd quarter and may be compressing long-term rates by as much as 70 basis points

United States

- Fed Chairman's future
- Upcoming Congress financial debates:
 - Debt ceiling
 - The 2014 budget

Euro Zone

- Record high unemployment rate
- Eurozone GDP continues to contract
- Weaker than expected results from Germany
- Continued political tensions

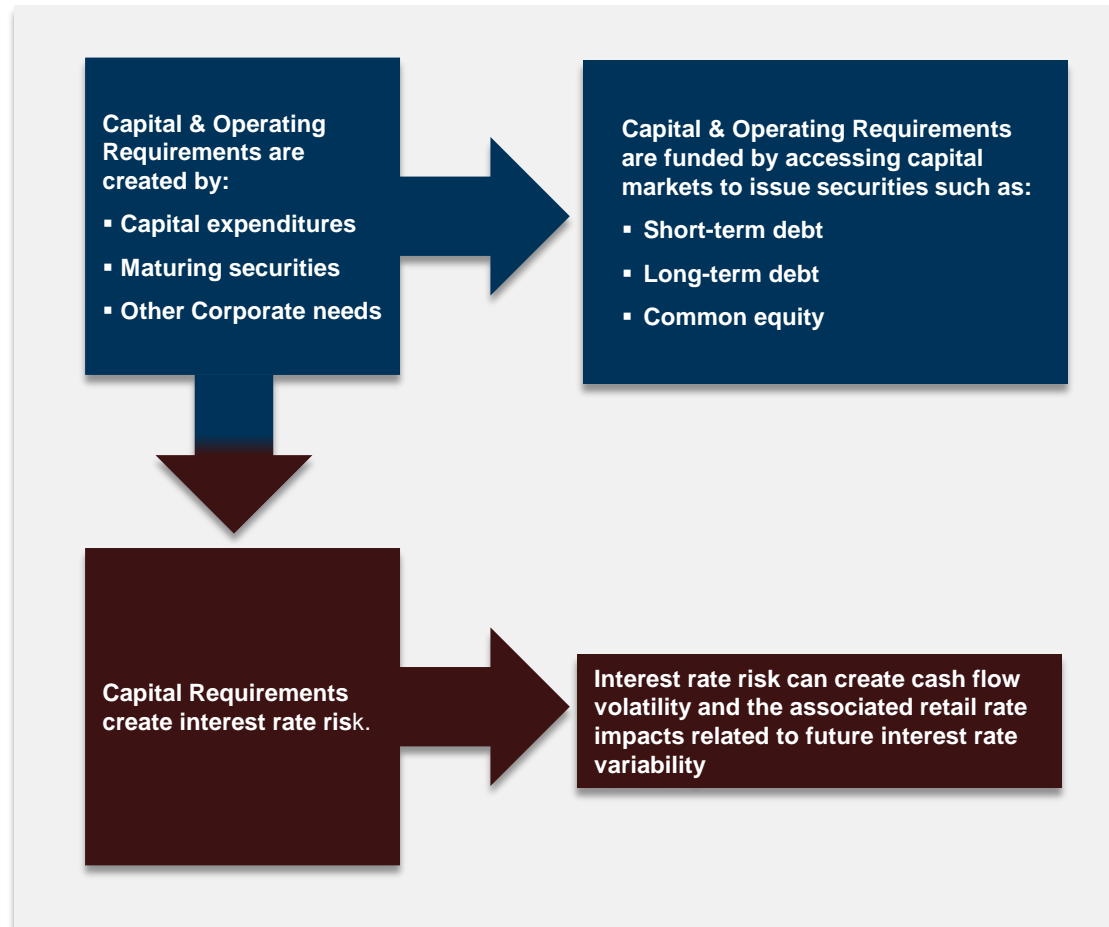


Key Economic Indicators

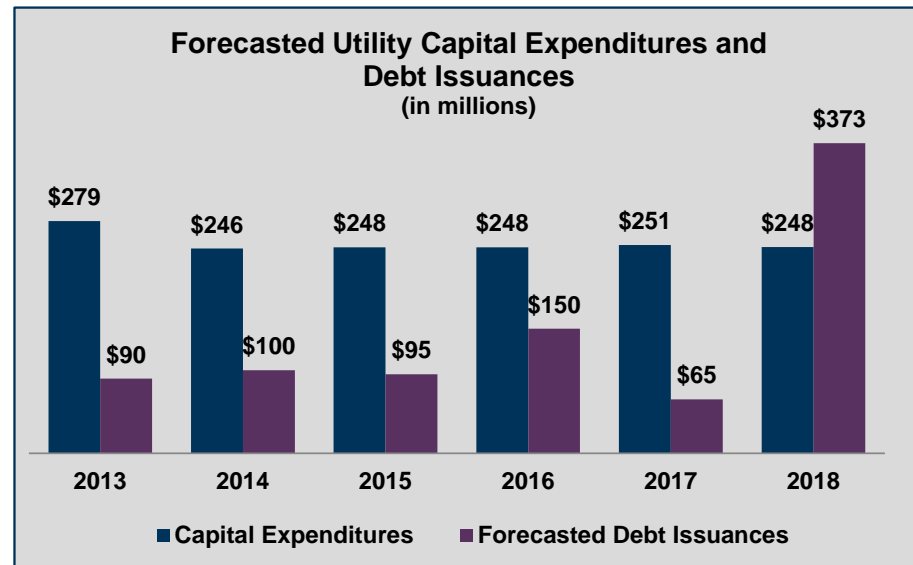
	United States			Euro Zone		
	2012	2013	2014	2012	2013	2014
GDP	3.1%	1.8%	2.7%	(0.6%)	(0.7%)	1.2%
Unemployment	7.8%	7.5%	6.9%	11.8%	12.3%	12.4%
Inflation	1.7%	1.8%	2.0%	2.2%	1.5%	1.5%

Interest Rate Risk

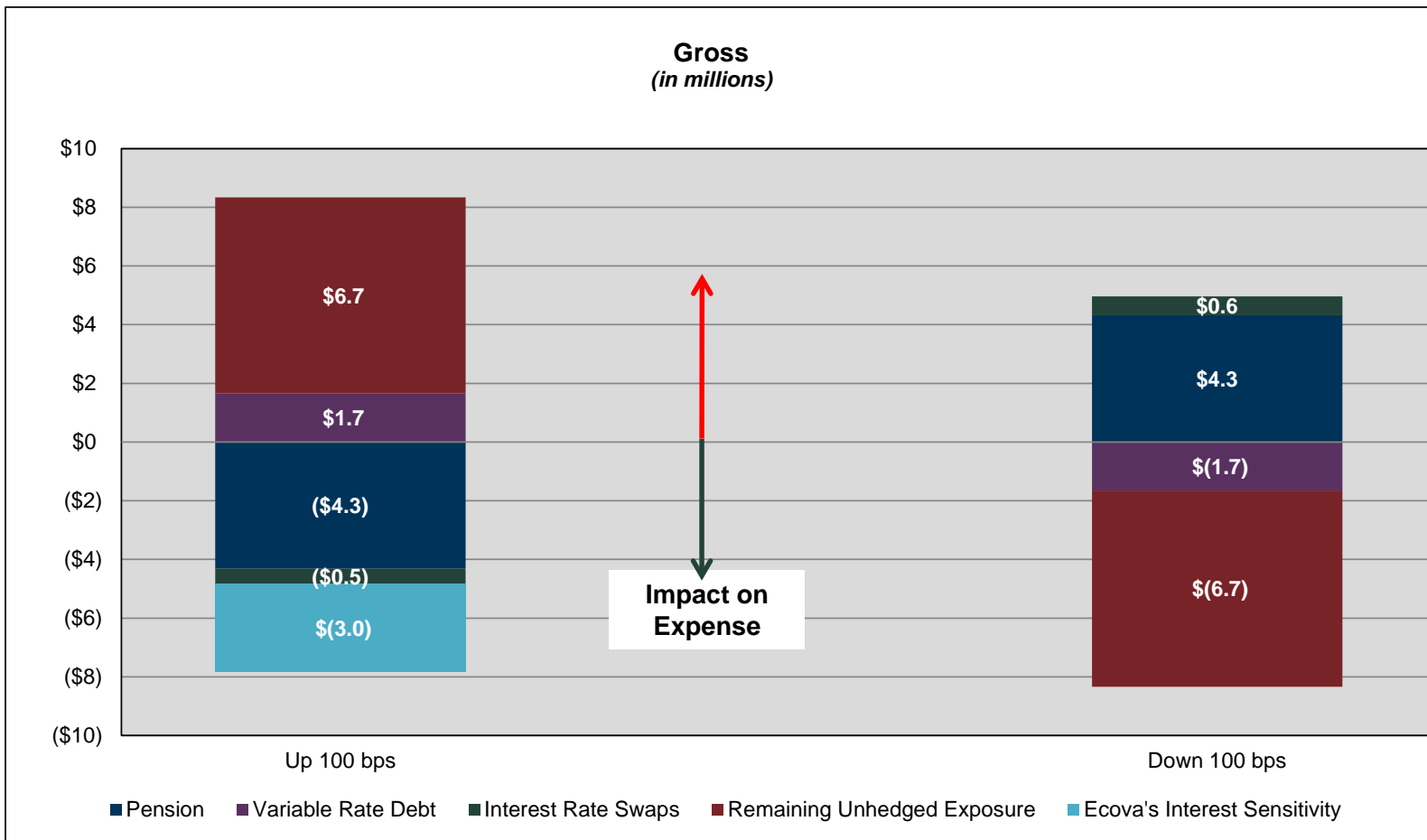
Interest Rate Risk



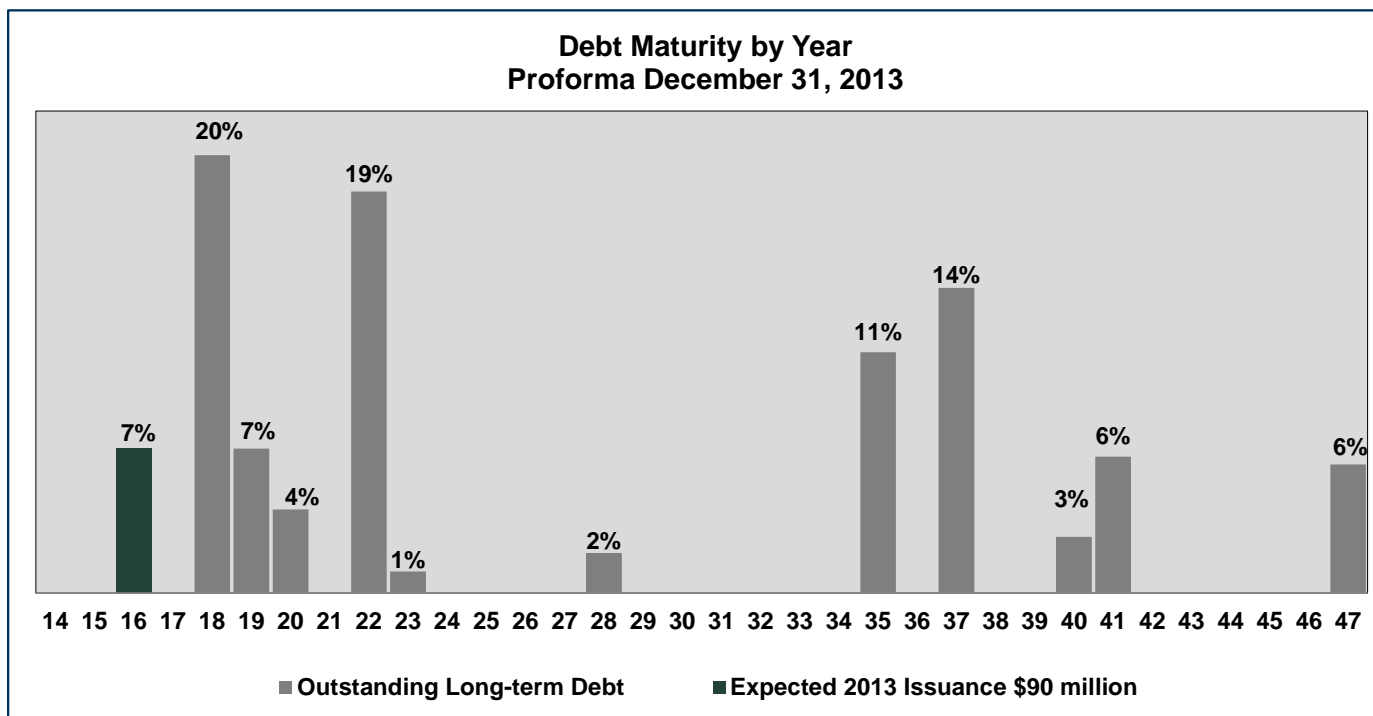
- We have significant capital requirements that we expect to fund, in part, by accessing capital markets
- We are affected by fluctuating interest rates related to a portion of our existing debt, our future borrowing requirements, and our pension and other post-retirement benefit obligations



NOTE: Capital Expenditures for 2018 are estimated based on the average of 2014 through 2017



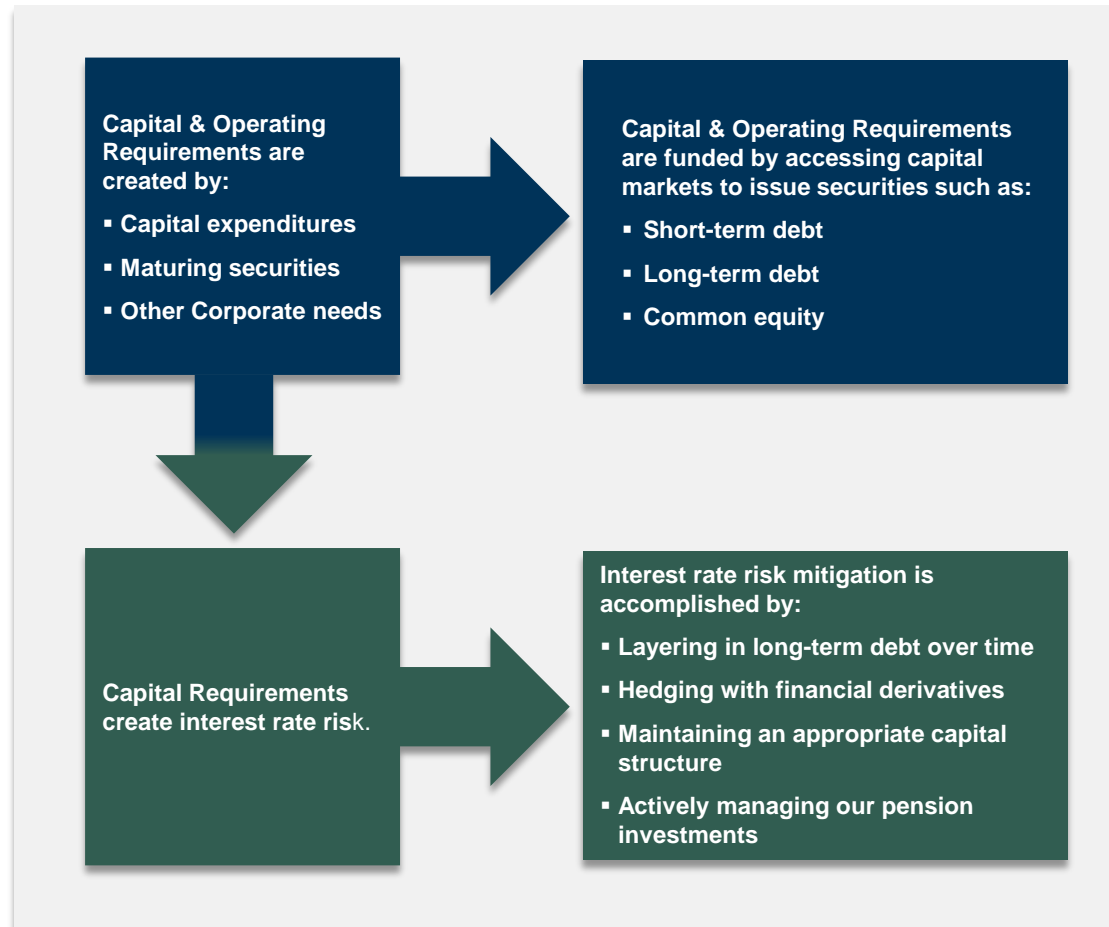
(1) As of June 28, 2013



- Avista Corp's next long-term debt maturity is \$50 million in 2013 (*refinancing of these is included in the \$90 million 2013 forecasted issuance*)
- There is currently adequate liquidity in the interest rate swap market to hedge at least five years out

Interest Rate Risk Mitigation Plan

Interest Rate Risk Mitigation Plan



Mission Statement

Maintain a competitive cost of capital while reducing cash flow volatility and the associated retail rate impacts, related to future interest rate variability.

Interest Rate Risk Mitigation Guidelines

- Interest rate risk management occurs solely in the context of hedging underlying financial exposures associated with interest rate uncertainty
- Utilizing hedge ratios, hedge windows, triggers, rate monitoring and back casting
- Authorized interest rate derivatives (IRDs) are utilized to hedge interest rate risk
- Address other risks (forecasting, counterparty, credit, basis and termination)
- Oversight by the Finance Committee of the Board, Risk Management Committee and Treasury Management
- Other interest rate risk mitigation plans may be implemented for forecasted security issuances that exceed 15% of total debt



Interest Rate Risk Mitigation Plan

Issuance Assessment (2018)

Identified Extraordinary Risk

- The Company has \$273 million of maturities in 2018; this represents over 20% of the Company's total debt

Current Market Conditions

- Low historical interest rates
- Current and possible changes in monetary policy
- Market forecasted treasury rates

Interest Rate Risk Mitigation Plan

2018 Plan

1. Initially hedge 20% (\$55 million) of the \$273 million by August 2013
2. Establish the following parameters for the remaining exposure:

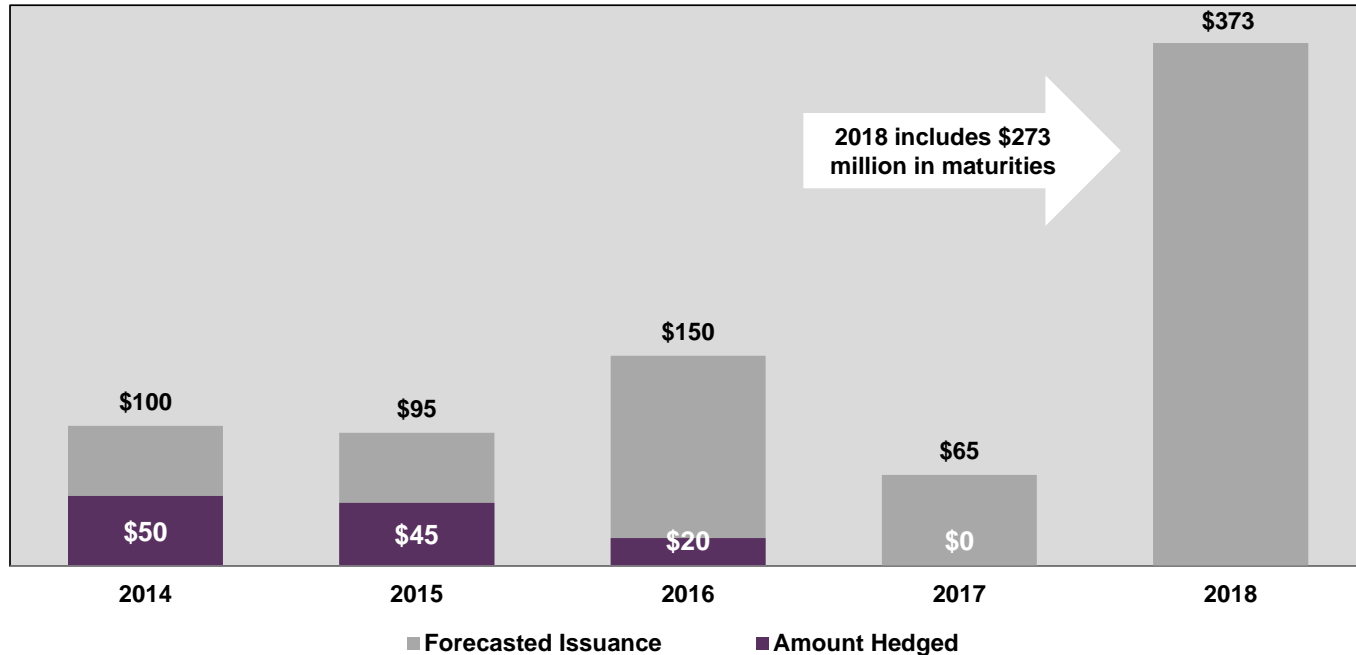
Hedge Ratios

- Twenty-four months up to sixty months – no greater than 50%

Transaction “triggers”

- Hedge Windows
- Upper and Lower Control Limits

Forecasted Long-Term Debt & Interest Rate Swaps



2014: Potential to opportunistically hedge additional amounts – up to 75%

2015: No additional hedging at this time as it is outside of 24 months and hedged at ~50%. Potential to opportunistically hedge additional amounts once inside 24 months – up to 75%

2016: Potential to opportunistically hedge up to 50%

2017: Potential to opportunistically hedge up to 50%

2018: Separate mitigation plan to be implemented (refer to prior slides)

Interest Rate Risk

Forecasted Debt Issuance				Executed Swaps					
Date	Principal Amount (in millions)	Coupon Rate	Maturity	Date Entered	Notional Amount (in millions)	Fixed Swap Rate ⁽¹⁾	Term	Hedged	MTM ⁽²⁾ (in millions)
Sep-2014	\$100	5.50%	30 Years	Jun-2012	\$50	2.503%	30 years	50.0%	\$12.0
Sep-2015	\$95	5.75%	30 Years	Jun-2012 & Apr-2013	\$25 \$20	2.595% 3.083%	30 years 30 years	47.4%	9.4
Sep-2016	\$150	5.88%	30 Years	Apr-2013	\$20	3.196%	30 years	13.3%	3.2
Sep-2017	\$65	6.00%	30 Years	N/A	N/A	N/A	N/A	N/A	N/A
Sep-2018	\$373	6.25%	30 Years	N/A	N/A	N/A	N/A	N/A	N/A
Total	\$783				\$115			15%	\$24.6

⁽¹⁾ The fixed swap rate does not include Avista Corp's credit spread

⁽²⁾ As of July 26, 2013 (positive amount is a benefit and negative amount is cost)

Questions

