AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	WASHINGTON	DATE PREPARED:	02/20/2024
CASE NO.:	UE-240006 & UG-240007	WITNESS:	Kevin Christie
REQUESTER:	UTC Staff	RESPONDER:	Carly Guillory
TYPE:	Data Request	DEPT:	Finance
REQUEST NO.:	Staff – 010	TELEPHONE:	(509) 495-2708
		EMAIL:	carly.guillory@avistacorp.com

SUBJECT: Cost of Capital

REQUEST:

Please provide copy of all reports by ratings agencies for the period 2020 to the present for the following entities:

a. Avista Corp.
b. Avista Utilities

RESPONSE:

Attached are copies of each Moody's (Staff-DR-010 Attachments A - E) and Standard & Poor's (Staff-DR-010 Attachments F - M) credit rating reports related to the Company, issued in the period January 1, 2020 through the present for Avista Corp (Avista Utilities is not rated by rating agencies). The analyst’s name and work telephone number are included.

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
28 July 2020

Update

Rate this Research

RATINGS

Avista Corp.

Domicile	Spokane, Washington, United States
Long Term Rating	Baa2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Edna R Marinelarena +1.212.553.1383
Analyst
edna.marinelarena@moodys.com

Domenic Giovannone +1.212.553.1647
Associate Analyst
domenic.giovannone@moodys.com

Ryan Wobbrock +1.212.553.7104
VP-Sr Credit Officer
ryan.wobbrock@moodys.com

Michael G. Haggarty +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

Jim Hempstead +1.212.553.4318
MD-Utilities
james.hempstead@moodys.com

Avista Corp.

Update to credit analysis

Summary

Avista Corporation's (Avista) credit profile reflects its primary business as a low-risk vertically integrated electric and gas utility with supportive cost recovery mechanisms, such as electric and gas decoupling. The credit further incorporates the company's adequate track record with its primary regulator, the Washington Utilities and Transportation Commission (WUTC). Although Avista has experienced some relatively contentious proceedings in the past, we expect regulatory outcomes to become more predictable over time because of the May 2019 passage of a new clean energy bill in Washington. The bill is credit positive for Avista because it clarifies the WUTC's authority to consider and implement various constructive regulatory mechanisms including multiyear rate plans and performance and incentive-based regulation.

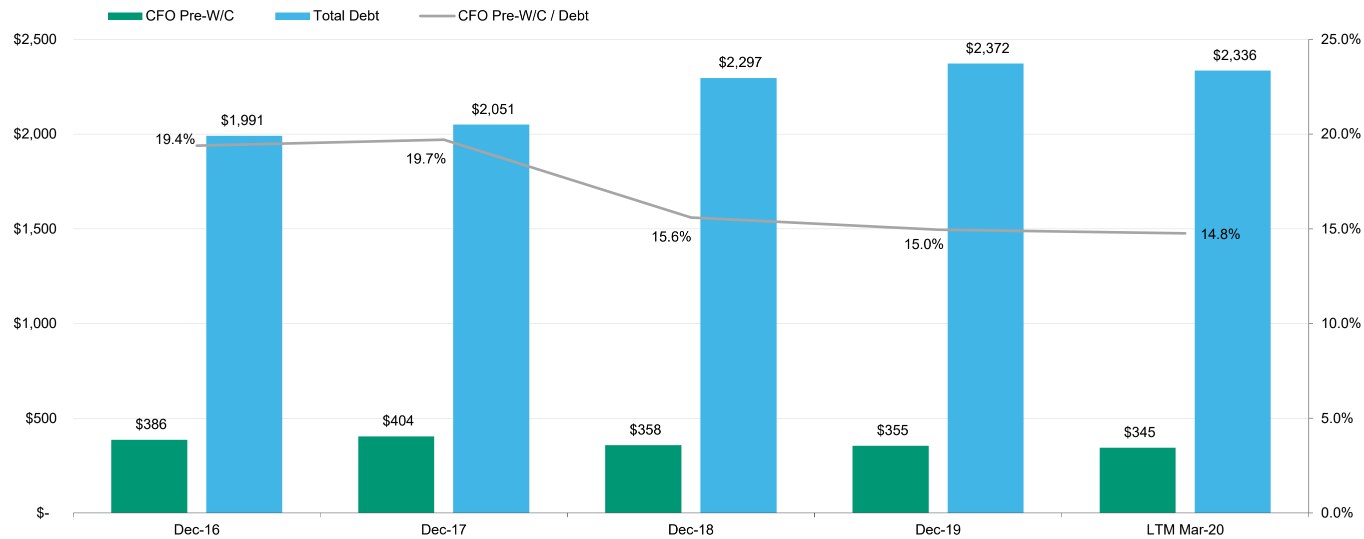
Avista's credit is constrained by lower key metrics driven by issuance of new debt to support liquidity and fund capex. We expect key metrics including CFO pre-WC to debt to be at about 14% over the next several years and should improve as the company files more frequent rate cases to recover costs. Avista has some unregulated exposure in addition to its ownership of regulated utility Alaska Electric Light and Power (AEL&P, Baa3 Stable) that provides marginal operational and cash flow diversity, but remain neutral in terms of our view of Avista's credit.

COVID-19 Developments

The rapid spread of the coronavirus outbreak, severe global economic shock, low oil prices and asset price volatility are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

We expect Avista and its subsidiaries to be resilient to recessionary pressures related to the coronavirus because of its primary rate regulated, essential service business model and cost recovery framework. Nevertheless, we are watching for electric usage declines, utility bill payment delinquency and the regulatory response to counter these effects on earnings and cash flow. As the events related to the coronavirus unfold, we are taking into consideration a wider range of potential outcomes, including more severe downside scenarios. The effects of the pandemic could result in financial metrics that are weaker than expected; however, we see these issues as temporary and not reflective of the core operations or long-term financial or credit profile of the company

Exhibit 1
Historical CFO pre-WC, Total Debt and CFO pre-WC to Debt
$ in millions



Source: Moody's Financial Metrics

Credit Strengths

» Low-risk, $3.4 billion rate base utility with supportive cost recovery mechanisms

» Track record of strong cash flow generation

» 2019 clean energy bill provides for additional credit positive regulatory tools

Credit Challenges

» Limited financial buffer expected over next three years

» Delayed cost recovery due to historic test year requirement

» History of contentious regulatory proceedings

Rating Outlook

The stable outlook incorporates our view that Avista's financial profile will remain adequate over the next several years with CFO pre-WC to debt at about 14%. In addition, the stable outlook assumes Avista will receive adequate cost recovery authorizations within its regulatory jurisdictions and that unregulated operations will remain below 15% of consolidated earnings and cash flow.

Factors that Could Lead to an Upgrade

A rating upgrade is unlikely over the next 12 to 18 months given expectation of narrowed financial performance as a result of higher debt coupled with delayed plans to file rate cases as a result of economic impacts from the coronavirus. An upgrade could occur if financial metrics improve such that CFO pre-WC to debt was above 19% and CFO pre-WC less dividend was above 13% on a consistent basis. Additionally, a demonstrated improvement in regulatory environment and relationship will remain a key rating driver.

Factors that Could Lead to a Downgrade

A rating downgrade could result should there be a degradation of regulatory relationships resulting in inadequate cost recovery and CFO pre-WC to debt dropping below 14% on a sustained basis.

Key Indicators

Exhibit 2

Avista Corp. [1]

	Dec-16	Dec-17	Dec-18	Dec-19	LTM Mar-20
CFO Pre-W/C + Interest / Interest	5.4x	5.2x	4.5x	4.3x	4.2x
CFO Pre-W/C / Debt	19.4%	19.7%	15.6%	15.0%	14.8%
CFO Pre-W/C – Dividends / Debt	15.0%	15.2%	11.3%	10.6%	10.4%
Debt / Capitalization	44.5%	48.4%	50.5%	49.2%	49.4%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Financial Metrics™
Source: Moody's Financial Metrics

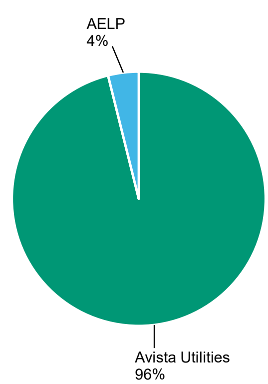
Profile

Avista is primarily an electric and natural gas utility whose Avista Utilities operating division provides electric transmission and distribution, and natural gas distribution services in parts of eastern Washington and northern Idaho. Avista Utilities also provide natural gas distribution service in parts of northeastern and southwestern Oregon. The utility has electric generating facilities in Washington, Idaho, Oregon and Montana and also supplies electricity to a small number of customers in Montana. For the three months ended 31 March 2020, Avista Utilities averaged over 394,000 electric and over 362,000 gas customers.

Avista owns Alaska Energy and Resources Company (AERC; not rated), parent of Alaska Electric Light and Power Company (AEL&P; Baa3 Stable) which serves around 17,000 electric customers in Juneau, Alaska.

Avista's utility operations are regulated by the Washington Utilities and Transportation Commission (WUTC), the Idaho Public Utilities Commission (IPUC), the Oregon Public Utility Commission (OPUC) and the Montana Public Service Commission (MPSC). AEL&P is under the purview of the Regulatory Commission of Alaska (RCA).

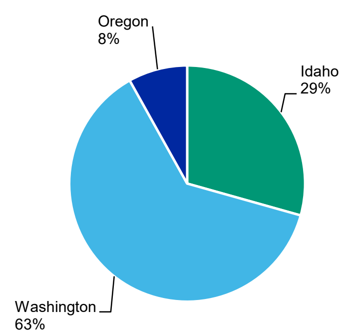
2019 earnings contribution breakdown



Excludes other segments
Source: Avista Corp. Filings

Exhibit 4

Rate base by jurisdiction



As of 31 March 2020, excludes AEL&P
Source: Company Documents & Moody's Investors Service

Detailed Credit Considerations

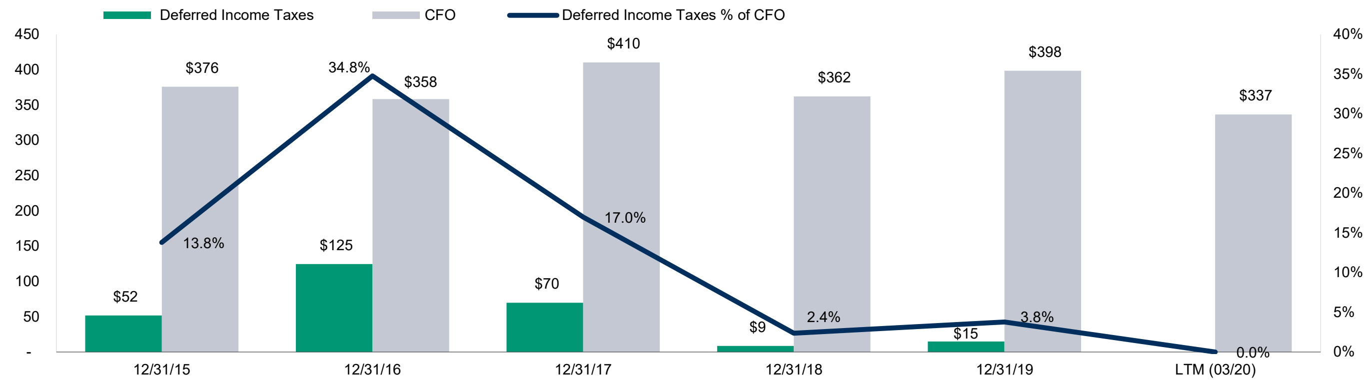
Strong cash flow producer with narrow financial metrics expected over next three years

Avista has a history of strong cash flow production averaging about $360 million from 2014 to 2019. Deferred income taxes historically constituted a significant portion of Avista's operating cash flow, which averaged 30% over the 2014 to 2017 period. Post tax reform, Avista's reliance on deferred income reduced annually reaching about zero as of LTM Q120 (see Exhibit 5). The loss of deferred tax resulted in lower financial metrics ranging in the midteens over the last two years.

Exhibit 5

Reduced reliance on deferred income taxes will continue

Historical CFO and deferred income taxes



Source: Moody's Investors Service

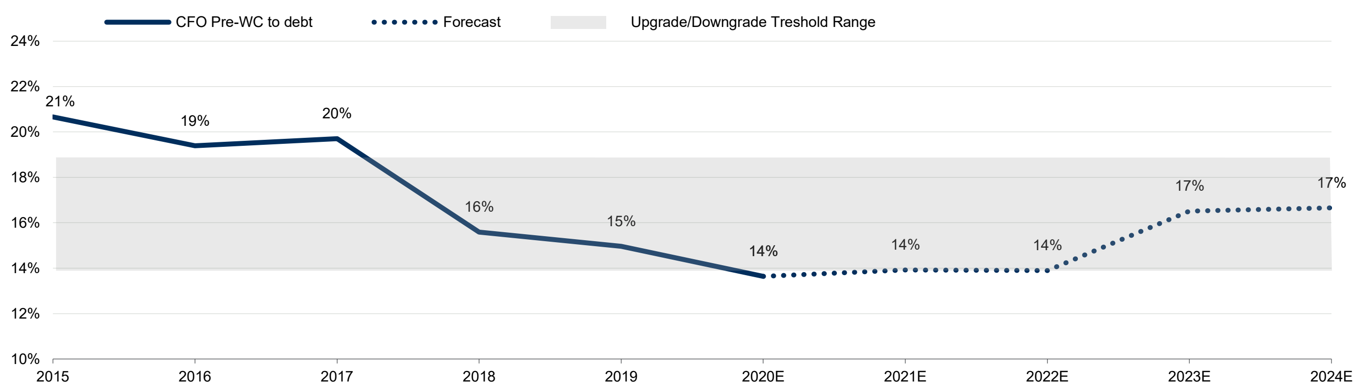
We expect cash flow generation will continue to be strong although financial metrics will be weakened over the medium-term as a result of additional debt to support liquidity and capital investment. As highlighted in Exhibit 6, CFO pre-WC to debt in 2020 is likely to be just under 14% and sustain at about 14% through 2022. Avista intends to file a general rate case in Washington and Idaho in late 2020, which is the driver behind the improved CFO in the later year of the forecast period.

Because of historic test year requirements, Avista has experienced cash flow lags over the past several years. Management intended to improve the lag by filing rate cases more frequently, but the coronavirus driven economic downturn delayed plans to file until late 2020. Any outcome thereafter will not be effective until late 2021. Although the company's financial buffer will be limited over the next several years, we expect performance will be close to forecast because the company has a strong track record of producing consistent financial results in line with expectations.

Exhibit 6

Stable financial metrics through 2022 with improved flexibility in 2023

Historical and forecast CFO pre-WC to debt



Source: Moody's Investors Service

We do not anticipate a material financial impact from the economic slowdown caused by COVID-19. Similar to other states, Washington, Idaho and Oregon shutdown economic activity affecting sales primarily in March and April. Management reports a modest overall decline in electric load driven by higher residential usage offsetting load loss in commercial and industrial customer class; natural gas demand was within normal bounds. Favorably, Avista benefits from decoupling and other cost recovery mechanisms, which mitigates effects from load loss within residential and commercial customers. The company instituted cost savings to offset any additional negative impacts from the coronavirus and filed requests to recover costs associated with COVID-19 with all regulatory jurisdictions.

Credit supportive regulatory jurisdictions with adequate track record for cost recovery

Washington

We view Avista's regulatory jurisdictions to be generally credit supportive. The Washington Utilities and Transportation Commission (WUTC), which regulates roughly 60% of the company's rate base and revenue, has electric and gas decoupling mechanisms which allow for timely recovery of fixed costs for the utility and drive stable and predictable gross margin and cash flow in the face of declining use. Even so, the use of historic test years result in the need for Avista to file general rate cases frequently to recover and earn on investments.

Avista filed its most recent electric and natural gas general rate cases on 30 April 2019 with WUTC and reached a partial settlement in November 2019. The commission approved the settlement in March 2020. The partial settlement allows for a one year rate plan increasing electric revenue by $28.5 million and natural gas revenue by $8 million effective 1 April 2020. The agreement is based on an ROE of 9.4% and equity layer of 48.5%, which are slightly below industry averages. Additionally, the settlement includes provisions for cost recovery associated with Colstrip units 3 and 4 decommissioning and remediation (D&R) expenses estimated at about $33 million as of 31 March 2020 and ability to accelerate depreciation to 2025 in recognition of the state's new energy bill requirements. The original filing was for a two-year rate plan that included a $45.8 million increase in annual electric revenue and a $12.9 million increase in annual natural gas revenue effective April 2020 and a $18.9 million increase for annual electric revenue and a $6.5 million increase for annual natural gas revenue effective April 2021. The request was based on a 9.9% ROE and 50% equity layer. Additionally, the order disallowed Avista recovery of costs associated with a 2018 Colstrip plant outage, ruling Avista failed to prove the costs were prudently incurred. Total costs were about $3 million.

While we consider the last two Washington rate case outcomes as neutral from a credit perspective, the company has had a somewhat contentious regulatory relationship in recent years particularly related to credit supportive mechanisms that would allow for faster cost recovery. In an ongoing review of Avista's 2015 rate case, the rate base attrition adjustments, which we considered credit supportive, were ruled by the Washington Court of Appeals in August 2018 as against the state's used and useful law. Subsequently, both the Court of Appeals and Superior Court terminated and remanded the case back to the WUTC to recalculate Avista's rates without the attrition adjustment used in the final order. On 06 March 2020, the WUTC issued a final order which concluded the 2015 rate case review. The order required Avista reimburse customers a total of $8.4 million or $4.9 million to electric customers and $3.5 million to natural gas customers.

Idaho

Avista reached an all parties settlement on 11 October 2019 for its electric general rate case filed 10 June 2019. The settlement, which was approved on 1 December 2019 by IPUC, included a revenue reduction of $7.18 million effective 1 December 2019. The approved revenue decrease was based on a 9.5% ROE and a 50% equity ratio, which were in line with prior approved levels. Avista requested a revenue increase of about $5.3 million that included costs associated with their wind generation PPAs in base rates instead of continuation of the Power Cost Adjustment (PCA) mechanism. The settlement approved continuation of the PCA instead of inclusion in base rates. Avista was authorized electric and gas decoupling mechanisms, known as Fix Cost Adjustment (FCA) in Idaho, in December 2015 for a three-year period beginning 1 January 2016. The company filed a request for continuation, and the IPUC approved the request on 17 December 2019.

Oregon

The company filed its latest natural gas rate case on 16 March 2020 seeking a $6.8 million or 6.8% base rate increase. Management expects proceedings to move along and could reach an overall settlement with effective rates mid January 2021. On 9 October 2019, the OPUC approved an all-party natural gas rate settlement filed in August 2019 taking effect 15 January 2020. The approved settlement increases natural gas revenue by $3.6 million and maintains the 9.4% ROE and a 50% equity layer. As part of its March 2016 rate case order in Oregon, Avista is allowed to implement a revenue per customer decoupling mechanism.

Alaska

AELP lowered customer rates by 6.7% or $2.4 million annually effective 1 August 2018 to reflect the lower tax rate associated with tax reform. The RCA also approved AELP's proposal to refund to customers a one-time credit equal to the 6.7% rate reduction for 1 January through 31 July 2018. The utility completed the refund during the third quarter of 2018. The impact of the TCJA on AELP's deferred income taxes will be addressed in its next general rate case to be filed by August 30, 2021. AELP's allowed ROE of 11.95% and equity layer of 58.18% is above the average of authorized returns for the industry, a credit positive. However, we note that Alaska has a statutory period of 450 days or approximately 15 months to decide on rate cases, the longest in the nation and has not authorized cash flow stabilizing mechanisms such as revenue decoupling.

Washington's clean energy bill enhances regulatory framework

In May 2019, Washington State Governor Jay Inslee signed a package of clean energy legislation including the 100% clean energy and regulatory reform bill (SB 5116). We expect Avista's regulatory environment to strengthen as a result of passage of this legislation. The bill requires electric utilities to eliminate coal-fired generation by 2025, transition the state's electricity supply to 80% renewables and 100% carbon neutral power by 2030 and be 100% carbon free by 2045. We view the law as credit positive because it includes the potential for enhanced cost recovery mechanisms that can improve utility financial performance and provides a legal and regulatory framework to reduce carbon exposure risks.

Compliance with the law will require significant investment and an overhaul of existing state electric infrastructure. However, the law acknowledges the WUTC's authority to implement performance and incentive based regulation, multiyear rate plans and other “flexible regulatory mechanisms” to achieve the state's public interest objectives. Importantly, the law also recognizes that the policy must include safeguards that do not impair the reliability of the electricity system nor impose unreasonable costs on utility customers.

Some of the key components of SB 5116 include: four year clean energy implementation plans to be filed and approved beginning in 2022; successive four year compliance periods to implement WUTC approved clean energy plans for interim goals beginning in 2022; penalty payments for failure to comply with emissions goals; alternative compliance options (including payments, use of renewable energy certificates, investment in “energy transformation projects”); and 2% revenue increase caps on compliance costs. It also promotes energy transformation projects, including support of the electrification of transportation, smart grid investments, distributed generation and grid resilience, among others. SB 5116 also requires the WUTC to accelerate depreciation schedules for coal generation resources, including transmission lines, to December 31, 2025, or to allow investor-owned utilities to recover costs in rates for earlier closure of those facilities.

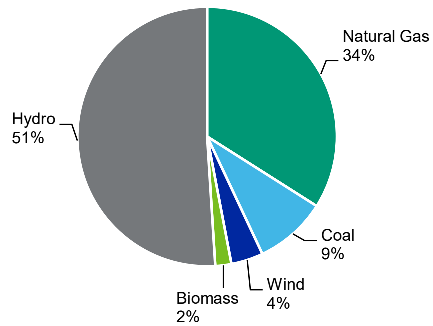
ESG considerations

From an environmental perspective, Avista has moderate carbon transition risk within the regulated electric and gas utility sector. The company's electric generation resource mix consists of 34% fossil fuels and 9% coal. The Washington and Idaho commissions agreed to set aside $11.7 million and $6.4 million, respectively, of TCJA related electric tax benefits to offset costs associated with accelerating depreciation of Avista's only coal facilities, Colstrip Units 3 and 4. The remaining useful life under the WUTC agreement is 31 December 2025 while the IPUC authorized to 31 December 2027. Colstrip Units 3 & 4 will cease service to Washington customers in 2025 in line with state requirements. Moody's framework for assessing carbon transition risk in the utility industry is discussed in “Prudent regulation key to mitigating risk, capturing opportunities of decarbonization” (2 November 2017).

Exhibit 7

Avista electric generation mix

As of 31 March 2020



Based on maximum capacity, excludes AEL&P

Source: Avista Corp. Filings

Social considerations include risks associated with safety and reliability of company services and supply, business reputation or regulatory relations, an aging workforce and ability to hire and retain qualified personnel. With respects to regulatory relations, Avista has experienced a contentious relationship in the past, we anticipate a more predictable regulatory environment as a result of the 2019 legislative action. Regarding health and safety, we see a rise of social risks associated with the COVID-19 pandemic and its effect on the health and safety of plant operations. The safety and reliability of service are extremely important and are a key focus for Avista's utilities.

From a governance perspective, financial and risk management policies including a strong financial profile are important characteristics for managing environmental and social risks. We view the governance of Avista as strong based on our assessment criteria. Moody's framework for assessing corporate governance is discussed in "Utilities and power companies – North America Corporate governance assessments show generally credit-friendly characteristics" (September 19, 2019).

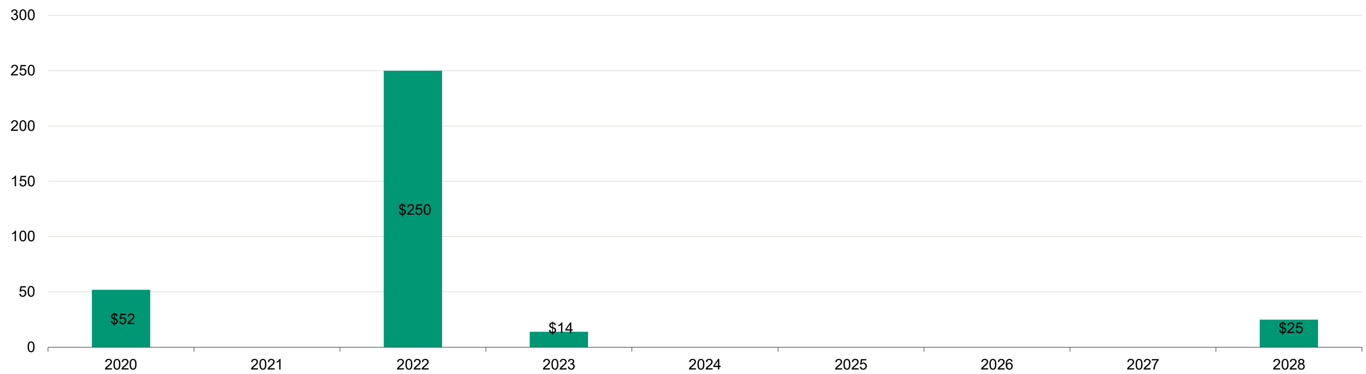
Liquidity Analysis

We expect Avista to maintain adequate liquidity over the next 12-18 months. Avista's external liquidity sources consist of a $400 million senior secured revolving credit facility, which expires in April 2022. At the end of Q120, there was about $182 million available under the line of credit. Since Avista currently has unsecured investment-grade ratings from two nationally recognized rating agencies, the company has the option to request the banks to relinquish the existing First Mortgage Bond collateral position. Avista has not asked for the release, keeping the company as one of the few US regulated utilities to maintain a secured bank credit facility. The secured nature of the credit facilities constrains Avista's liquidity flexibility, in our opinion, since the typical investment grade issuer (having an unsecured facility) can use collateral as an option to improve bank credit access during periods of unforeseen liquidity stress. Avista was in compliance with the facility's sole covenant of less than 65% capitalization, with a ratio of 53.7% as of 31 March 2020. We note that the company has no material adverse change language beyond the close of the facility, a credit positive.

AEL&P has a $25 million line of credit which expires in 2024 and requires a consolidated debt to capitalization covenant of 67.5%. As of 30 March 2020, there were no borrowings or letters of credit outstanding under the facility and AEL&P was in compliance with its covenant, with a ratio of 52.3%.

Avista entered into $100 million 364-day term loan in April 2020 to support liquidity. Additionally, the company plans to issue $165 million in long-term debt to refinance the $52 million in senior debt maturing in December 2020 as well as fund capital spending estimated at $405 million annually through 2024. This is consistent with prior years where the company funds capex with a combination of long-term debt and equity.

Exhibit 8
Avista Corp. Debt Maturities
($ in millions)



Excludes $15 million term loan at Alaska Energy and Resources Company maturing in 2024
Source: Avista Corporation

Methodology and Scorecard

Exhibit 9
Rating Factors
Avista Corporation

Regulated Electric and Gas Utilities Industry [1][2]	Current LTM 3/31/2020		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Baa	Baa	Baa	Baa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.6x	A	4x - 4.5x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	16.7%	Baa	13.6%-14.0%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	12.2%	Baa	9%-10%	Baa
d) Debt / Capitalization (3 Year Avg)	48.4%	Baa	48%-51%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching	0	0	0	0
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned		Baa2		(P)Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2020 (LTM)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 10
Peer Comparison Table [1]

	Avista Corp. (P)Baa2 Stable			Puget Sound Energy, Inc. Baa1 Stable			Idaho Power Company A3 Stable			Portland General Electric Company A3 Stable		
(in US millions)	FYE Dec-18	FYE Dec-19	LTM Mar-20	FYE Dec-18	FYE Dec-19	LTM Mar-20	FYE Dec-18	FYE Dec-19	LTM Mar-20	FYE Dec-18	FYE Dec-19	LTM Mar-20
Revenue	1,397	1,346	1,353	3,346	3,401	3,422	1,367	1,343	1,384	1,991	2,123	2,082
EBITDA	452	463	458	1,393	1,329	1,331	503	527	507	749	787	754
CFO Pre-W/C / Debt	15.6%	15.0%	14.8%	20.3%	15.1%	18.5%	17.5%	15.3%	17.9%	22.2%	19.7%	21.4%
CFO Pre-W/C – Dividends / Debt	11.3%	10.6%	10.4%	16.5%	11.7%	15.2%	12.2%	9.8%	12.3%	17.8%	15.3%	16.9%
Debt / EBITDA	5.1x	5.1x	5.1x	3.3x	3.6x	3.6x	4.5x	4.5x	4.5x	3.8x	3.8x	3.8x
Debt / Capitalization	50.5%	49.2%	49.4%	49.9%	49.3%	50.3%	43.9%	43.6%	43.5%	49.6%	50.5%	49.6%
EBITDA / Interest Expense	4.4x	4.3x	4.3x	5.7x	5.2x	5.4x	4.5x	4.8x	4.5x	5.5x	5.7x	5.5x

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE=Financial Year=End. LTM=Last Twelve Months.
Source: Moody's Financial Metrics

Exhibit 11
Cash Flow and Credit Metrics [1]
($ in millions)

CF Metrics	Dec-16	Dec-17	Dec-18	Dec-19	LTM Mar-20
As Adjusted					
EBITDA	**473**	**488**	**452**	**463**	**458**
FFO	**442**	**389**	**332**	**365**	**355**
- Div	87	92	98	103	101
RCF	**355**	**297**	**234**	**262**	**253**
FFO	442	389	332	365	355
+/- ΔWC	(28)	8	4	47	(7)
+/- Other	(56)	15	26	(10)	(10)
CFO	**358**	**412**	**362**	**402**	**338**
- Div	87	92	98	103	101
- Capex	407	412	424	447	452
FCF	**(136)**	**(93)**	**(160)**	**(147)**	**(215)**
Debt / EBITDA	4.2x	4.2x	5.1x	5.1x	5.1x
EBITDA / Interest	5.4x	5.0x	4.4x	4.3x	4.3x
FFO / Debt	22.2%	19.0%	14.5%	15.4%	15.2%
RCF / Debt	17.8%	14.5%	10.2%	11.1%	10.8%
Revenue	1,442	1,446	1,397	1,346	1,353
Cost of Good Sold	547	525	495	438	455
Interest Expense	88	97	102	107	107
Net Income	141	126	84	128	75
Total Assets	5,310	5,518	5,833	6,082	5,965
Total Liabilities	3,672	3,799	4,074	4,158	4,086
Total Equity	1,637	1,719	1,759	1,925	1,879

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics™

Ratings

Exhibit 12

Category	Moody's Rating
AVISTA CORP.	
Outlook	Stable
Issuer Rating	Baa2
First Mortgage Bonds	A3
Senior Secured	A3
Senior Unsecured MTN	(P)Baa2
ALASKA ELECTRIC LIGHT AND POWER COMPANY(AELP)	
Outlook	Stable
Issuer Rating	Baa3
AVISTA CORP. CAPITAL II	
Outlook	Stable
BACKED Pref. Stock	Baa3

Source: Moody's Investors Service

REPORT NUMBER 1236582

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE

MOODY'S
INVESTORS SERVICE

Announcement of Periodic Review: Moody's announces completion of a periodic review of ratings of Avista Corp.

09 Oct 2020

New York, October 09, 2020 -- Moody's Investors Service ("Moody's") has completed a periodic review of the ratings of Avista Corp. and other ratings that are associated with the same analytical unit. The review wa conducted through a portfolio review in which Moody's reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), recent developments, and a comparison of the financial an operating profile to similarly rated peers. The review did not involve a rating committee. Since 1 January Moody's practice has been to issue a press release following each periodic review to announce its complet

This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Credit ratings and outlook/review status cannot be changed in a portfolio review and hence are not impacted by this announcement. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key rating considerations are summarized below.

Avista Corporation's (Avista) Baa2 rating reflects the low business risk profile of its vertically integrated elec and gas utilities with credit supportive regulatory jurisdictions including cost recovery mechanisms such as electric and gas decoupling in Washington, the company's primary jurisdiction. The rating further incorpora the company's adequate track record with its primary regulator, the Washington Utilities and Transportation Commission (WUTC). Avista's rating is constrained by lower key metrics due to new debt to support liquidity and fund capex. We expect CFO pre-WC to debt to be at about 14% over the next several years and shou improve as the company files more frequent rate cases to recover costs.

Avista is primarily an electric and gas utility whose Avista Utilities operating division provides electric distribution and transmission, and natural gas distribution services in parts of eastern Washington, northern Idaho and to a small number of customers in Montana. Avista owns Alaska Energy and Resources Company (AERC), parent of Alaska Electric Light and Power Company (AEL&P). AEL&P is a regulated vertically integrated electric utility which serves around 17,000 customers in Juneau, Alaska.

This document summarizes Moody's view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period.

The principal methodology used for this review was Regulated Electric and Gas Utilities published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

This announcement applies only to EU rated and EU endorsed ratings. Non EU rated and non EU endorsed ratings may be referenced above to the extent necessary, if they are part of the same analytical unit.

This publication does not announce a credit rating action. For any credit ratings referenced in this publicati please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Edna Marinelarena
Analyst
Project & Infrastructure Finance
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Michael G. Haggarty
Associate Managing Director
Project & Infrastructure Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

MOODY'S
INVESTORS SERVICE

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE C RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET I CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SER CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING I LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OT OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANC ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OT OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMEI FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STU EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE F RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, I WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PEI

WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate an reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all neces measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information rec in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representative licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained her the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employee agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representative licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or a other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FO MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. ha prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $2,700,000. MCO and Mo investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of sectior 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you repre to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and tha neither you nor the entity you represent will directly or indirectly disseminate this document or its contents t "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiar of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treat under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
10 August 2021

Update

Rate this Research

RATINGS

Avista Corp.

Domicile	Spokane, Washington, United States
Long Term Rating	Baa2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Edna R Marinelarena +1.212.553.1383
AVP-Analyst
edna.marinelarena@moodys.com

Sahiba Sikand +1.212.553.5819
Associate Analyst
sahiba.sikand@moodys.com

Michael G. Haggarty +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

Jim Hempstead +1.212.553.4318
MD - Global Infrastructure & Cyber Risk
james.hempstead@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Avista Corp.

Update to credit analysis

Summary

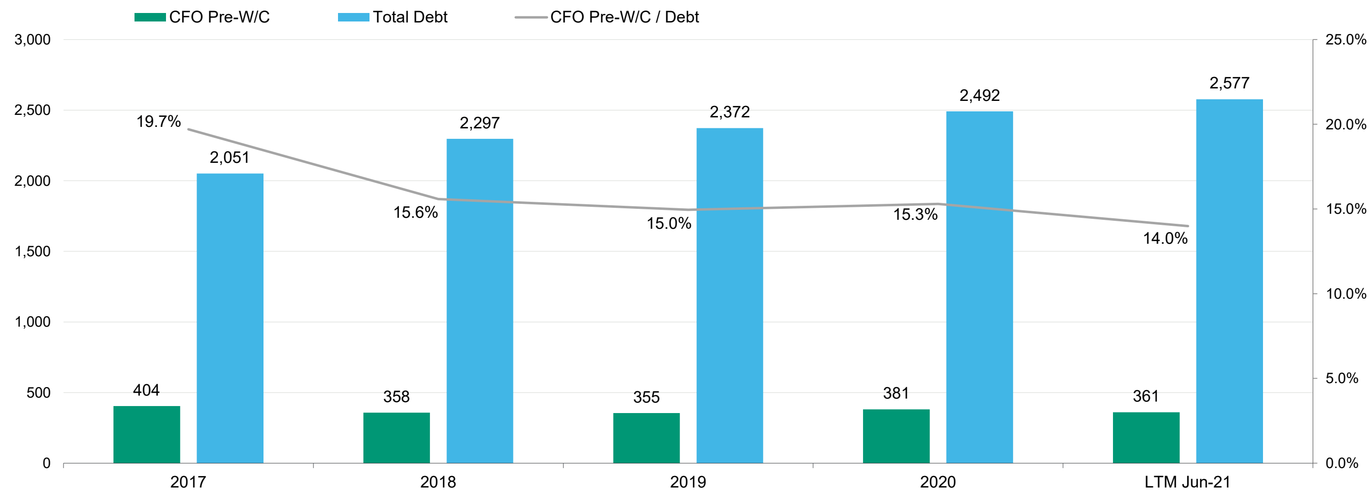
Avista Corporation's (Avista) credit profile reflects its primary business as a low-risk vertically integrated electric and gas utility with supportive cost recovery mechanisms, such as electric and gas decoupling. These supportive mechanisms have resulted in steady revenue and cash flow and sustained stable credit metrics over the last three years including the ratio of cash flow from operation before changes in working capital (CFO pre-WC) to debt at about 15%. Given a lag in rate case filings due to the coronavirus pandemic, we see the ratio weakening over the next 12 to 18 months to below 13%, which is below our indicated financial metric threshold for a possible downgrade. We expect Avista's financial metrics to rebound once new rates take effect at the conclusion of its currently pending general rate case.

The credit further incorporates the company's adequate track record with its primary regulator, the Washington Utilities and Transportation Commission (WUTC), which regulates roughly 60% of the company's rate base and revenue. While we consider the last two Washington rate case outcomes as neutral from a credit perspective, the company has had a somewhat contentious regulatory relationship in the past particularly related to credit supportive mechanisms that would allow for faster cost recovery.

The company stands to benefit from a clearer regulatory structure after the enactment of legislation that aims to reform the regulatory framework and pave the way for multiyear rate plans and performance based ratemaking. The bill could enhance the consistency and predictability of utility regulation and provide credit positive opportunities for Avista. However, improved regulatory and financial outcomes for these utilities remain subject to the bill's implementation by the WUTC.

Avista has some unregulated exposure and owns regulated utility Alaska Electric Light and Power (AEL&P, Baa3 stable) that provides marginal operational and cash flow diversity, but remain neutral in terms of our view of Avista's credit.

Exhibit 1
Historical CFO pre-WC, Total Debt and CFO pre-WC to Debt
$ in millions



Source: Moody's Financial Metrics

Credit Strengths

» Low-risk, $3.5 billion rate base utility with supportive cost recovery mechanisms

» Track record of strong cash flow generation

» Washington legislation provides for additional credit positive regulatory tools

Credit Challenges

» Narrow financial buffer expected over the next 12 to 18 months

» Delayed cost recovery due to coronavirus and historic test year requirement

» Uncertainty over the implementation of new, potentially positive legislative provisions

Rating Outlook

The stable outlook incorporates our view that Avista's financial profile will remain adequate for the current rating despite weaker metrics over the next 12 to 18 months. We expect the company's CFO pre-W/C to debt to return to the mid-teens after the conclusion of its current rate case and new rates take effect in 2022. In addition, the stable outlook assumes that Avista will continue to receive adequate cost recovery authorizations within its regulatory jurisdictions and that unregulated operations will remain below 15% of consolidated earnings and cash flow.

Factors that Could Lead to an Upgrade

An upgrade could occur if financial metrics improve such that CFO pre-WC to debt is above 19% and CFO pre-WC less dividend is above 13% on a consistent basis. Additionally, a demonstrated improvement in the regulatory environment, including implementation of credit positive legislative provisions, could lead to a higher rating.

Factors that Could Lead to a Downgrade

A rating downgrade could result should there be a degradation in the company's regulatory environment resulting in inadequate cost recovery or CFO pre-WC to debt remains below 14% for a sustained period.

Key Indicators

Exhibit 2
Avista Corp. [1]

	Dec-17	Dec-18	Dec-19	Dec-20	LTM Jun-21
CFO Pre-W/C + Interest / Interest	5.2x	4.5x	4.3x	4.6x	4.4x
CFO Pre-W/C / Debt	19.7%	15.6%	15.0%	15.3%	14.0%
CFO Pre-W/C – Dividends / Debt	15.2%	11.3%	10.6%	10.9%	9.6%
Debt / Capitalization	48.4%	50.5%	49.2%	48.7%	48.9%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

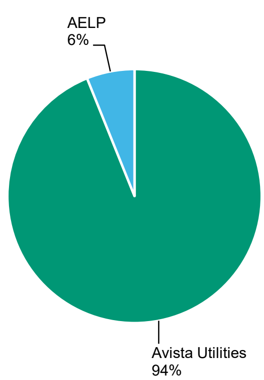
Profile

Avista is primarily an electric and natural gas utility whose Avista Utilities operating division provides electric transmission and distribution, and natural gas distribution services in parts of eastern Washington and northern Idaho. Avista Utilities also provides natural gas distribution service in parts of northeastern and southwestern Oregon. The utility has electric generating facilities in Washington, Idaho, Oregon and Montana and also supplies electricity to a small number of customers in Montana. For the three months ended 31 March 2021, Avista Utilities had over 397,000 electric and over 363,000 gas customers.

Avista owns Alaska Energy and Resources Company (AERC; not rated), parent of Alaska Electric Light and Power Company (AEL&P; Baa3 stable) which serves around 17,000 electric customers in Juneau, Alaska.

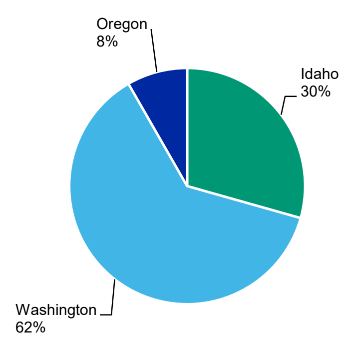
Avista's utility operations are regulated by the Washington Utilities and Transportation Commission (WUTC), the Idaho Public Utilities Commission (IPUC), the Oregon Public Utility Commission (OPUC) and the Montana Public Service Commission (MPSC). AEL&P is under the purview of the Regulatory Commission of Alaska (RCA).

Exhibit 3
2020 earnings contribution breakdown



Excludes other segments
Source: Avista Corp. Filings

Exhibit 4
Rate base by jurisdiction



As of 31 March 2021, excludes AEL&P
Source: Company Documents & Moody's Investors Service

Detailed Credit Considerations

Strong historical cash flow production, but little to no cushion in near term financial metrics

Avista has a history of strong cash flow production that has averaged about $373 million from 2015 to 2020. CFO pre-WC to debt stabilized in the mid-teens over the last three years after declining from about 20% in 2017 following the loss of deferred taxes post tax reform.

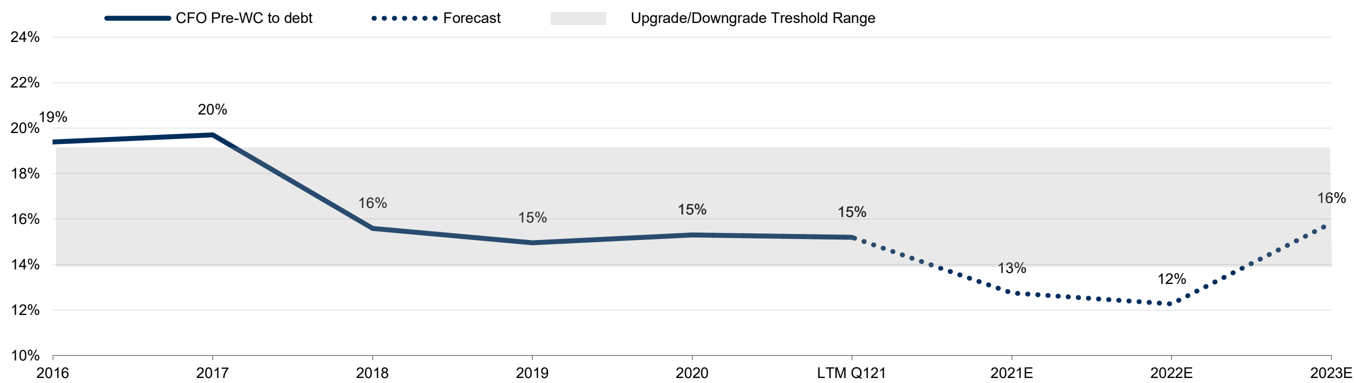
As highlighted in Exhibit 5, CFO pre-WC to debt in 2021 is forecast to drop below 13% over the next 12 to 18 months driven by a delay in the company's rate case filing due to the coronavirus pandemic. Avista filed general rate cases in Washington and Idaho in late 2020, which are the drivers behind our expectations of an improved CFO pre-W/C to debt ratio in 2023.

Because of historic test year requirements, Avista experiences cash flow lag. Management had intended to improve this lag by filing rate cases more frequently, but the coronavirus driven economic downturn delayed plans to file until late 2020. Any outcome of these rate cases will not be effective until late 2021. The company's financial buffer will be limited over the next several years, with any improvement largely dependent of the outcome of the pending rate cases.

Exhibit 5

Financial metrics will weakened but rebound following new rates

Historical and forecast CFO pre-WC to debt



Source: Moody's Investors Service

Credit supportive regulatory jurisdictions with adequate track record of cost recovery

Washington

We view Avista's regulatory jurisdictions to be generally credit supportive. The Washington Utilities and Transportation Commission (WUTC), which regulates roughly 62% of the company's rate base and revenue, has electric and gas decoupling mechanisms which allow for timely recovery of fixed costs for the utility and drive stable and predictable gross margin and cash flow in the face of declining use. Even so, the use of historic test years results in the need for Avista to file general rate cases frequently to recover and earn on investments.

Avista filed an electric and natural gas general rate case on 30 October 2020 with WUTC requesting an increase in base electric revenue of $44.2 million (or 8.3%) and an increase in natural gas revenue of $12.8 million (or 12.2%). The company proposed that the revenue increases be offset by the creation of a Tax Customer Credit, which would come from a change in its accounting for federal income tax expense. The revenue increases are premised on a 9.9% ROE and a 50% equity layer; higher than the currently approved 9.4% and 48.5%. The company expects the rate case to be completed and new rates to become effective on 1 October 2021.

The company's prior electric and natural gas general rate cases filed on 30 April 2019 resulted in a partial settlement and the WUTC approved the settlement agreement in March 2020. The partial settlement allowed for a one year rate plan increasing electric revenue by $28.5 million and natural gas revenue by $8 million effective 1 April 2020. The agreement approved an ROE of 9.4% and equity layer of 48.5%, which are slightly below industry averages. Additionally, the settlement included provisions for cost recovery associated with Colstrip units 3 and 4 decommissioning and remediation (D&R) expenses estimated at about $33 million as of 31 March 2020 and the ability to accelerate depreciation to 2025 in recognition of the state's new energy bill requirements. The order disallowed Avista recovery of costs associated with a 2018 Colstrip plant outage, ruling that Avista failed to prove the costs were prudently incurred, a credit negative. The total costs were about $3 million.

The original filing was for a two-year rate plan that included a $45.8 million increase in annual electric revenue and a $12.9 million increase in annual natural gas revenue effective April 2020 and a $18.9 million increase for annual electric revenue and a $6.5 million increase for annual natural gas revenue effective April 2021. The request was based on a 9.9% ROE and 50% equity layer.

Idaho

In Idaho, Avista filed its 2021 general rate case with the Idaho Public Utilities Commission (IPUC) on 29 January 2021. The request is for a two year rate plan with new rates effective 1 September 2021 and 1 September 2022. In June 2021, the company reached an all parties settlement, which has been submitted to the IPUC for approval. The electric and natural gas rate plan is based on a 9.9% ROE, an increase from current 9.5%, and a 50% equity ratio, in line with currently approved equity ratio and requests an electric base revenue increase of $24.8 million (10.1%) in 2021 and an $8.7 million (3.2%) increase in 2022. Similarly to the Washington filing, Avista has requested that the revenue increase be offset by the creation of the Tax Customer Credit for the two years.

Avista reached an all parties settlement on 11 October 2019 for its last electric general rate case filed on 10 June 2019. The settlement, which was approved by the IPUC on 1 December 2019, included a revenue reduction of $7.18 million effective 1 December 2019. The approved revenue decrease was based on a 9.5% ROE and a 50% equity ratio, which were in line with prior approved levels. Avista requested a revenue increase of about $5.3 million that included costs associated with its wind generation PPAs in base rates instead of a continuation of the Power Cost Adjustment (PCA) mechanism. The settlement approved continuation of the PCA instead of their inclusion in base rates. Avista was authorized electric and gas decoupling mechanisms, known as Fixed Cost Adjustment (FCA) in Idaho in December 2015 for a three-year period beginning 1 January 2016. The company filed a request for continuation, and the IPUC approved the request on 17 December 2019.

Oregon

The company's most recent natural gas rate case filed on 16 March 2020 resulted in a settlement that included a $3.9 million base rate revenue increase, down from the requested $6.8 million, with rates effective on 16 January 2021. The settlement maintained the 9.4% ROE and the 50% equity layer. The company intends to file a new general rate case in the second half of 2021. As part of a March 2016 rate case order in Oregon, Avista is allowed to implement a revenue per customer decoupling mechanism.

Alaska

AELP lowered customer rates by 6.7% or $2.4 million annually effective 1 August 2018 to reflect the lower tax rate associated with tax reform. The RCA also approved AELP's proposal to refund to customers a one-time credit equal to the 6.7% rate reduction for 1 January through 31 July 2018. The utility completed the refund during the third quarter of 2018. The impact of the TCJA on AELP's deferred income taxes will be addressed in its next general rate case filing. AELP planned to file a general rate case in August 2021, however, the company requested a delay in filing to avoid using 2020 as a test year given coronavirus pandemic and the resources it would take to normalize 2020 for the filing. AELP is under regulatory order by the commission to file by 2022 with a 2021 test year.

AELP's allowed ROE of 11.95% and equity layer of 58.18% is above the average of authorized returns for the industry, a credit positive. However, we note that Alaska has a statutory period of 450 days or approximately 15 months to decide on rate cases, the longest in the nation and has not authorized cash flow stabilizing mechanisms such as revenue decoupling.

Washington's legislative action has the potential to enhance regulatory framework

The Washington regulatory framework has the potential to be enhanced with the enactment of two key Senate bills (SB), SB 5116 and SB 5295 in 2019 and 2021,respectively. SB 5116, a clean energy bill with aggressive carbon transition targets, was enacted in 2019 and offered utilities the potential for important regulatory tools to recover associated costs. The bill requires electric utilities to eliminate coal-fired generation by 2025, transition the state's electricity supply to 80% renewables and 100% carbon neutral power by 2030 and be 100% carbon free by 2045. We viewed the law as credit positive because it includes the potential for enhanced cost recovery mechanisms that can improve utility financial performance and provides a legal and regulatory framework to reduce carbon exposure risks.

Compliance with the law will require significant investment and an overhaul of existing state electric infrastructure. However, the law acknowledges the WUTC's authority to implement performance and incentive based regulation, multiyear rate plans and other “flexible regulatory mechanisms” to achieve the state's public interest objectives. Importantly, the law also recognizes that the policy must include safeguards that do not impair the reliability of the electricity system nor impose unreasonable costs on utility customers. We discuss more details on SB 5295 in “Washington approves clean energy bill, a credit positive for investor-owned utilities” (16 May 2019).

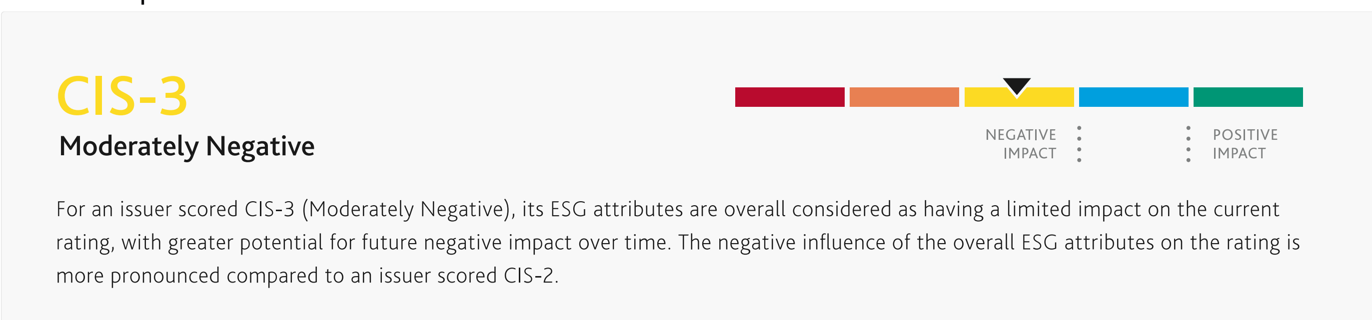
The recently passed SB 5295 (enacted on 3 May 2021) followed the clean energy bill and aims at reforming the regulatory framework for utilities in the state by paving the way for multiyear rate plans (MYRP) and performance based ratemaking (PBR). We view the bill as credit positive as it could enhance the consistency and predictability of utility regulation. Specifically, we view the PBR construct as a credit supportive rate making mechanism because MYRPs with performance targets and the potential to earn performance incentives will work to reduce regulatory lag. It could also aid Avista's renewable transition, improve operational efficiency and enhance cash flow and profitability, all while considering customer cost and service. Nevertheless, the extent to which the new law will enhance the Washington regulatory framework and improve utility financial performance is subject to WUTC decisions, which have been historically inconsistent.

The bill requires the WUTC to develop, in collaboration with utilities and other interested stakeholders, a policy statement on alternatives to traditional costs of service rate making, including performance measures, incentives and penalty mechanisms. The WUTC must provide an update to the relevant legislative committees by 1 January 2022. Importantly, beginning 1 January 2022, utilities are required to include a proposal for a MYRP between two and four years in length in every general rate case filing. We discuss more details on SB 5295 in "Legislation supporting multiyear rate plans has credit positive implications for Washington's investor owned utilities" (10 May 2021).

ESG considerations

Avista's ESG Credit Impact Score is CIS-3 (Moderately Negative).

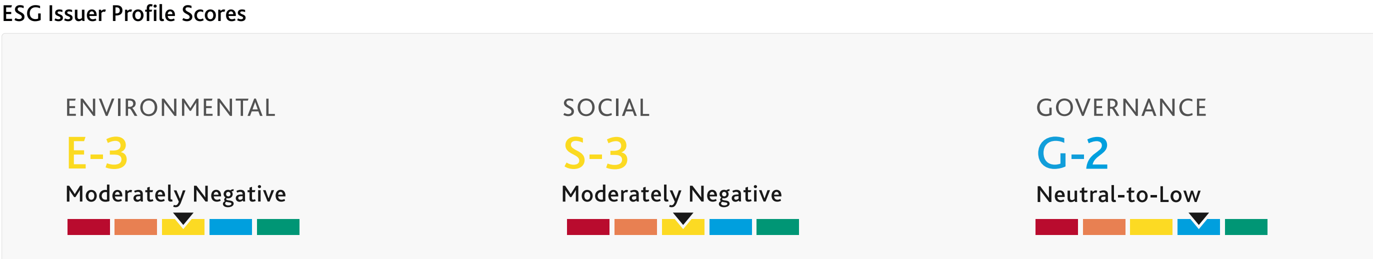
Exhibit 6
ESG Credit Impact Score



Source: Moody's Investors Service

Avista's ESG Credit Impact Score is moderately negative (**CIS-3**), where its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. Avista's **CIS-3** reflects its moderate exposure to environmental risks and social risks, and low exposure to governance risks.

Exhibit 7
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental
Specifically, Avista's exposure to environmental risks is moderate (**E-3** issuer profile score) driven by its moderately negative physical climate risks, primarily in the form of extreme weather patterns including an increase in wildfires across Washington. These risks are offset by a neutral to low exposure to carbon transition, water management, waste and pollution and natural capital.

Social
Exposure to social risks is moderately negative (**S-3** issuer profile score) reflecting the higher risk to demographics and societal trends that increase public concern over environmental, social or affordability issues, which could lead to adverse regulatory political intervention. These risks are balanced by neutral to low risks to health and safety, human capital, customer relationships and responsible production.

Governance
Governance is broadly in line with other utilities and does not pose a particular risk (**G-2** issuer profile). For Avista, board structure primarily stands out as moderately negative, however it is offset by other aspects of governance strength that are derived in part by government ownership, compliance and reporting, management credibility and track record as well as financial policy and risk management, which is driven by the historical ratio of retained cash flow to debt.

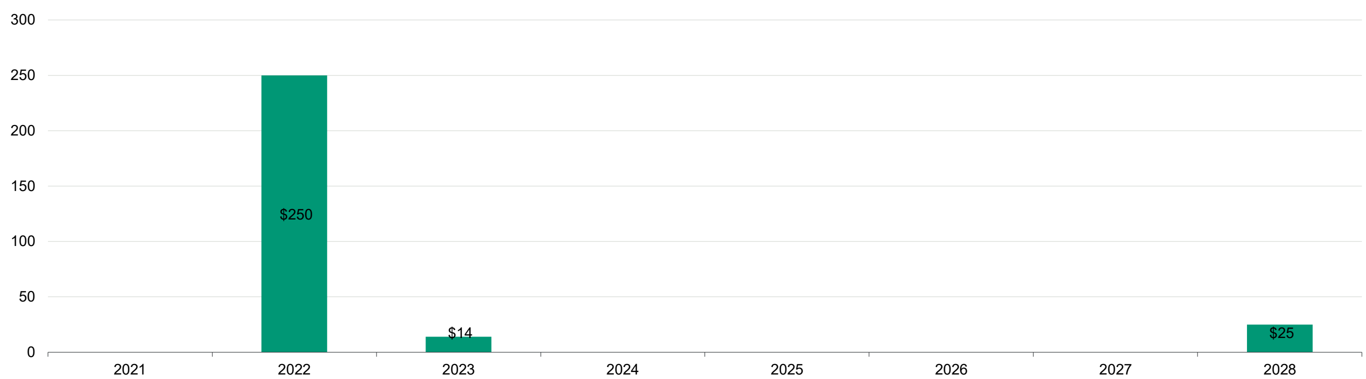
Liquidity Analysis

We expect Avista to maintain adequate liquidity over the next 12-18 months. Avista's external liquidity sources consist of a $400 million senior secured revolving credit facility which expires in June 2026. As of 30 April 2021, there was about $182 million available under the line of credit. Since Avista currently has unsecured investment-grade ratings from two nationally recognized rating agencies, the company has the option to request the banks to relinquish their existing First Mortgage Bond collateral position. Avista has not asked for the release, keeping the company as one of the few US regulated utilities to maintain a secured bank credit facility. Avista was in compliance with the facility's sole covenant of less than 65% capitalization, with a ratio of 53.5% as of 30 June 2021. We note that the company has no material adverse change language beyond the close of the facility, a credit positive.

AELP has a $25 million line of credit which expires in 2024 and requires a consolidated debt to capitalization covenant of 67.5%. As of 31 March 2021, there were no borrowings or letters of credit outstanding under the facility and AELP was in compliance with its covenant, with a ratio of 52%.

The company typically funds capex with a mix of long-term debt and equity. In 2021, Avista expects to issues about $140 million in long-term debt and $90 million in equity. The company's maturity schedule is manageable with the next maturity in 2022, as shown in Exhibit 8. Avista entered into $100 million 364-day term loan in April 2020 to support liquidity; as of April 2021 the agreement had been repaid.

Exhibit 8
Avista Corp. Debt Maturities
($ in millions)



Excludes $15 million term loan at Alaska Energy and Resources Company maturing in 2024
Source: Avista Corporation

Methodology and Scorecard

Exhibit 9

Methodology Scorecard Factors

Avista Corporation

Regulated Electric and Gas Utilities Industry [1][2]	Current LTM 6/30/2021		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Baa	Baa	Baa	Baa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.4x	Baa	4x - 4.5x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	14.6%	Baa	13% - 14%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	10.3%	Baa	9% - 10%	Baa
d) Debt / Capitalization (3 Year Avg)	49.4%	A	48% - 51%	A
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching		0	0	0
a) Scorecard-Indicated Outcome		Baa1		Baa1
b) Actual Rating Assigned		(P)Baa2		(P)Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 6/30/2021 (LTM)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 10

Peer Comparison Table [1]

	Avista Corp.			Puget Sound Energy, Inc.			Idaho Power Company			Portland General Electric Company		
	(P)Baa2 (Stable)			Baa1 (Stable)			A3 (Negative)			A3 (Stable)		
	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM
(In US millions)	Dec-19	Dec-20	Jun-21	Dec-19	Dec-20	Mar-21	Dec-19	Dec-20	Mar-21	Dec-20	Dec-20	Mar-21
Revenue	1,346	1,322	1,364	3,401	3,326	3,440	1,343	1,347	1,372	2,123	2,145	2,181
EBITDA	463	466	490	1,329	1,299	1,443	527	536	544	787	757	759
Total Debt	2,372	2,492	2,577	4,828	4,957	4,774	2,349	2,601	2,601	2,988	3,617	3,527
CFO Pre-W/C / Debt	15.0%	15.3%	14.0%	15.1%	18.1%	20.6%	15.3%	12.2%	13.5%	20.0%	14.9%	14.4%
CFO Pre-W/C – Dividends / Debt	10.6%	10.9%	9.6%	11.7%	15.1%	17.5%	9.8%	6.9%	8.1%	15.5%	11.0%	10.4%
Debt / Capitalization	49.2%	48.7%	48.9%	49.3%	49.0%	47.1%	43.6%	45.0%	44.9%	50.3%	54.8%	53.6%
Debt / EBITDA	5.1x	5.3x	5.3x	3.6x	3.8x	3.3x	4.5x	4.9x	4.8x	3.8x	4.8x	4.6x
EBITDA / Interest Expense	4.3x	4.4x	4.6x	5.2x	5.1x	5.6x	4.8x	4.8x	4.8x	5.8x	5.0x	5.0x

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE=Financial Year=End. LTM=Last Twelve Months.
Source: Moody's Financial Metrics

Exhibit 11

Cash Flow and Credit Metrics [1]
($ in millions)

CF Metrics	Dec-17	Dec-18	Dec-19	Dec-20	LTM Jun-21
As Adjusted					
EBITDA	**488**	**452**	**463**	**466**	**490**
FFO	**389**	**332**	**365**	**368**	**345**
- Div	92	98	103	110	114
RCF	**297**	**234**	**262**	**258**	**231**
FFO	389	332	365	368	345
+/- ΔWC	8	4	47	-49	-38
+/- Other	15	26	-10	13	16
CFO	**412**	**362**	**402**	**333**	**323**
- Div	92	98	103	110	114
- Capex	412	424	447	409	433
FCF	**-93**	**-160**	**-147**	**-186**	**-225**
Debt / EBITDA	4.2x	5.1x	5.1x	5.3x	5.3x
EBITDA / Interest	5.0x	4.4x	4.3x	4.4x	4.6x
FFO / Debt	19.0%	14.5%	15.4%	14.8%	13.4%
RCF / Debt	14.5%	10.2%	11.1%	10.3%	9.0%
Revenue	1,446	1,397	1,346	1,322	1,364
Interest Expense	97	102	107	107	107
Net Income	126	84	128	127	142
Total Assets	5,518	5,833	6,082	6,402	6,646
Total Liabilities	3,799	4,074	4,158	4,372	4,576
Total Equity	1,719	1,759	1,925	2,030	2,070

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics™

Ratings

Exhibit 12

Category	Moody's Rating
AVISTA CORP.	
Outlook	Stable
Issuer Rating	Baa2
First Mortgage Bonds	A3
Senior Secured	A3
Senior Unsecured MTN	(P)Baa2
ALASKA ELECTRIC LIGHT AND POWER COMPANY(AELP)	
Outlook	Stable
Issuer Rating	Baa3
AVISTA CORP. CAPITAL II	
Outlook	Stable
BACKED Pref. Stock	Baa3

Source: Moody's Investors Service

REPORT NUMBER 1293445

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE

CREDIT OPINION

30 August 2022

Update

Send Your Feedback

RATINGS

Avista Corp.

Domicile	Spokane, Washington, United States
Long Term Rating	Baa2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Edna R Marinelarena +1.212.553.1383
AVP-Analyst
edna.marinelarena@moodys.com

Ryan Wobbrock +1.212.553.7104
VP-Sr Credit Officer
ryan.wobbrock@moodys.com

Cole Egan 212.553.0300
Associate Analyst
cole.egan@moodys.com

Michael G. Haggarty +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

Jim Hempstead +1.212.553.4318
MD - Global Infrastructure & Cyber Risk
james.hempstead@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Avista Corp.

Update to credit analysis

Summary

Avista Corporation's (Avista) credit profile reflects its primary business as a low-risk vertically integrated electric and gas utility with supportive cost recovery mechanisms, such as electric and gas revenue decoupling. These supportive mechanisms have resulted in steady revenue and cash flow and sustained stable credit metrics including a ratio of cash flow from operation before changes in working capital (CFO pre-WC) to debt at about 15%.

In 2021, the CFO pre-WC to debt ratio declined to about 12% as a result of a delayed general rate case filing in 2020 as well as an established customer tax credit. Management chose this path due to customer sensitivities around the coronavirus pandemic, but the net effect reduced Avista's cash collections.

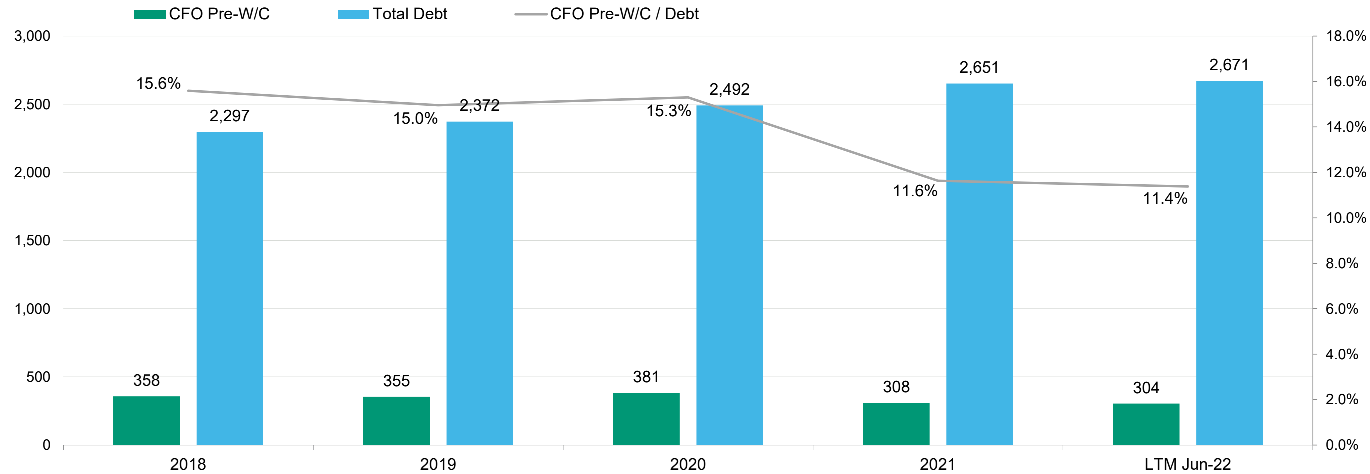
The utility filed its latest general rate case in January 2022 and expects the Washington Utilities and Transportation Commission (WUTC) to rule on a settlement agreement in December 2022. If the settlement agreement is approved, we estimate that Avista's financial metrics will improve, including a ratio of CFO pre-WC to debt returning to the mid-teens.

The credit further incorporates the company's track record with its primary regulator, WUTC, which regulates roughly 60% of the company's rate base and revenue. While we consider the last two Washington rate case outcomes as neutral from a credit perspective, the company has had a somewhat contentious regulatory relationship in the past particularly related to credit supportive mechanisms that would allow for faster cost recovery.

The company stands to benefit from a clearer regulatory structure after the enactment of legislation (Senate Bill 5295) that aims to reform the regulatory framework and pave the way for multiyear rate plans and performance based ratemaking. The bill could enhance the consistency and predictability of utility regulation and provide credit positive opportunities for Avista. However, improved regulatory and financial outcomes for these utilities remain subject to the bill's implementation by the WUTC. We view the recent settlement agreement as a sign that the bill is helping regulatory proceedings and a step towards more consistent regulatory outcomes.

Avista has some unregulated exposure and owns regulated utility Alaska Electric Light and Power (AEL&P, Baa3 stable) that provides marginal operational and cash flow diversity, but remain neutral in terms of our view of Avista's credit.

Exhibit 1
Historical CFO pre-WC, Total Debt and CFO pre-WC to Debt
$ in millions



Source: Moody's Financial Metrics

Credit Strengths

» Vertically integrated utility with track record of consistent cash flow generation

» Washington legislation provides for additional credit-positive regulatory tools

Credit Challenges

» Weak credit metrics providing little cushion within the Baa2 rating category

» Delayed cost recovery due to coronavirus pandemic and historic test year requirement

» Uncertainty over the implementation of new, potentially positive legislative provisions

Factors that Could Lead to an Upgrade

An upgrade could occur if financial metrics improve such that CFO pre-WC to debt is above 19% and CFO pre-WC less dividend is above 13% on a consistent basis. Additionally, a demonstrated improvement in the regulatory environment, including a trend of consistent rate case outcomes and authorization of trackers and riders that would result in faster cost recovery, reducing regulatory lag.

Factors that Could Lead to a Downgrade

A rating downgrade could result should there be a degradation in the utility's regulatory environment resulting in inadequate cost recovery or if CFO pre-WC to debt remains below 14% for a sustained period.

Key Indicators

Avista Corp. [1]

	Dec-18	Dec-19	Dec-20	Dec-21	LTM Jun-22
CFO Pre-W/C + Interest / Interest	4.5x	4.3x	4.6x	3.9x	3.7x
CFO Pre-W/C / Debt	15.6%	15.0%	15.3%	11.6%	11.4%
CFO Pre-W/C – Dividends / Debt	11.3%	10.6%	10.9%	7.2%	6.8%
Debt / Capitalization	50.5%	49.2%	48.7%	48.7%	48.0%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Rating Outlook

The stable outlook incorporates our view that Avista's financial profile will improve in 2023 (e.g., CFO pre-WC to debt of at least 14%), following the conclusion of its current rate case and new rates take effect in December 2022. We forecast this ratio staying in the mid-teens over the next several years. In addition, the stable outlook incorporates a view that Avista will continue to receive adequate cost recovery authorizations within its regulatory jurisdictions and that unregulated operations will remain below 15% of consolidated earnings and cash flow.

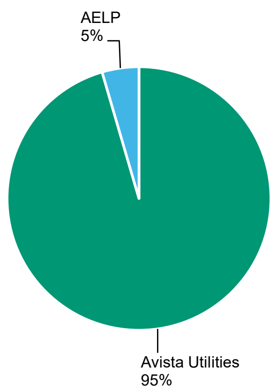
Profile

Avista is primarily an electric and natural gas utility which provides electric transmission and distribution and natural gas distribution services in parts of eastern Washington and northern Idaho. Avista Utilities also provides natural gas distribution service in parts of northeastern and southwestern Oregon. The utility has electric generating facilities in Washington, Idaho, Oregon and Montana and also supplies electricity to a small number of customers in Montana. At the end of 2021, Avista Utilities had over 407,000 electric and over 374,000 gas customers.

Avista owns Alaska Energy and Resources Company (AERC; not rated), parent of Alaska Electric Light and Power Company (AEL&P; Baa3 stable) which serves around 17,000 electric customers in Juneau, Alaska.

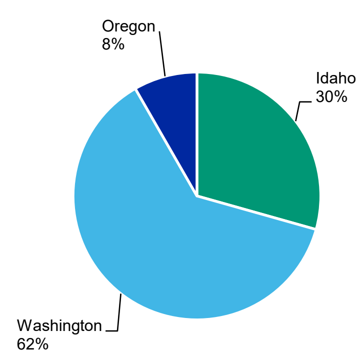
Avista's utility operations are regulated by the Washington Utilities and Transportation Commission (WUTC), the Idaho Public Utilities Commission (IPUC), the Oregon Public Utility Commission (OPUC) and the Montana Public Service Commission (MPSC). AEL&P is under the purview of the Regulatory Commission of Alaska (RCA).

Exhibit 3
2021 earnings contribution breakdown



Excludes other segments
Source: Avista Corp. Filings

Exhibit 4
Rate base by jurisdiction



As of 30 June 2022, excludes AEL&P
Source: Company Documents & Moody's Investors Service

Detailed Credit Considerations

Weak financial metrics with improvement reliant on rate case outcome

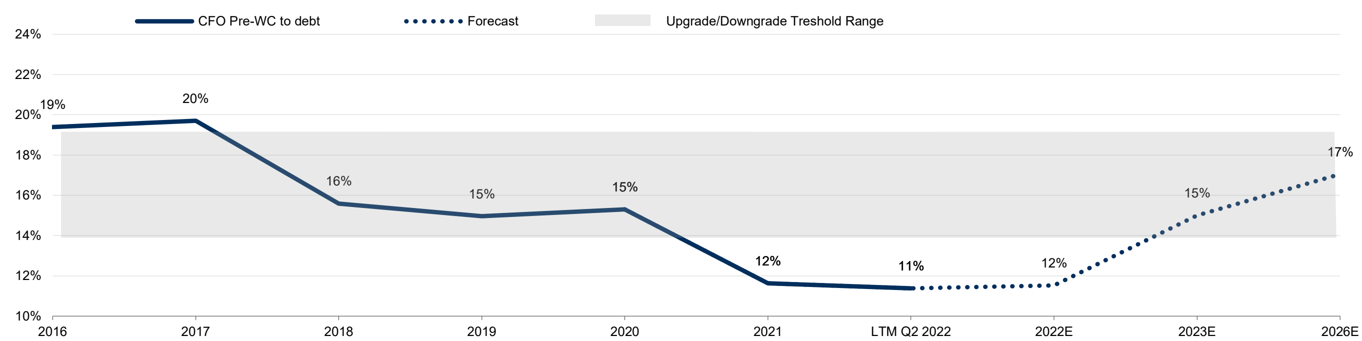
Because of Washington's historic test year requirements for rate making, Avista experiences a lag between the time that investments are made and the time at which it is allowed to begin recovery of those investments via new rates. Management had intended to improve this lag by filing rate cases more frequently, but the coronavirus-driven economic downturn delayed this process until October 2020. Additionally, as a way to help mitigate the customer bill impact, the company offset its revenue increase with the creation of a Tax Customer Credit, which reduced revenue and cash flow in 2021 and 2022. As a result, the company's financial profile is weak, but we expect an improvement associated with the outcome of the pending settlement agreement.

CFO pre-WC to debt stabilized in the mid-teens over the last three years after declining from about 20%, following the negative cash flow effects associated with 2017 tax reform. As highlighted in Exhibit 4, CFO pre-WC to debt in 2023 is forecast to improve to about 15% and remain in the mid-teens going forward.

Exhibit 5

Weak financial metrics could improve if settlement agreement is approved

Historical and forecast CFO pre-WC to debt ratio



*The ranges indicated are one of several factors that could lead to an upgrade or downgrade of the ratings if the CFO pre-WC to debt ratio is above or below the level for a sustained period.
Source: Moody's Investors Service

Credit supportive regulatory jurisdictions with adequate track record of cost recovery

Washington

We view Avista's regulatory jurisdictions to be generally credit supportive. The Washington Utilities and Transportation Commission (WUTC), which regulates roughly 60% of the company's rate base and revenue, allows electric and gas decoupling mechanisms which provide for timely recovery of fixed utility costs and stable gross margin in the face of declining use. Even so, the use of historic test years results in the need for Avista to file general rate cases frequently to recover rising costs and earn on investments.

Avista filed its latest electric and natural gas general rate case on 21 January 2022 with the WUTC. The filing was a two year multiyear rate plan that requested a $52.9 million (9.6%) electric increase in the first year effective December 2022 and a $17.1 million (2.8%) increase in the second year effective December 2023. For natural gas, Avista requested $10.9 million (9.5%) increase in the first year and $2.2 million (1.7%) increase in the second year. The filing included a 10.25% ROE, higher than the currently authorized 9.4%, and 48.5% equity layer, as currently authorized. Additionally, the filing proposed that the revenue increases be offset by the creation of a Tax Customer Credit, which would come from a change in its accounting for federal income tax expense first used as an offset in the 2020 rate case.

On 28 June 2022, Avista filed a multiparty settlement agreement on a two year rate plan. The agreement includes an electric revenue increase of $38 million (6.9%) effective December 2022 and a $12.5 million (2.1%) revenue increase effective December 2023. For natural gas, the settlement includes a $7.5 million (6.5%) increase in December 2022 and a $1.5 million (1.2%) increase in December 2023. The parties agreed to a 7.03% rate of return with all other aspects not made public. A company concession included the disallowance of costs associated with dry ash disposal requirements at Colstrip, which Avista owns 15% share of the plant's operating capacity. Management took a write off in the second quarter 2022 on such costs. We view the settlement agreement as a positive step towards a constructive rate case outcome and if approved will be credit supportive.

While we view Avista settling its last two general rate cases and entering into a settlement agreement on the first multiyear rate plan following the passage of SB 5295 as examples of an improved stakeholder relationship with WUTC, the lag in cash flow recovery and tempered revenue increases have pressured Avista's credit metrics particularly during a time when the sector faces material headwinds from higher natural gas prices and overall cost pressures. The approval of the settlement agreement is a key credit consideration for Avista's credit profile.

Idaho

In Idaho, Avista filed its 2021 general rate case with the Idaho Public Utilities Commission (IPUC) in January 2021 and the IPUC approved an all-party settlement in June 2021. The settlement authorized a two-year multiyear rate plan that included a $10.6 million (4.3%) electric revenue increase effective 1 September 2021 and an annual base electric revenue increase of $8 million (3.1%) effective 1 September 2022. For natural gas the rate plan decreased revenue by $1.6 million (3.7%) in 2021 and increase revenue by $0.9 million (2.2%) in 2022. The settlement further authorized a 9.4% ROE (prior authorized was 9.5%) and 50% capital structure (in line with prior authorization). The company plans to file its next general rate case in early 2023. Avista's original request included an electric revenue increase of $24.8 million (10.1%) in 2021 and an $8.7 million (3.2%) increase in 2022. Similar to the Washington filing, Avista proposed to offset the increase by the creation of the Tax Customer Credit for the two years, which was authorized under the settlement.

Oregon

The company's most recent natural gas rate case was filed on 22 October 2021 where it requested a $3.8 million (3.1%) revenue increase. The commission approved a settlement where rates became effective 23 August 2022. The settlement included a revenue increase of $1.6 million, and a 9.4% ROE and 50% capital structure (both as previously authorized).

Alaska

AELP filed its latest general rate case on 18 July 2022 requesting a $3.2 million (9%) electric base rate increase. The request includes a 13.45% ROE and 60.7% capital structure. The utility is currently allowed an ROE of 11.95% and equity layer of 58.18%, which are well above the average of authorized returns for the industry, a credit positive. We note that Alaska has a statutory period of 450 days or approximately 15 months to decide on rate cases, the longest in the nation, and has not authorized cash flow stabilizing mechanisms such as revenue decoupling.

In the utility's last rate case, AELP lowered customer rates by 6.7% or $2.4 million annually effective 1 August 2018 to reflect the lower tax rate associated with tax reform. The commission also approved AELP's proposal to refund to customers a one-time credit equal to the 6.7% rate reduction for 1 January through 31 July 2018. The utility completed the refund during the third quarter of 2018. The impact of the TCJA on AELP’s deferred income taxes will be addressed in its current general rate case filing. AELP planned to file a general rate case in August 2021, however, the company requested a delay in filing to avoid using 2020 as a test year given coronavirus pandemic and the resources it would take to normalize 2020 for the filing.

Washington's legislative action has the potential to enhance regulatory framework

The Washington regulatory framework has the potential to be enhanced with the enactment of two key Senate bills (SB), SB 5116 and SB 5295 in 2019 and 2021,respectively. SB 5116, a clean energy bill with aggressive carbon transition targets, was enacted in 2019 and offered utilities the potential for important regulatory tools to recover associated costs. The bill requires electric utilities to eliminate coal-fired generation by 2025, transition the state's electricity supply to 80% renewables and 100% carbon neutral power by 2030 and be 100% carbon free by 2045. We viewed the law as credit positive because it includes the potential for enhanced cost recovery mechanisms that can improve utility financial performance and provides a legal and regulatory framework to reduce carbon exposure risks.

Compliance with the law will require significant investment and an overhaul of existing state electric infrastructure. However, the law acknowledges the WUTC's authority to implement performance and incentive based regulation, multiyear rate plans and other “flexible regulatory mechanisms” to achieve the state's public interest objectives. Importantly, the law also recognizes that the policy must include safeguards that do not impair the reliability of the electricity system nor impose unreasonable costs on utility customers.

We discuss more details on SB 5295 in "Washington approves clean energy bill, a credit positive for investor-owned utilities" (16 May 2019).

SB 5295 (enacted on 3 May 2021) followed the clean energy bill and aims at reforming the regulatory framework for utilities in the state by paving the way for multiyear rate plans (MYRP) and performance based ratemaking (PBR). We view the bill as credit positive as it could enhance the consistency and predictability of utility regulation. Specifically, we view the PBR construct as a credit supportive rate making mechanism because MYRPs with performance targets and the potential to earn performance incentives will work to reduce regulatory lag. It could also aid Avista's renewable transition, improve operational efficiency and enhance cash flow and profitability, all while considering customer cost and service. Nevertheless, the extent to which the new law will enhance the Washington regulatory framework and improve utility financial performance is subject to WUTC decisions, which have been historically inconsistent.

SB 5295 requires the WUTC to develop, in collaboration with utilities and other interested stakeholders, a policy statement on alternatives to traditional costs of service rate making, including performance measures, incentives and penalty mechanisms. Importantly, beginning 1 January 2022, utilities are required to include a proposal for a MYRP between two and four years in length in every general rate case filing. We discuss more details on SB 5295 in "Legislation supporting multiyear rate plans has credit positive implications for Washington's investor owned utilities" (10 May 2021).

ESG considerations

Avista's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 6
ESG Credit Impact Score

CIS-3
Moderately Negative

NEGATIVE IMPACT POSITIVE IMPACT

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Avista's ESG Credit Impact Score is moderately negative (**CIS-3**), where its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. Avista's **CIS-3** reflects its moderate exposure to environmental risks and social risks, and low exposure to governance risks.

Exhibit 7
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-2
Moderately Negative	Moderately Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental

Specifically, Avista's exposure to environmental risks is moderate (**E-3** issuer profile score) driven by its moderately negative physical climate risks, primarily in the form of extreme weather patterns including an increase in wildfires across Washington. These risks are offset by a neutral to low exposure to carbon transition, water management, waste and pollution and natural capital.

Social

Exposure to social risks is moderately negative (**S-3** issuer profile score) reflecting the higher risk to demographics and societal trends that increase public concern over environmental, social, or affordability issues could lead to adverse regulatory political intervention. These risks are balanced by neutral to low risks to health and safety, human capital customer relationships and responsible production.

Governance

Governance is broadly in line with other utilities and does not pose a particular risk (**G-2** issuer profile). For Avista, board structure primarily stands out as moderately negative, however it is offset by other aspects of governance strength that are derived in part by compliance and reporting, management creditability and track record as well as financial policy and risk management, which is driven by the historical ratio of retained cash flow to debt.

ESG Issuer Profile Scores and Credit Impact Scores for Avista are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity Analysis

We expect Avista to maintain adequate liquidity over the next 12-18 months. Avista's external liquidity sources consist of a $400 million senior secured revolving credit facility which expires in June 2026. As of 30 June 2022, there was about $198.7 million available under the line of credit. Since Avista currently has unsecured investment-grade ratings from two nationally recognized rating agencies, the company has the option to request the banks to relinquish their existing First Mortgage Bond collateral position. Avista has not asked for the release, keeping the company as one of the few US regulated utilities to maintain a secured bank credit facility. Avista was in compliance with the facility's sole covenant of less than 65% capitalization, with a ratio of 54% as of 30 June 2022. We note that the company has no material adverse change language beyond the close of the facility, a credit positive.

AELP has a $25 million line of credit which expires in 2024 and requires a consolidated debt to capitalization covenant of 67.5%. As of 30 June 2022, there were no borrowings or letters of credit outstanding under the facility and AELP was in compliance with its covenant, with a ratio of 52%.

The company typically funds capex with a mix of long-term debt and equity. In 2022, Avista issued $400 million in first mortgage bonds and issued $60.8 million of the planned $135 million of equity in the year. Proceeds were used to repay short term debt outstanding under the line of credit and $250 million in maturities due in April 2022. Avista's maturity schedule is manageable with a $13.5 million secured note due in 2023 and $25 million secured note due in 2028.

Methodology and Scorecard

Exhibit 8
Rating Factors
Avista Corporation

Regulated Electric and Gas Utilities Industry [1][2]	Current LTM 6/30/2022		Moody's 12-18 Month Forward View As of 8/22/2022 [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Baa	Baa	Baa	Baa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.1x	Baa	3x-5x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	13.0%	Ba	11%-15%	Ba
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	8.6%	Ba	8%-11%	Ba
d) Debt / Capitalization (3 Year Avg)	49.0%	Baa	48%-50%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa2		Baa2
HoldCo Structural Subordination Notching	0	0		
a) Scorecard-Indicated Outcome		Baa2		Baa2
b) Actual Rating Assigned		(P)Baa2		(P)Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 6/30/2022 (LTM)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics

Appendix

Exhibit 9

Peer Comparison Table [1]

(In US millions)	Avista Corp. (P)Baa2 (Stable)			Puget Sound Energy, Inc. Baa1 (Stable)			Idaho Power Company Baa1 (Stable)			Portland General Electric Company A3 (Stable)		
	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Dec-20	FYE Dec-21	LTM Mar-22	FYE Dec-21	FYE Dec-21	LTM Jun-22
Revenue	1,322	1,439	1,568	3,326	3,806	3,912	1,347	1,455	1,484	2,145	2,396	2,467
EBITDA	466	493	482	1,299	1,339	1,301	536	552	556	759	822	832
Total Debt	2,492	2,651	2,671	4,957	5,268	5,175	2,601	2,496	2,546	3,711	3,707	3,616
CFO Pre-W/C / Debt	15.3%	11.6%	11.4%	18.1%	17.1%	16.7%	12.2%	12.8%	12.8%	14.5%	14.4%	16.2%
CFO Pre-W/C – Dividends / Debt	10.9%	7.2%	6.8%	15.1%	12.7%	13.9%	6.9%	7.0%	6.9%	10.8%	10.3%	11.9%
Debt / Capitalization	48.7%	48.7%	48.0%	49.0%	49.3%	47.5%	45.0%	43.1%	43.5%	55.5%	54.4%	53.3%
Debt / EBITDA	5.3x	5.4x	5.5x	3.8x	3.9x	4.0x	4.9x	4.5x	4.6x	4.9x	4.5x	4.3x
EBITDA / Interest Expense	4.4x	4.6x	4.3x	5.1x	5.2x	5.1x	4.8x	5.0x	5.0x	5.0x	5.6x	5.3x

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE=Financial Year=End. LTM=Last Twelve Months.
Source: Moody's Financial Metrics

Exhibit 10

Cash Flow and Credit Metrics [1]

($ in millions)

CF Metrics	Dec-18	Dec-19	Dec-20	Dec-21	LTM Jun-22
As Adjusted					
FFO	**332**	**365**	**368**	**302**	**275**
+/- Other	26	-10	13	7	29
CFO Pre-WC	**358**	**355**	**381**	**308**	**304**
+/- ΔWC	4	47	-49	-22	-2
CFO	**362**	**402**	**333**	**286**	**302**
- Div	98	103	110	118	124
- Capex	424	447	409	445	442
FCF	**-160**	**-147**	**-186**	**-277**	**-263**
(CFO Pre-W/C) / Debt	15.6%	15.0%	15.3%	11.6%	11.4%
(CFO Pre-W/C - Dividends) / Debt	11.3%	10.6%	10.9%	7.2%	6.8%
FFO / Debt	14.5%	15.4%	14.8%	11.4%	10.3%
RCF / Debt	10.2%	11.1%	10.3%	6.9%	5.7%
Revenue	1,397	1,346	1,322	1,439	1,568
Interest Expense	102	107	107	107	111
Net Income	84	128	127	141	139
Total Assets	5,833	6,082	6,402	6,854	6,938
Total Liabilities	4,074	4,158	4,372	4,699	4,700
Total Equity	1,759	1,925	2,030	2,155	2,237

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics™

Ratings

Exhibit 11

Category	Moody's Rating
AVISTA CORP.	
Outlook	Stable
Issuer Rating	Baa2
First Mortgage Bonds	A3
Senior Secured	A3
Senior Unsecured MTN	(P)Baa2
ALASKA ELECTRIC LIGHT AND POWER COMPANY(AELP)	
Outlook	Stable
Issuer Rating	Baa3
AVISTA CORP. CAPITAL II	
Outlook	Stable
BACKED Pref. Stock	Baa3

Source: Moody's Investors Service

REPORT NUMBER 1336981

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
16 August 2023

Update

Send Your Feedback

RATINGS

Avista Corp.

Domicile	Spokane, Washington, United States
Long Term Rating	Baa2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Edna R Marinelarena +1.212.553.1383
AVP-Analyst
edna.marinelarena@moodys.com

Cole Egan +1.212.553.0300
Associate Analyst
cole.egan@moodys.com

Michael G. Haggarty +1.212.553.7172
Associate Managing Director
michael.haggarty@moodys.com

Jim Hempstead +1.212.553.4318
MD - Global Infrastructure & Cyber Risk
james.hempstead@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Avista Corp.

Update to credit analysis

Summary

Avista Corporation's (Avista) credit profile reflects its primary business as a diverse, low-risk vertically integrated electric and gas utility with relatively supportive cost recovery mechanisms, such as electric and gas revenue decoupling in all jurisdictions. These mechanisms had resulted in steady revenue and cash flow generation and historically stable credit metrics including a ratio CFO pre-WC to debt at about 15% from 2018 through 2020, before the ratio fell considerably to 12% in 2021 and 10% in 2022 and for the LTM period ending 30 June 2023.

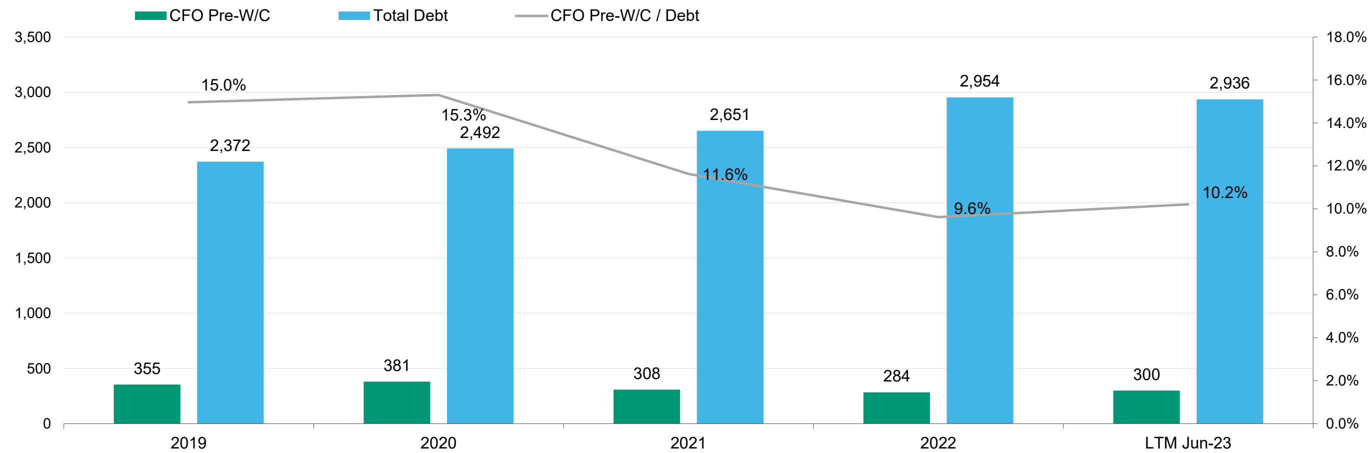
Avista's operating performance remains strong despite the weak financial metrics that were caused primarily by lower cash flow generation due to a customer tax credit implemented in 2021 to offset rate increases. Because the tax credit will begin to automatically expire in 2023 and as a result of recently supportive regulatory proceedings, we expect Avista's cash flow to increase and lead to an improvement in metrics. Moody's projects that the utility's cash flow from operations before changes in working capital (CFO pre-WC) to debt ratio will be about 17% in 2023 and range between 17-19% over the next several years. If the ratio is sustained in the high teens, there could be upward rating pressure

The company has operations in Washington, Idaho and Oregon, and we view its regulatory jurisdictions to be generally credit supportive. The Washington Utilities and Transportation Commission (WUTC), which regulates roughly 60% of the company's rate base and revenue, approved Avista's multiparty settlement agreement on a two year rate plan in December 2022. We viewed this outcome as credit supportive and it is a key driver of Avista's improved credit metrics in 2023.

Avista has some unregulated exposure and owns regulated utility Alaska Electric Light and Power (AEL&P, Baa3 stable) that provides limited operational and cash flow diversity, but this is neutral in terms of our view of Avista's overall credit quality.

Exhibit 1

Historical CFO Pre-WC, Total Debt and CFO Pre-WC to Debt ($ MM)



Source: Moody's Financial Metrics™

Credit Strengths

» Vertically integrated utility with historical track record of consistent cash flow generation before 2021

» Credit metrics are expected to improve this year

» Trend of more consistent and supportive regulation in Washington

» Washington legislation provides for additional credit positive regulatory tools

Credit Challenges

» Recently weak credit metrics provide little cushion at the Baa2 rating level

» Delayed cost recovery due to persistent regulatory lag with no forward test year or interim rates

» Increased wildfire risk

Rating Outlook

The stable outlook reflects our expectation that Avista's financial profile will improve in 2023 (e.g., CFO pre-WC to debt of at least 14%). Moody's forecasts this ratio to improve to the high teens over the next several years, which could lead to upward rating pressure if sustained. In addition, the stable outlook incorporates our view that Avista will continue to receive adequate cost recovery authorizations within its regulatory jurisdictions and that unregulated operations will remain below 15% of consolidated earnings and cash flow.

Factors that Could Lead to an Upgrade

Avista's rating could be upgraded if financial metrics improve such that its ratio CFO pre-WC to debt is sustained above 18% and CFO pre-WC less dividends is above 13% on a consistent basis. A rating upgrade would also be premised on a continued credit supportive rate case outcomes, particularly in Washington. If there is an improvement in regulatory environment, such as authorization of trackers and riders that lead to faster cost recovery and reduced regulatory lag, this could also lead to an upgrade.

Factors that Could Lead to a Downgrade

Avista's rating could be downgraded if there is a decline in the regulatory environment in any of its jurisdictions, most notably Washington, if there are unsupportive rate case outcomes or other adverse regulatory developments. The rating could also be downgraded if Avista's credit metrics do not improve and CFO pre-WC to debt ratio remains below 14%.

Key Indicators

Exhibit 2

Avista Corp. [1]

	Dec-19	Dec-20	Dec-21	Dec-22	LTM Jun-23
CFO Pre-W/C + Interest / Interest	4.3x	4.6x	3.9x	3.4x	3.2x
CFO Pre-W/C / Debt	15.0%	15.3%	11.6%	9.6%	10.2%
CFO Pre-W/C – Dividends / Debt	10.6%	10.9%	7.2%	5.2%	5.6%
Debt / Capitalization	49.2%	48.7%	48.7%	49.5%	48.6%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

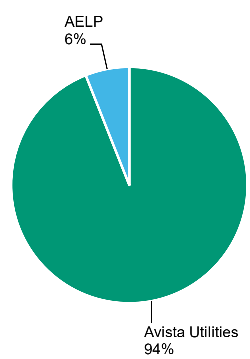
Profile

Avista Corp. is an operating electric and natural gas utility, which, through Avista Utilities, provides electric transmission and distribution and natural gas distribution services to more than 700,000 customers in parts of eastern Washington, northern Idaho, and natural gas distribution service in parts of northeastern and southwestern Oregon. The utility has electric generating facilities in Washington, Idaho, Oregon and Montana and also supplies electricity to a small number of customers in Montana. Avista's utility operations are regulated by the Washington Utilities and Transportation Commission (WUTC), the Idaho Public Utilities Commission (IPUC), the Oregon Public Utility Commission (OPUC) and the Montana Public Service Commission (MPSC).

Avista owns Alaska Electric Light and Power Company (AELP, Baa3 stable) through its intermediary holdco, Alaska Energy and Resources Company (AERC, not rated). AELP is a vertically integrated electric utility that services almost 18,000 customers in Juneau, Alaska. AELP is under the purview of the Regulatory Commission of Alaska (RCA).

Exhibit 3

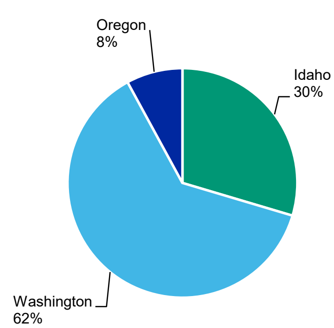
2022 earnings contribution breakdown



Excludes other segments
Source: Avista Corp. Filings

Exhibit 4

Rate base by jurisdiction



As of 30 June 2023, excludes AEL&P
Source: Company Documents & Moody's Investors Service

Detailed Credit Considerations

Weak financial metrics with improvement expected in 2023

Because of Washington's historic test year requirements for rate making, Avista experiences a lag between the time that investments are made and the time at which it is allowed to begin recovery of those investments via new rates. Management had intended to improve this lag by filing rate cases more frequently, but the coronavirus-driven economic downturn delayed the rate case filing until

October 2020 instead of earlier in that year. Additionally, as a way to help mitigate the customer bill impact, the company offset its revenue increase with the creation of a tax credit, which reduced revenue and cash flow in 2021 and 2022.

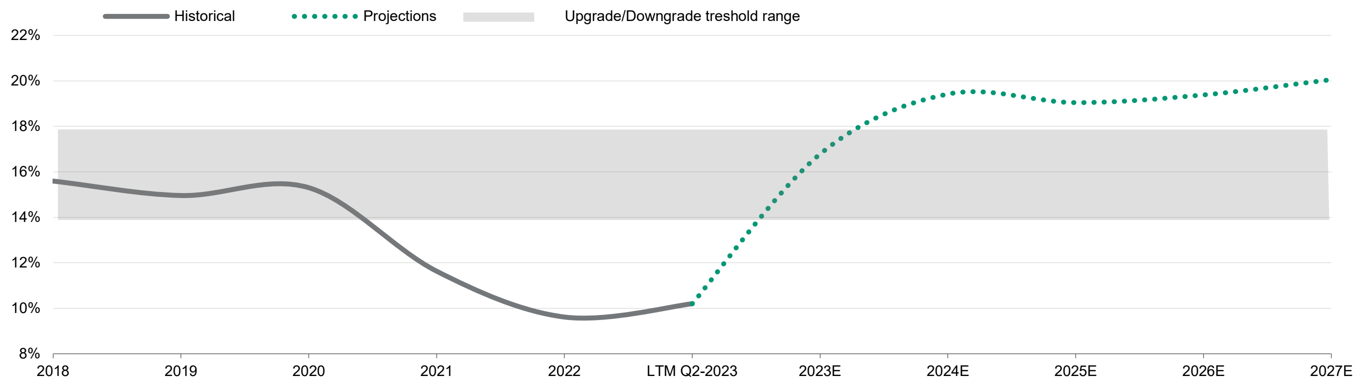
Further pressuring credit metrics were the increase in fuel and purchase power costs experienced industry wide during 2022 and some additional debt incurred to support liquidity during a spike in commodity prices in December 2022 that required Avista to meet cash collateral calls on its commodity contracts. The company managed these liquidity needs by obtaining a term loan and additional letter of credit agreements. As a result of these developments, Avista's CFO pre-WC to debt ratio was a very low 9.6% in 2022.

As of LTM Q2 2023, however, the CFO pre-WC to debt ratio improved marginally to about 10.2% and is expected to be about 17% for the full year 2023. The improvement in metrics is driven by a favorable rate case outcome that resulted in new rates as of 1 December 2022 and the expiration of the tax credit that will begin to automatically phase out by the end of Q3 2023. Thereafter, we project credit metrics to strengthen to the high teens, a level that, if sustained, could put upward pressure on Avista's credit rating.

Exhibit 5

Improvement in credit metrics expected in 2023 following supportive regulatory proceedings

Historical and projected CFO pre-WC to debt ratio and upgrade/downgrade threshold range



The upgrade and downgrade financial metric thresholds cited are one of several factors that could lead to a change in the rating if the ratio is above or below the level cited for a sustained period

Source: Moody's Investors Service

Credit supportive regulatory jurisdictions with adequate track record of cost recovery

Washington

We view Avista's regulatory jurisdictions to be generally credit supportive. The Washington Utilities and Transportation Commission (WUTC), which regulates roughly 60% of the company's rate base and revenue, allows electric and gas decoupling mechanisms which provide for timely recovery of fixed utility costs and stable gross margins in the face of declining use. Even so, the use of historic test years has resulted in some regulatory lag, which has impacted cash flow recovery over the years and requires Avista to file frequent general rate cases.

Avista's last Washington electric and natural gas general rate case (filed January 2022) resulted in a multiparty settlement that was approved by the WUTC in December 2022. The two year rate plan included an electric revenue increase of $38 million (6.9%) effective December 2022 and a $12.5 million (2.1%) increase effective December 2023. For natural gas, the settlement included a $7.5 million (6.5%) increase in December 2022 and a $1.5 million (1.2%) increase in December 2023. The parties agreed to a 7.03% rate of return on rate base with all other aspects, such as the ROE and capital structure, not made public. We view this outcome as credit supportive and a driver of Avista's improved credit metrics in 2023.

Nevertheless, the lag in cash flow recovery and limited revenue increases have pressured Avista's credit metrics particularly during a time when the sector faced material headwinds from higher natural gas prices and other cost pressures. However, Avista settling its last three general rate cases including the 2022 general rate case discussed above, which was the first multiyear rate plan approved following the passage of SB 5295. We view this as evidence of an improved relationship with the WUTC and demonstrates a trend of more consistent regulation in the state of Washington.

We expect the company to continue to receive supportive regulatory outcomes consistent with the state passage of SB 5116 and SB 5295 in 2019 and 2021, respectively. The bills aimed to reform the regulatory framework and pave the way for multiyear rate plans and performance based ratemaking. We discuss more details on SB 5116 in "Washington approves clean energy bill, a credit positive for investor-owned utilities" (16 May 2019) and on SB 5295 in "Legislation supporting multiyear rate plans has credit positive implications for Washington's investor owned utilities" (10 May 2021).

Idaho

In Idaho, Avista has a track record of consistent and credit supportive regulatory outcomes typically concluding in settlement agreements. The company filed its latest general rate case in February 2023 and in June 2023 reached a settlement agreement with various interveners including the IPUC staff. The settlement is for a two year rate plan designed to increase annual base electric revenues by $22.1 million (8%) effective 1 September 2023 and $4.3 million (1.4%) effective 1 September 2024. Natural gas revenues increase by $1.3 million (2.7%) effective 1 September 2023 and are relatively flat thereafter. The settlement includes a 9.4% ROE and 50% equity ratio.

Avista last general rate case was filed in January 2021 and the IPUC approved an all-party settlement in June 2021. The settlement authorized a two-year rate plan that included a $10.6 million (4.3%) electric revenue increase effective 1 September 2021 and an annual base electric revenue increase of $8 million (3.1%) effective 1 September 2022. For natural gas, the rate plan decreased revenue by $1.6 million (3.7%) in 2021 and increased revenue by $0.9 million (2.2%) in 2022. The settlement further authorized a 9.4% ROE (prior authorized was 9.5%) and 50% capital structure (in line with the prior authorization).

Oregon

Similar to Idaho, Avista has received supportive regulatory outcomes in recent years. The company filed its latest general rate case in March 2023 requesting a base rate increase of $11 million with new rates effective 1 January 2024. In May 2023, Avista reached a partial settlement with various interveners including the OPUC staff that would allow for a 9.5% ROE and 50% equity layer. When incorporating the settlement agreement, a proposed $9.4 million revenue increase (12.3%) remains pending regulatory proceedings.

Avista's last Oregon rate case concluded in a settlement that included a revenue increase of $1.6 million, a 9.4% ROE and 50% capital structure (both as previously authorized). The original request was for a $3.8 million (3.1%) revenue increase.

Alaska

AELP filed its latest general rate case on 18 July 2022 requesting a $3.2 million (9%) electric base rate increase. The request includes a 13.45% ROE and 60.7% capital structure. The utility is currently allowed an ROE of 11.95% and equity layer of 58.18%, which are well above the average of authorized returns for the industry, a credit positive.

In August 2022, AELP received an interim base rate increase of $1.6 million (4.5%) effective as of 1 September 2022. The company opted to place the interim revenue increase into escrow pending the final ruling of the commission. Alaska has a statutory period of 450 days or approximately 15 months to decide on rate cases, and a decision is expected in October 2023.

Wildfires are a rising risk factor for the Western states

Wildfire risk in the US has been rising over the past few decades, regardless the source of ignition. State and federal efforts to suppress wildfires have inadvertently led to the significant accumulation of grasses, shrubs, dead trees and fallen leaves and pine needles, which can fuel wildfires. Meanwhile, climate change has increased wildfire risk by making it easier for fires to start and spread and by making trees more vulnerable to diseases and insect infestation. These elements are further heightened by severe windstorm events that cannot only cause branches, whole trees or poles to fall on to power lines causing a spark and ignition, and quickly cause a fire to spread over a larger territory if the fire is not contained. The increase in the number and intensity of wildfires is well documented in California, and damages caused by wildfires are also growing in Washington, Oregon, and Idaho.

About 2,700 miles (36%) of Avista's electric distribution system is located in high fire consequence areas. The company has managed the rising wildfire risk through the traditional vegetation management and pole replacement strategies for many years with a more refined focus in recent years. In 2020, the company published its first 10-year Wildfire Resiliency Plan that it updates periodically with the most recent update as of January 2023.

The plan includes Avista's approach to wildfire mitigation and includes details on its investment in grid hardening, enhanced vegetation management, situational awareness and emergency response and operation. The report provides updates on the company's progress towards grid hardening as well as key performance measures that it uses to measure the success of its investments (see Exhibits 6 and 7). Avista intends to spend approximately $330 million on wildfire mitigation over the 10 year plan period that began in 2020. Both the IPUC and WUTC have authorized deferrals of certain costs associated with the plan, a credit positive.

Exhibit 6

Avista's reported wildfire progress and work remaining

Programs and Resources	2020-2022 Progress	2023-2029 Remaining	Percent Complete
Distribution Grid Hardening	392 miles	2,357 miles	14%
Transmission Steel Poles	287 miles	713 poles	29%
Fire Resistant Pole Wraps	4,627 poles	7,000 poles	40%
Transmission LiDAR Survey	100%*	100% annually	
Distribution Satellite Imagery	100%**	100% annually	
Fire Mode Automation	124 devices	104 devices	55%
Capital Investment	$48.9 million	$237 million	17%
O&M Investment	$27.3 million	$99.1 million	22%

*100% in 2022
**100% in 2021-2022
Source: AVista's 2023 Wildfire Resiliency Plan

Exhibit 7

Avista's reported distribution outage incidents

Key Performance Measures	2020	2021	2022	5-Year Average (2018-2022)	Percentage Change
Tree Fall Into Lines Rate	375	353	375	363	3%
Tree Grow Into Lines Rate	69	81	59	80	-26%
Equipment Failures	590	612	745	650	15%
Pole Fires	65	154	50	83	-40%
Spark-Ignition Events	147	109	107	117	-9%

Source: Avista's 2023 Wildfire Resiliency Plan

Avista's wildfire mitigation plans also include maintaining relationships with various federal and state stakeholders including first responders to manage emergency response during fire events as well as developing a plan for public safety power shutoffs (PSPS) during high risk weather conditions. Avista plans to have a recommended plan for PSPS by the end of 2023.

To date, Avista has not had wildfire losses large enough to exceed its insurance coverage. Although there is no precedent of inverse condemnation - which holds a utility strictly liable for damages caused by the utility equipment in a wildfire, regardless of fault or the reasonableness of its conduct - in Washington, Oregon or Idaho, the company remains exposed to litigation risk that could lead to court decisions that result in severe losses to the company.

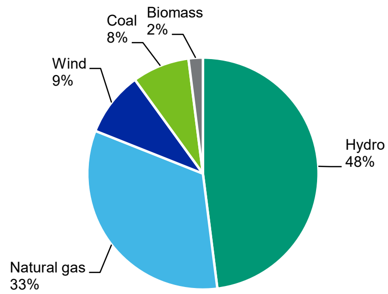
Avista is a defendant in several lawsuits related to wildfires in recent years, two of which total about $10 million in claims and are related to insurance claims already paid out. A third is related to a 2020 Labor Day fire event in western Washington and northern Idaho where more than 25,000 acres and about 230 residential, commercial and other structures were impacted. Avista's investigation has found no evidence of equipment failure or that the fire was caused by any deficiencies of the company.

Well positioned from carbon transition risk standpoint but inherent hydro generation risk

Avista is well positioned from a carbon transition risk perspective given that close to 50% of its power supply is generated by owned or contracted hydroelectric plants (see Exhibit 6). The company owns and operates the Noxon Rapids and Cabinet Gorge plants on the Clark Fork River and six small hydro projects on the Spokane River. During normal streamflow and operating conditions, hydro power is typically the lowest cost of power per MWh. However, hydro generation can experience high annual resource variability as it is dependent on water availability.

In recent years, the northwestern states have experienced hotter temperatures and dryer conditions affecting water availability resulting in utilities having to rely on other generating assets including natural gas, coal or market purchases. Although we expect Avista to recover its purchase power and fuel costs through its authorized mechanisms, utilities must first file to recover costs with its regulator. A substantial increase in purchase power or fuel costs could drive an increase in deferrals that could pressure financial metrics over the short-term, as experienced in 2022.

Exhibit 8
Almost 50% of power supply is from hydro generation



As of 31 December 2022
Source: Company filings

To meet the Washington Clean Energy Transformation Act (CETA) requirements, in January 2023, Avista entered into an ownership transfer agreement with Northwestern Corporation (Baa2 stable). By the end of 2025, Avista will transfer its 15% ownership of Colstrip Units 3 and 4 and fully exit coal generation. The company retains responsibility for site remediation expenses associated with conditions existing as of the close of the transaction, which is expected to be 31 December 2025. Given flat load growth, Avista expects to meet its requirements with existing owned generation and replace supply with additional renewables sources through PPA agreements.

ESG considerations

Avista's ESG Credit Impact Score is CIS-3 (Moderately Negative)

Exhibit 9
ESG Credit Impact Score

CIS-3
Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Avista's **CIS-3** score reflects ESG attributes that are considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The **CIS-3** reflects its moderate exposure to environmental and social risks, and low exposure to governance risks.

Exhibit 10
ESG Issuer Profile Scores

ENVIRONMENTAL
E-3
Moderately Negative

SOCIAL
S-3
Moderately Negative

GOVERNANCE
G-2
Neutral-to-Low

Source: Moody's Investors Service

Environmental

Avista's **E-3** score is driven by its moderately negative physical climate risks, primarily in the form of extreme weather patterns including an increase in wildfires across its service territories and water availability issues due to warmer and dryer weather conditions that affect hydro generation. These risks are offset by a neutral to low exposure to carbon transition, water management, waste and pollution and natural capital risks.

Social

The company's **S-3** score reflects demographic and societal trends that could increase public concern over environmental, social, or affordability issues and lead to adverse regulatory or political intervention. These risks are balanced by neutral to low risks related to health and safety, human capital, customer relationships and responsible production.

Governance

Governance is broadly in line with other utilities and does not pose a particular risk driving the **G-2** score. Avista's board structure primarily stands out as moderately negative, although it is offset by other aspects of governance strength that are derived in part by compliance and reporting, management credibility and track record as well as financial policy and risk management.

ESG Issuer Profile Scores and Credit Impact Scores for Avista are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for Avista on MDC and view the ESG Scores section.

Liquidity Analysis

Avista has adequate internal liquidity generating about $250 million of CFO annually on average over the last three years. The company has access to a $500 million senior secured revolving credit facility that supports letters of credit which expires June 2028.

As of 30 June 2023, there was about $292.4 million available under the line of credit and $4.6 million of letters of credit outstanding. Additionally, Avista entered into a $50 million letter of credit agreement in December 2022 that remains outstanding and can be terminated by either party at any time. As of 30 June 2023, there was $16 million outstanding.

Since Avista currently has unsecured investment grade ratings from two nationally recognized rating agencies, the company has the option to request the banks to relinquish their existing first mortgage bond collateral position. Avista has not asked for the release, keeping the company as one of the few US regulated utilities to maintain a secured bank credit facility. Avista was in compliance with the facility's sole covenant of less than 65% debt to capitalization, with a ratio of 54.8% as of 30 June 2023. The company has no material adverse change language beyond the close of the facility, a credit positive.

AELP has a $25 million line of credit which expires in 2028 and requires a consolidated debt to capitalization covenant of 67.5%. As of 30 June 2023, there were no borrowings or letters of credit outstanding under the facility and AELP was in compliance with its covenant, with a ratio of 49.4%.

The company typically funds capex with a mix of long-term debt and equity. In March 2023, Avista issued $250 million of first mortgage bonds to fund various projects. Avista's maturity schedule is manageable with a $13.5 million secured note due in 2023 and a $15 million secured note due in 2024.

Methodology and Scorecard

Exhibit 11

Methodology Scorecard Factors

Avista Corporation

Regulated Electric and Gas Utilities Industry [1][2]	Current LTM 6/30/2023		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Baa	Baa	Baa	Baa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	3.7x	Baa	4x - 4.5x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	11.8%	Ba	15% - 18%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	7.2%	Ba	11% - 14%	Baa
d) Debt / Capitalization (3 Year Avg)	48.5%	Baa	45% - 48%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa2		Baa1
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		Baa2		Baa1
b) Actual Rating Assigned		(P)Baa2		(P)Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 6/30/2023(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 12

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-19	Dec-20	Dec-21	Dec-22	LTM Jun-23
As Adjusted					
FFO	**365**	**368**	**302**	**271**	**300**
+/- Other	-10	13	7	13	0
CFO Pre-WC	**355**	**381**	**308**	**284**	**300**
+/- ΔWC	47	-49	-22	-140	-92
CFO	**402**	**333**	**286**	**144**	**208**
- Div	103	110	118	129	135
- Capex	447	409	445	457	473
FCF	**-147**	**-186**	**-277**	**-442**	**-400**
(CFO Pre-W/C) / Debt	15.0%	15.3%	11.6%	9.6%	10.2%
(CFO Pre-W/C - Dividends) / Debt	10.6%	10.9%	7.2%	5.2%	5.6%
FFO / Debt	15.4%	14.8%	11.4%	9.2%	10.2%
RCF / Debt	11.1%	10.3%	6.9%	4.8%	5.6%
Revenue	1,346	1,322	1,439	1,710	1,724
Interest Expense	107	107	107	120	135
Net Income	128	127	141	153	144
Total Assets	6,082	6,402	6,854	7,417	7,371
Total Liabilities	4,158	4,372	4,699	5,083	4,971
Total Equity	1,925	2,030	2,155	2,335	2,400

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Financial Metrics™

Exhibit 13

Peer Comparison Table [1]

	Avista Corp. (P)Baa2 (Stable)			Exelon Corporation Baa2 (Stable)			Puget Sound Energy, Inc. Baa1 (Stable)			Idaho Power Company (P)Baa1 (Stable)			Portland General Electric Company A3 (Stable)		
(In US millions)	FYE Dec-21	FYE Dec-22	LTM Jun-23	FYE Dec-21	FYE Dec-22	LTM Mar-23	FYE Dec-21	FYE Dec-22	LTM Mar-23	FYE Dec-22	FYE Dec-22	LTM Mar-23	FYE Dec-21	FYE Dec-22	LTM Mar-23
Revenue	1,439	1,710	1,724	17,938	19,078	19,314	3,806	4,216	4,559	1,455	1,641	1,726	2,396	2,647	2,769
CFO Pre-W/C	308	284	300	3,848	4,656	4,745	900	880	1,034	323	298	205	532	613	624
Total Debt	2,651	2,954	2,936	36,639	41,512	43,246	5,268	5,483	5,264	2,496	2,408	2,822	3,707	4,075	3,851
CFO Pre-W/C + Interest / Interest	3.9x	3.4x	3.2x	3.8x	4.0x	3.9x	4.5x	4.3x	4.9x	3.9x	3.4x	2.6x	4.6x	4.7x	4.7x
CFO Pre-W/C / Debt	11.6%	9.6%	10.2%	10.5%	11.2%	11.0%	17.1%	16.1%	19.6%	12.9%	12.4%	7.3%	14.4%	15.1%	16.2%
CFO Pre-W/C – Dividends / Debt	7.2%	5.2%	5.6%	6.4%	8.0%	7.8%	12.7%	15.4%	18.7%	7.1%	7.6%	4.5%	10.3%	11.2%	12.1%
Debt / Capitalization	48.7%	49.5%	48.6%	44.5%	53.6%	54.2%	49.3%	47.8%	47.0%	43.1%	40.8%	44.4%	54.4%	55.9%	52.0%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE=Financial Year=End. LTM=Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics™

Ratings

Exhibit 14

Category	Moody's Rating
AVISTA CORP.	
Outlook	Stable
Issuer Rating	Baa2
First Mortgage Bonds	A3
Senior Secured	A3
Senior Unsecured MTN	(P)Baa2
AVISTA CORP. CAPITAL II	
Outlook	Stable
BACKED Pref. Stock	Baa3
ALASKA ELECTRIC LIGHT AND POWER COMPANY(AELP)	
Outlook	Stable
Issuer Rating	Baa3

Source: Moody's Investors Service

REPORT NUMBER 1374950

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE

S&P Global
Ratings

RatingsDirect®

Avista Corp.

Primary Credit Analyst:
Obioma Ugboaja, New York + 1 (212) 438 7406; obioma.ugboaja@spglobal.com

Secondary Contact:
Kevin M Sheridan, New York + 1 (212) 438 3022; kevin.sheridan@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Environmental, Social, And Governance

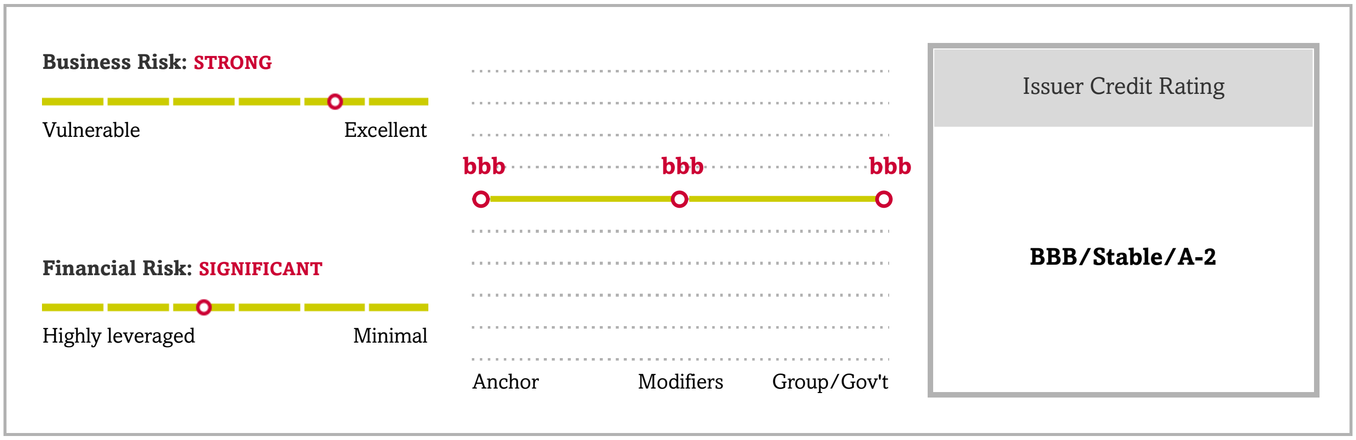
Reconciliation

Issue Ratings - Recovery Analysis

Ratings Score Snapshot

Related Criteria

Avista Corp.



Credit Highlights

Overview

Key strengths	Key risks
Mostly lower risk regulated utiity, with nonregulated operations comprising less than 5% of the company's consolidated EBITDA;	Minimal cushion at the current rating level, and we expect regulatory lag to persist until 2023;
Modest regulatory, operating, and geographic diversity eventhough Washington and Idaho account for most of Avista's regulated footprint; and	Heavy dependence on hydroelectric generation introduces some fuel replacement risk; and
Regulatory mechanisms provide cash flow stability through decoupling and interim adjustments for purchased power and gas costs.	Negative discretionary cash flow over the next few years indicates a reliance on external funding for capital expenditures and dividends.

The COVID-19 pandemic will likely lead to additional regulatory lag for Avista Corp. Avista recently delayed its planned Washington and Idaho rate case filings until the fourth quarter of 2020. In addition, per the terms of a March 2020 order from its Washington State regulators, Avista will refund $40 million in energy recovery mechanism (ERM) balancing account over a two-year amortization period. This effectively offsets approved electric and gas rate increases of $28.5 million, and $8 million, both of which became effective in April 2020. Overall, while we expect the company will work with its regulators to mitigate the effects of higher expenses related to the pandemic, it will likely result in additional regulatory lag primarily due to delays in its planned rate case filings, and the uncertain timing for recovering any incremental expenses tied to the outbreak. Partially offsetting, is the availability of decoupling in Washington, Idaho, and Oregon, which provides some downside protection from reduced sales volumes.

There is potential improvement to Avista's business risk, despite a history of regulatory lag. Although Avista is currently experiencing a period of regulatory lag, we expect the 2019 passage of a law in Washington State to be favorable for its credit quality. The law allows for the authority for the Washington Utilities and Transportation Commission (WUTC) to approve multiyear rate plans and allow recovery for some utility investments deemed useful up to 48 months after the rate approval. In addition, other factors such as use of its purchased power and gas cost-adjustment mechanisms, and decoupling, support our assessment of the company's current business risk profile.

We expect forecast credit metrics to remain in the lower end of the significant financial risk category. We expect that Avista's funds from operations (FFO) to debt will average in the 14%-16% range over the forecast period, assessed under our medial volatility financial benchmark table. As such, there is minimal cushion in Avista's financial measures compared to our current ratings downside trigger.

Outlook: Stable

The stable outlook reflects our expectation that the potential improvement to Avista Corp.'s regulatory risk management strengthens its business risk profile, mitigating its modestly weaker financial measures. We also expect Avista to maintain FFO to debt of 14%-16% throughout our forecast period.

Downside scenario

We could lower our ratings on Avista during the next two years if adverse regulatory decisions weaken FFO to debt consistently below 14%, without sufficient countermeasures. We could also lower the ratings if Avista shifts its strategic focus to other business activities that weaken its credit quality.

Upside scenario

We could raise our rating on Avista if it materially improves its financial measures such that FFO to debt is consistently above 20%.

Our Base-Case Scenario

Assumptions

- Continued use of existing regulatory mechanisms;
- Periodic and timely rate case filings;
- No material weakening in the company's capital structure;
- Capital spending averaging about $415 million annually;
- Dividends in line with historical payout ratio;
- Equity issuance of $70 million in 2020;
- Refinancing of all debt maturities; and
- Negative discretionary cash flow over the forecast period.

Key Metrics

	2019a	2020e	2021f
FFO/debt (%)	12.3	14	14.6
Debt/EBITDA (x)	5.7	5.5	5.3
FFO/cash interest coverage (x)	3.9	4.4	4.5

a--Actual. e--Estimated. f--Forecast. FFO--Funds from operations.

Company Description

Spokane, Wash.-based Avista is a vertically integrated regulated electric and natural gas utility company. It operates through two segments, Avista Utilities and Alaska Electric Light & Power Co. (AEL&P). Avista Utilities provides electric distribution and transmission, natural gas distribution services in parts of eastern Washington and northern Idaho, and natural gas distribution services in parts of northeastern and southwestern Oregon. Avista Utilities also generates electricity in Washington, Idaho, Oregon, and Montana. AEL&P offers electric services to approximately 17,000 customers in the city and borough of Juneau, Alaska. Overall, Avista has about 393,000 electricity customers and approximately 361,000 natural gas customers.

Business Risk: Strong

Avista's business risk profile reflects its low-risk regulated electric and gas utility operations, which contribute more than 95% to the consolidated EBITDA. Our assessment also reflects the company's geographic diversity, with regulated operations across five states, even though Washington and Idaho account for over 90% of its rate base. The company has material exposure to hydroelectric power (roughly 50% of its fuel supply mix), followed by gas-fired generation, both of which help to keep electricity prices competitive compared with the national average. Dependence on hydropower, however, introduces fuel-replacement risk in low water years.

The company regulatory compact includes an ERM in Washington. The ERM is a regulatory accounting mechanism used to track certain differences between Avista's net power supply costs, compared to the amount that is included in base retail rates, and hence, is trued up periodically. Similarly, the company has a power cost adjustment (PCA) mechanism in Idaho, which allows for deferral of 90% of its energy cost differences for future recovery. And for its regulated gas operations, a purchased gas adjustment (PGA) mechanism, available in all its jurisdictions, helps to mitigate gas price risk. Furthermore, Avista benefits from decoupling mechanisms in the majority of its jurisdictions, which provide some downside protection from reduced sales volumes.

Avista regulatory risk management also include it activities in other jurisdictions. In October 2019, Avista received a commission order on its electric rate case in Idaho and gas rate case in Oregon. The Idaho Public Utility Commission (IPUC) approved a $7.2 million rate decrease and Oregon Public Utility Commission (OPUC) approved a $3.6 million increase to rates. Overall, we view these outcomes as indicative of the company's regulatory risk management, which is mostly in line with its peers. Other factors we consider in our assessment includes the company's size and track record of safety and service reliability.

Peer comparison

Table 1

Avista Corp. -- Peer Comparison

Industry Sector: Combo

	Avista Corp.	**Puget Energy Inc.**	**IDACORP Inc.**	**Northwest Natural Gas Co.**
Ratings as of May 27, 2020	BBB/Stable/A-2	BBB-/Negative/--	BBB/Stable/A-2	A+/Stable/A-1
	--Fiscal year ended Dec. 31, 2019--	--Fiscal year ended Dec. 31, 2019--	--Fiscal year ended Dec. 31, 2019--	--Fiscal year ended Dec. 31, 2019--
(Mil. $)				
Revenue	1,345.6	3,401.1	1,346.4	739.9
EBITDA	447.0	1,332.6	535.4	244.5

Table 1

Avista Corp. -- Peer Comparison (cont.)

Industry Sector: Combo

	Avista Corp.	Puget Energy Inc.	IDACORP Inc.	Northwest Natural Gas Co.
Funds from operations (FFO)	314.3	964.2	403.9	202.0
Interest expense	109.1	376.8	117.2	41.4
Cash interest paid	107.0	357.8	117.4	40.0
Cash flow from operations	408.7	549.7	366.0	190.7
Capital expenditure	448.8	967.9	280.6	240.2
Free operating cash flow (FOCF)	(40.1)	(418.2)	85.4	(49.5)
Discretionary cash flow (DCF)	(142.9)	(482.5)	(48.5)	(102.9)
Cash and short-term investments	9.9	45.3	217.3	5.9
Debt	2,560.9	7,123.8	2,327.4	1,066.3
Equity	1,939.3	4,000.3	2,470.6	822.2
Adjusted ratios				
EBITDA margin (%)	33.2	39.2	39.8	33.0
Return on capital (%)	5.5	5.3	8.0	8.3
EBITDA interest coverage (x)	4.1	3.5	4.6	5.9
FFO cash interest coverage (x)	3.9	3.7	4.4	6.0
Debt/EBITDA (x)	5.7	5.3	4.3	4.4
FFO/debt (%)	12.3	13.5	17.4	18.9
Cash flow from operations/debt (%)	16.0	7.7	15.7	17.9
FOCF/debt (%)	(1.6)	(5.9)	3.7	(4.6)
DCF/debt (%)	(5.6)	(6.8)	(2.1)	(9.6)

Sources: S&P Global Ratings, company reports.

Financial Risk: Significant

We assess Avista's financial risk profile as significant using our medial volatility financial ratio benchmarks given the company's mostly low-risk cash flow sources, and our view of its overall management of regulatory risk. Our base case indicates that capital spending, along with dividend payments, will lead to negative discretionary cash flow over the next few years, necessitating a reliance on external funding for capital expenditures and dividends. Specifically for 2020, we assume about $415 million in capital spending, $110 million in dividends, $70 million in equity issuance, and periodic net electric and gas rate increases.

We expect modestly improving financial measures due to recent rate cases outcomes and our assumptions of favorable tax positions in our forecast, partially offset by continued regulatory lag, including delays in its 2020 rate case filings. However, we expect regulatory lag to gradually dissipate as the company continues to effectively manage its regulatory activities across all of its service territories, including in Washington State, which accounts for over 60% of Avista's regulated rate base. Our base case indicates that Avista's financial measures will remain at the lower end of the range for a financial risk assessment of significant.

Financial summary

Table 2

Avista Corp. -- Financial Summary					
Industry Sector: Combo					
	--Fiscal year ended Dec. 31--				
	2019	2018	2017	2016	2015
(Mil. $)					
Revenue	1,345.6	1,396.9	1,445.9	1,442.5	1,484.8
EBITDA	447.0	474.5	500.4	500.7	439.8
Funds from operations (FFO)	314.3	350.2	435.9	417.6	359.0
Interest expense	109.1	109.9	104.2	99.5	89.4
Cash interest paid	107.0	109.5	106.0	96.5	90.7
Cash flow from operations	408.7	369.7	418.4	368.2	385.2
Capital expenditure	448.8	431.0	419.6	415.6	402.1
Free operating cash flow (FOCF)	(40.1)	(61.3)	(1.1)	(47.4)	(16.8)
Discretionary cash flow (DCF)	(142.9)	(159.3)	(93.6)	(134.6)	(102.4)
Cash and short-term investments	9.9	14.7	16.2	8.5	10.5
Gross available cash	9.9	14.7	16.2	8.5	10.5
Debt	2,560.9	2,463.1	2,177.1	2,110.6	1,945.3
Equity	1,939.3	1,774.0	1,730.5	1,648.5	1,554.1
Adjusted ratios					
EBITDA margin (%)	33.2	34.0	34.6	34.7	29.6
Return on capital (%)	5.5	6.7	8.2	9.0	8.4
EBITDA interest coverage (x)	4.1	4.3	4.8	5.0	4.9
FFO cash interest coverage (x)	3.9	4.2	5.1	5.3	5.0
Debt/EBITDA (x)	5.7	5.2	4.4	4.2	4.4
FFO/debt (%)	12.3	14.2	20.0	19.8	18.5
Cash flow from operations/debt (%)	16.0	15.0	19.2	17.4	19.8
FOCF/debt (%)	(1.6)	(2.5)	(0.1)	(2.2)	(0.9)
DCF/debt (%)	(5.6)	(6.5)	(4.3)	(6.4)	(5.3)

Sources: S&P Global Ratings, company reports.

Liquidity: Adequate

As of May 2020, we assess Avista's liquidity as adequate. We expect Avista can cover its needs for the next 12 months even if EBITDA declines by 10%. We expect the company's liquidity sources will exceed uses by more than 1.1x over the next 12 months. Under our stress scenario, we do not expect Avista would require access to the capital markets during that period to meet liquidity needs. Our assessment also reflects the company's generally prudent risk management, sound relationships with banks, and generally satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash balance of $18.9 million; • Cash FFO of about $370 million; • Undrawn credit facilities totaling about $210 million; and • Cash proceeds of $100 million from a term loan issued in April 2020.	• Current debt maturities of $152 million; • Maintenance capital spending of about $300 million; and • Dividend payments of about $110 million.

Debt maturities

- 2020: $52 million
- 2022: $250 million
- 2023: $13.5 million
- 2024: $15 million

Environmental, Social, And Governance

Avista's credit quality is positively influenced by environmental factors compared to peers given its large hydro portfolio. With a total generation fleet capacity of over 2,000 MW, close to 50% of its generation portfolio is from hydro generation. In addition, in 2019, the company announced a goal to serve its customers with 100 percent clean electricity by 2045 and to have a carbon- neutral supply of electricity by the end of 2027. We view social factors as mostly in line with industry peers. This in large part reflects the company's track record of providing safe and reliable electric and gas services for its customers, even though rate affordability is something that we continue to monitor broadly across the sector. Governance factors are also neutral. Avista has independent board of directors, who in our opinion are capably engaged in risk oversight on behalf of its stakeholders.

Reconciliation

Table 3

Avista Corp.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2019--						
Avista Corp. reported amounts (mil. $)							
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	2,133.12	416.38	210.39	100.18	446.99	398.21	442.51
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	(25.79)	--	--
Cash interest paid	--	--	--	--	(99.06)	--	--
Reported lease liabilities	124.24	--	--	--	--	--	--
Operating leases	--	4.43	0.26	0.26	(0.26)	4.16	--
Postretirement benefit obligations/deferred compensation	169.66	--	--	0.15	--	--	--
Accessible cash and liquid investments	(9.90)	--	--	--	--	--	--
Capitalized interest	--	--	--	4.17	(4.17)	(4.17)	(4.17)
Share-based compensation expense	--	11.35	--	--	--	--	--
Power purchase agreements	90.50	13.96	3.46	3.46	(3.46)	10.50	10.50
Asset-retirement obligations	16.07	0.88	0.88	0.88	--	--	--
Nonoperating income (expense)	--	--	23.83	--	--	--	--
Debt: Other	37.24	--	--	--	--	--	--
Total adjustments	427.82	30.61	28.42	8.92	(132.74)	10.49	6.33
S&P Global Ratings' adjusted amounts							
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
	2,560.93	446.99	238.81	109.10	314.25	408.70	448.84

Sources: S&P Global Ratings, company reports.

Capital structure

Avista's capital structure consists of about $1.9 billion of long-term debt, most of which is secured.

Analytical conclusions

We rate the preferred stock issued by Avista Capital II two notches below the issuer credit rating to reflect the deferability of the dividends, and because it is deeply subordinated to other instruments in the capital structure, consistent with our criteria. The short-term rating on Avista Corp. is 'A-2' based on its issuer credit rating.

Issue Ratings - Recovery Analysis

Avista's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's owned or subsequently acquired real property. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an 'A-' issue level rating, two notches above the issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/A-2

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

Related Criteria

- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Insurance | General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of May 29, 2020)*

Avista Corp.	
Issuer Credit Rating	BBB/Stable/A-2
Senior Secured	A-
Issuer Credit Ratings History	
10-Dec-2018	BBB/Stable/A-2
15-Jun-2018	BBB/Watch Pos/A-2
19-Jul-2017	BBB/Positive/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

S&P Global Ratings

RatingsDirect®

Research Update:

Avista Corp. Ratings Affirmed; Outlook Stable

September 22, 2020

Rating Action Overview

PRIMARY CREDIT ANALYST

Obioma Ugboaja
New York
+ 1 (212) 438 7406
obioma.ugboaja
@spglobal.com

SECONDARY CONTACT

Kevin M Sheridan
New York
+ 1 (212) 438 3022
kevin.sheridan
@spglobal.com

- Spokane, Wash.-based Avista Corp. announced its investigation determined the primary cause of recent fires in its region was extreme wind. The weather event triggered wildfires and affected electric utilities throughout the Pacific Northwest. Additional investigations by the Department of Natural Resources (DNR) are ongoing.
- While the wildfires highlight potential operational risks, our base case assumes that the recent fires do not adversely weaken Avista's credit quality.
- Some key factors supporting our opinion include the outcome of Avista's investigation of the wildfires, the company's risk mitigation practices, and our assessment of the company's financial measures, including an funds from operations (FFO)-to-debt ratio of 14%-16% that we expect the company to maintain over the next two years.
- Furthermore, there is potential improvement in Avista's business risk, reflecting recent passage of a law in Washington State that will likely improve Avista's regulatory construct in this jurisdiction, which accounts for about 60% of its rate base.
- We are affirming our ratings on Avista, including our 'BBB' issuer credit rating, 'A-2' short-term rating, and 'A-' rating on its senior secured debt.
- The stable outlook reflects gradual improvement to Avista's regulatory construct, our expectation that the company's risk mitigation practices are sufficient to mitigate its wildfire risk exposure, and that the company maintains an FFO-to-debt ratio of 14%-16% over the next two years.

Rating Action Rationale

In our opinion, the recent wildfires in Avista's service territory should not hurt its credit quality. Avista's investigation indicates that the primary cause of the recent fires in its region was extreme winds, a weather event that triggered wildfires and affected electric utilities throughout the Pacific Northwest. In addition, after considering other factors, including our assessment of the company's financial measures, and risk mitigation practices, which include insurance coverage, we think that Avista's credit quality should not materially suffer because of these incidents.

The recent wildfires cast a spotlight on operating and event risks for Avista. Avista's 2020 wildfire resiliency plan aims to reduce fire risk with about $270 million of capital investment over the next 10 years. Through strategic investment in grid hardening, vegetation management, situational awareness, and operations and emergency response, Avista plans to reduce its risk exposure by up to 90% by year-end 2029. Nevertheless, wildfires generally increase both operating and event risk for utilities exposed to this type of risk, meaning such risk is likely to persist for Avista as the company tries to reduce its wildfire risk exposure.

There is potential improvement to Avista's business risk, despite a history of regulatory lag. Although Avista is experiencing regulatory lag, we expect the 2019 passage of a law in Washington to be favorable for its credit quality. The law allows the Washington Utilities and Transportation Commission (WUTC) to approve multiyear rate plans and allows recovery for some utility investments deemed useful up to 48 months after the rate approval. In addition, other factors such as use of its purchased power and gas cost-adjustment mechanisms, as well as decoupling, support our assessment of the company's business risk profile.

We assess Avista's financial risk profile under our medial volatility financial benchmark tables. This largely reflects that most of Avista's operating cash flow (over 95% of consolidated EBITDA) comes from low-risk regulated electric and gas activities. Our use of this table also reflects our view of the company's management of regulatory risk, and considers the operating risk associated with the nature of the services provided. Our base case reflects about $415 million in capital spending, $110 million in dividends, $70 million in equity issuance for 2020, and periodic net electric and gas rate increases. We expect modestly improving financial measures in 2020 compared to 2019 due to recent rate case outcomes and our assumption of favorable tax positions in our forecast. Continued regulatory lag, including delays in its 2020 rate case filings in Washington and Idaho, partially offset these improvements. Overall, we expect a consolidated FFO-to-debt ratio for Avista of 14%-16% over the next two years, which indicates a significant financial risk profile assessment.

Outlook

The stable outlook reflects gradual improvement to Avista's regulatory construct, our expectation that the company's risk mitigation practices are sufficient to mitigate its wildfire risk exposure, and that the company maintains an FFO-to-debt ratio of 14%-16% during our forecast period.

Downside scenario

We could lower our rating on Avista over the next 12 months if the company's FFO to debt weakens to below 14% and stays there. This could occur if Avista does not execute on its financial plan, leading to weaker financial measures. This could also occur if persistent regulatory lag or unforeseen liabilities related to potential wildfire outbreaks weaken the company's FFO to debt without sufficient countermeasures to offset it. While unlikely, a material shift in strategic focus into other higher-risk unregulated activities could also weaken Avista's business risk and result in a downgrade.

Upside scenario

We could upgrade our rating on Avista over the next 12 months if the company materially improves its financial measures, including FFO to debt that is consistently above 20%, without any weakening of its business risk.

Company Description

Avista is a vertically integrated regulated electric and natural gas utility that operates in two segments, Avista Utilities and Alaska Electric Light & Power Co. (AEL&P). Avista Utilities generates, transmits, and distributes electricity. It serves electric customers in eastern Washington and northern Idaho, as well as a small number of customers in Montana. The company also provides natural gas distribution services to retail customers in parts of eastern Washington, northern Idaho, and northeastern and southwestern Oregon. In total, Avista Utilities supplies retail electric service to about 393,000 customers and retail natural gas service to about 361,000 customers. AEL&P generates, transmits, and distributes electricity in Juneau, Alaska, to about 17,000 customers.

Liquidity

We assess Avista's liquidity as adequate. We expect Avista can cover its needs for the next 12 months even if EBITDA declines 10%. We expect the company's liquidity sources will exceed uses by more than 1.1x over the next 12 months. Under our stress scenario, we do not expect Avista would require access to the capital markets to meet liquidity needs. Our assessment also reflects the company's generally prudent risk management, sound relationships with banks, and generally satisfactory standing in the credit markets.

Principal liquidity sources:

- Cash balance of about $116 million;
- Cash FFO of about $375 million; and
- Undrawn credit facilities of about $185 million.

Principal liquidity uses:

- Current debt maturities of $152 million;
- Maintenance capital spending of about $300 million; and
- Dividend payments of about $112 million.

Issue Ratings - Subordination Risk Analysis

Capital structure

Avista's capital structure consists of about $1.9 billion of long-term debt, most of which is secured.

Analytical conclusions

We rate the preferred stock issued by Avista Capital II two notches below the issuer credit rating to reflect the deferability of the dividends and because it is deeply subordinated to other instruments in the capital structure. We base our 'A-2' short-term rating on Avista Corp. on our issuer credit rating.

Issue Ratings - Recovery Analysis

Avista's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's owned or subsequently acquired real property. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an 'A-' issue-level rating, two notches above the issuer credit rating.

Ratings Score Snapshot -

Issuer credit rating: BBB/Stable/A-2

Business risk: Strong

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: bbb

Modifiers:

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Avista Corp.	
Issuer Credit Rating	BBB/Stable/A-2
Avista Capital II	
Preferred Stock	BB+
Ratings Affirmed; Recovery Rating Unchanged	
Avista Corp.	
Senior Secured	A-
Recovery Rating	1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

S&P Global
Ratings

RatingsDirect®

Avista Corp.

Primary Credit Analyst:
Kevin M Sheridan, New York + 1 (212) 438 3022; kevin.sheridan@spglobal.com

Secondary Contact:
Obioma Ugboaja, New York + 1 (212) 438 7406; obioma.ugboaja@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Environmental, Social, And Governance

Issue Ratings - Subordination Risk Analysis

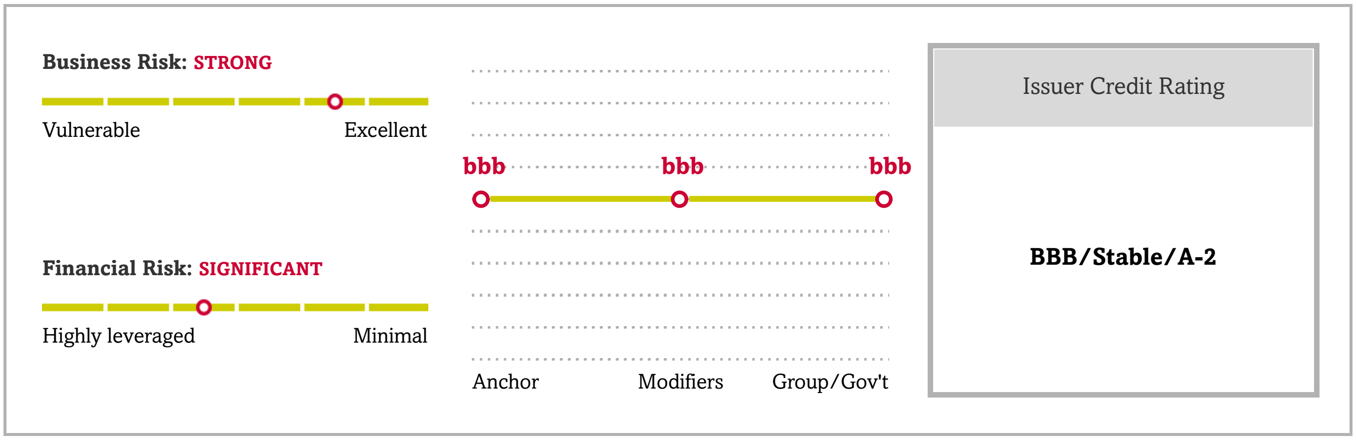
Issue Ratings - Recovery Analysis

Reconciliation

Ratings Score Snapshot

Related Criteria

Avista Corp.



Credit Highlights

Overview

Key Strengths	Key Risks
Mostly lower-risk regulated utility, with nonregulated operations contributing less than 5% of the company's consolidated EBITDA.	Minimal cushion in metrics at the current rating, and we expect regulatory lag to persist until 2023.
Modest regulatory, operating, and geographic diversity, with Washington and Idaho accounting for most of Avista Corp.'s regulated footprint.	Significant dependence on hydroelectric generation, which introduces some fuel replacement risk.
Avista engages in adequate regulatory risk management with mechanisms like decoupling and interim adjustments for purchased power and gas costs.	Negative discretionary cash flow expected over the next few years, indicating a reliance on external funding.

Recent developments in state legislation suggest potential improvement to Avista's business risk--despite continued regulatory lag. Although Avista's period of regulatory lag is expected to continue until 2023, we believe Washington's SB 5295 legislation--passed in May 2021--could lead to improvement in the company's credit quality. The law requires regulated utilities in the state to file multi-year rate plans from two to four years in length. In addition, it allows for the filing of out-of-cycle, multi-year rate plans if a utility underearns and requires the Washington Utilities and Transportation Commission to explore the possible adoption of performance-based ratemaking. Overall, we view this legislation as positive for credit quality in that the multi-year requirement is expected to reduce regulatory lag and provide more cash-flow stability.

Avista has taken steps to mitigate its wildfire risk. The company's 2020 wildfire resiliency plan aims to reduce fire risk with about $270 million of capital expenditures and $30 million in operating and maintenance expenses over a 10-year period. Through targeted investment in grid hardening, vegetation management, situational awareness, and operations and emergency response, Avista expects to reduce its wildfire risk exposure by up to 90% by year-end 2029.

We forecast that credit metrics will remain in the lower end of the significant financial risk category. We expect that Avista's funds from operations (FFO) to debt will average 14%-16% over the forecast period, assessed under our medial volatility financial benchmark table. As such, there is minimal cushion between Avista's financial measures and the ratings downside trigger of 14%.

Outlook: Stable

The stable outlook reflects our expectations for gradual improvement to Avista's regulatory construct, the company's risk mitigation practices being sufficient to mitigate its wildfire risk exposure, and the company maintaining an FFO-to-debt ratio of 14%-16% during our forecast period.

Downside scenario

We could lower the rating over the next 12 months if Avista's FFO to debt weakens to below 14% and stays there. This could occur if the company does not execute its financial plan successfully, leading to weaker financial measures. This could also occur if persistent regulatory lag or unforeseen liabilities related to potential wildfire outbreaks weaken the company's FFO to debt without sufficient countermeasures to offset it. While unlikely, a material shift in strategic focus into other higher-risk unregulated activities could also weaken Avista's business risk and result in a downgrade.

Upside scenario

We could upgrade Avista over the next 12 months if the company materially improves its financial measures, including FFO to debt that is consistently above 20%, without any weakening of its business risk.

Our Base-Case Scenario

Assumptions

- Continued use of existing regulatory mechanisms;
- Periodic and timely rate case filings;
- Multi-year rate case filings in Washington going forward;
- The refund of customer tax credits;
- No material weakening in the company's capital structure;
- Capital spending averaging about $450 million annually;
- Dividends in line with the historical payout ratio;
- Equity issuance of about $90 million in 2021;
- Refinancing of all debt maturities; and
- Negative discretionary cash flow over the forecast period.

Key Metrics

	2020A	2021E	2022E
FFO to debt (%)	14.5	14-15	14-15
Debt to EBITDA (x)	5.5	5-6	5-6
FFO interest coverage (x)	4.6	4-5	4-5

A--Actual. E--Estimate. FFO--Funds from operations.

Company Description

Avista is a vertically integrated regulated electric and natural gas utility that operates in two segments, Avista Utilities and Alaska Electric Light & Power Co. (AEL&P). Avista Utilities generates, transmits, and distributes electricity to customers in Eastern Washington and Northern Idaho (as well as a few in Montana). The company also provides natural gas distribution services to retail customers in parts of Eastern Washington, Northern Idaho, and Northeastern and Southwestern Oregon. In total, Avista Utilities supplies retail electric service to about 400,000 customers and retail natural gas service to about 367,000 customers. AEL&P generates, transmits, and distributes electricity in Juneau, Alaska, to about 17,000 customers.

Business Risk: Strong

Avista's business risk profile reflects its low-risk, regulated electric and gas utility operations, which contribute more than 95% of the company's consolidated EBITDA. Our assessment also reflects the company's diverse geographic footprint, with regulated operations across five different states, despite Washington and Idaho accounting for over 90% of its rate base.

Due to legislation (SB 2595) passed in Washington in May 2021, Avista is now required to file multi-year rate cases of two to four years, and it's permitted to submit out-of-cycle rate cases if the utility underearns. In addition, over 90% of Avista's utility revenue is covered by regulatory mechanisms. In Washington the company has access to an energy recovery mechanism. This is a regulatory construct that allows Avista to track certain differences in its net power supply costs compared to the costs included in base retail rates and allows the utility to true up these amounts periodically. Similarly, the company has access to a power cost adjustment mechanism in Idaho, which allows for the deferral of 90% of its energy cost differences for future recovery. On the gas side, a purchased gas adjustment mechanism is available in all its jurisdictions, which allows the company to mitigate the risk of fluctuating gas prices. Furthermore, Avista benefits from decoupling mechanisms in Washington, Idaho, and Oregon, which provide some downside protection from reduced sales volumes.

In December 2020, the Oregon Public Utility Commission approved a $3.9 million increase to gas rates based on an approved ROE of 9.4% and common equity ratio of 50%. Avista has electric and gas rate cases outstanding in Washington and Idaho, which were filed in October 2020 and January 2021, respectively. The cases in both states propose refunds of customer tax credits, which are expected to offset the requested rate increases for a period of time.

Peer comparison

Table 1

Avista Corp.--Peer Comparison				
Industry sector: Combo				
	Avista Corp.	**Puget Energy Inc.**	**IDACORP Inc.**	**Northwest Natural Gas Co.**
Ratings as of Aug. 3, 2021	BBB/Stable/A-2	BBB-/Stable/--	BBB/Stable/A-2	A+/Stable/A-1
	--Fiscal year ended Dec. 31, 2020--			

Table 1

Avista Corp.--Peer Comparison (cont.)

Industry sector: Combo

	Avista Corp.	Puget Energy Inc.	IDACORP Inc.	Northwest Natural Gas Co.
(Mil. $)				
Revenue	1,321.9	3,326.5	1,350.7	758.7
EBITDA	492.3	1,340.5	540.0	257.1
Funds from operations (FFO)	383.7	969.9	414.7	207.4
Interest expense	111.7	394.0	119.0	43.9
Cash interest paid	107.6	365.6	115.2	43.7
Cash flow from operations	349.8	751.2	385.5	147.6
Capital expenditure	420.0	916.4	326.3	273.9
Free operating cash flow (FOCF)	(70.2)	(165.2)	59.2	(126.4)
Discretionary cash flow (DCF)	(180.5)	(210.7)	(83.2)	(181.7)
Cash and short-term investments	14.2	52.3	300.1	10.5
Debt	2,641.4	7,360.1	2,498.6	1,353.1
Equity	2,029.7	4,139.9	2,566.5	835.2
Adjusted ratios				
EBITDA margin (%)	37.2	40.3	40.0	33.9
Return on capital (%)	5.5	5.1	7.8	7.4
EBITDA interest coverage (x)	4.4	3.4	4.5	5.9
FFO cash interest coverage (x)	4.6	3.7	4.6	5.7
Debt/EBITDA (x)	5.4	5.5	4.6	5.3
FFO/debt (%)	14.5	13.2	16.6	15.3
Cash flow from operations/debt (%)	13.2	10.2	15.4	10.9
FOCF/debt (%)	(2.7)	(2.2)	2.4	(9.3)
DCF/debt (%)	(6.8)	(2.9)	(3.3)	(13.4)

Financial Risk: Significant

We assess Avista's financial risk profile as significant. We use our medial volatility financial ratio benchmarks because of the company's mostly low-risk cash flow sources and our view of its overall management of regulatory risk. For 2021, we assume about $472 million in capital spending, $90 million in equity issuance, dividend payments of about $120 million, and periodic net electric and gas rate increases.

We expect financial measures to modestly improve over the forecast period due to the recent rate case filings in Washington and Idaho, the multi-year rate-case legislation passed in Washington, and our favorable tax-position assumptions. Partially offsetting these factors is the expected amortization of customer tax credits and continued regulatory lag. After a majority of the customer tax credits are returned, we expect regulatory lag to gradually dissipate as the company continues to effectively manage its regulatory risk across its service territories, including Washington state, which accounts for over 60% of Avista's regulated rate base. Our base case indicates that Avista's financial measures will remain in the lower end of the range for a financial risk assessment of significant.

Financial summary

Table 2

Avista Corp.--Financial Summary					
Industry sector: Combo					
	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
(Mil. $)					
Revenue	1,321.9	1,345.6	1,396.9	1,445.9	1,442.5
EBITDA	492.3	447.0	474.5	500.4	500.7
Funds from operations (FFO)	383.7	314.3	350.2	435.9	417.6
Interest expense	111.7	109.1	109.9	104.2	99.5
Cash interest paid	107.6	107.0	109.5	106.0	96.5
Cash flow from operations	349.8	408.7	369.7	418.4	368.2
Capital expenditure	420.0	448.8	431.0	419.6	415.6
Free operating cash flow (FOCF)	(70.2)	(40.1)	(61.3)	(1.1)	(47.4)
Discretionary cash flow (DCF)	(180.5)	(142.9)	(159.3)	(93.6)	(134.6)
Cash and short-term investments	14.2	9.9	14.7	16.2	8.5
Gross available cash	14.2	9.9	14.7	16.2	8.5
Debt	2,641.4	2,509.4	2,411.5	2,177.1	2,110.6
Equity	2,029.7	1,939.3	1,774.0	1,730.5	1,648.5
Adjusted ratios					
EBITDA margin (%)	37.2	33.2	34.0	34.6	34.7
Return on capital (%)	5.5	5.5	6.8	8.2	9.0
EBITDA interest coverage (x)	4.4	4.1	4.3	4.8	5.0
FFO cash interest coverage (x)	4.6	3.9	4.2	5.1	5.3
Debt/EBITDA (x)	5.4	5.6	5.1	4.4	4.2
FFO/debt (%)	14.5	12.5	14.5	20.0	19.8
Cash flow from operations/debt (%)	13.2	16.3	15.3	19.2	17.4
FOCF/debt (%)	(2.7)	(1.6)	(2.5)	(0.1)	(2.2)
DCF/debt (%)	(6.8)	(5.7)	(6.6)	(4.3)	(6.4)

Liquidity: Adequate

We assess Avista's liquidity as of March 31, 2021, as adequate. We expect Avista can cover its needs for the next 12 months even if EBITDA declines by 10%. We expect the company's liquidity sources will exceed uses by more than 1.1x over the next 12 months. Under our stress scenario, we do not expect Avista would require access to the capital markets during that period to meet liquidity needs. Our assessment also reflects the company's generally prudent risk management, sound relationships with banks, and generally satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses

- Cash balance of $21.6 million;
- Cash FFO of about $323 million;
- Undrawn credit facilities totaling about $207 million; and
- Working capital inflows of about $45 million.
- No current debt maturities;
- Assumed maintenance capital spending of about $334 million; and
- Dividend payments of about $120 million.

Environmental, Social, And Governance

Avista's credit quality is positively influenced by environmental factors compared to peers given its large hydro portfolio. As of Dec. 31, 2020, Avista had a total generation fleet capacity of over 2,000 MW with close to 50% of its generation portfolio sourced from hydro generation. In addition, in 2019, the company announced a goal to serve its customers with 100% clean electricity by 2045 and to have a carbon-neutral supply of electricity by the end of 2027. These goals are incorporated in the 2021 integrated resource plans the company filed in both Washington and Idaho in April. We view social factors as mostly in line with those of industry peers. This in large part reflects the company's track record of providing safe and reliable electric and gas services for its customers, even though rate affordability is something that we continue to monitor broadly across the sector. Governance factors are also neutral. Avista has an independent board of directors, who in our opinion are capably engaged in risk oversight on behalf of its stakeholders.

Issue Ratings - Subordination Risk Analysis

Capital structure

Avista's capital structure consists of about $2 billion of long-term debt, most of which is secured.

Analytical conclusions

Consistent with our criteria, we rate the preferred stock issued by Avista Capital II two notches below the issuer credit rating to reflect the deferability of the dividends and because it is deeply subordinated to other instruments in the capital structure. The 'A-2' short-term credit rating is based on the long-term issuer credit rating.

Issue Ratings - Recovery Analysis

Avista's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's owned or subsequently acquired real property. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an 'A-' issue-level rating, two notches above the issuer credit rating.

Reconciliation

Table 3

Avista Corp.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2020--						
Avista Corp.'s reported amounts (Mil. $)							
	Debt	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	2,263.1	456.9	232.7	101.0	492.3	331.0	404.3
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	(1.0)	--	--
Cash interest paid	--	--	--	--	(97.7)	--	--
Reported lease liabilities	123.7	--	--	--	--	--	--
Operating leases	--	4.7	1.7	1.7	(1.7)	3.1	--
Postretirement benefit obligations/deferred compensation	169.0	--	--	--	--	--	--
Accessible cash and liquid investments	(14.2)	--	--	--	--	--	--
Capitalized interest	--	--	--	4.1	(4.1)	(4.1)	(4.1)
Share-based compensation expense	--	5.8	--	--	--	--	--
Power purchase agreements	95.8	23.9	4.1	4.1	(4.1)	19.8	19.8
Asset-retirement obligations	13.6	0.8	0.8	0.8	--	--	--
Nonoperating income (expense)	--	--	10.3	--	--	--	--
Debt: Other	(9.5)	--	--	--	--	--	--
Total adjustments	378.4	35.3	16.9	10.7	(108.6)	18.8	15.7
S&P Global Ratings' adjusted amounts							
	Debt	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditure**
	2,641.4	492.3	249.6	111.7	383.7	349.8	420.0

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/A-2

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb
- **Entity status within group:** Core (no impact)

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of August 5, 2021)*

Avista Corp.	
Issuer Credit Rating	BBB/Stable/A-2
Senior Secured	A-
Issuer Credit Ratings History	
10-Dec-2018	BBB/Stable/A-2
15-Jun-2018	BBB/Watch Pos/A-2
19-Jul-2017	BBB/Positive/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

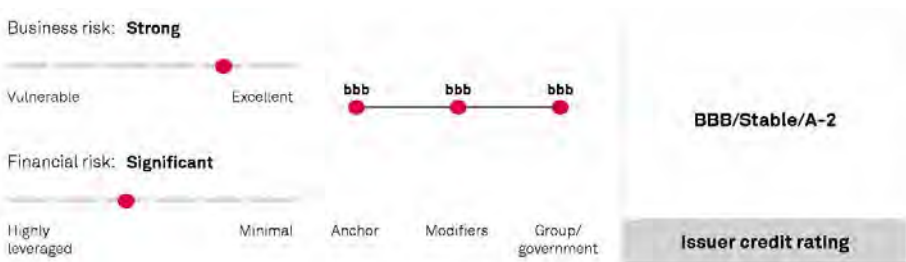
S&P Global
Ratings

RatingsDirect®

Avista Corp.

August 9, 2022

Ratings Score Snapshot



PRIMARY CONTACT

Ruchi Agrawal
Toronto
14372252983
ruchi.agrawal
@spglobal.com

SECONDARY CONTACT

Obioma Ugboaja
New York
1-212-438-7406
obioma.ugboaja
@spglobal.com

RESEARCH CONTRIBUTOR

Naman Agarwal
CRISIL Global Analytical Center, an S&P Global Ratings affiliate
Pune

Credit Highlights

Overview

Key strengths	Key risks
Mostly lower-risk regulated utility, with nonregulated operations contributing less than 5% of the company's consolidated EBITDA.	Expected near-term weakness in credit metrics at the current rating.
Modest regulatory, operating, and geographic diversity, with Washington and Idaho accounting for most of Avista Corp.'s regulated footprint.	Significant dependence on hydroelectric generation, which introduces some fuel replacement risk.
Avista engages in adequate regulatory risk management with mechanisms like decoupling and interim adjustments for purchased power and gas costs.	Negative discretionary cash flow expected over the next few years, indicating a reliance on external funding.

We expect that credit metrics will remain weak during 2022-2023 due to expected refunds to customers arising from tax credits, inflationary pressure, and regulatory lag due to higher-than-expected purchased fuel costs. We expect the combined effects of this to weaken Avista's financial measures for the next year or two. Specifically, we expect funds from operation (FFO) to debt around 13%-14%, which indicates minimal financial cushion during this period. However, under our base case scenario, we expect financial measures to improve beginning in 2024, as the impact of customers refunds begin to fully reverse, resulting in projected funds from operations (FFO) to debt averaging between 15% and 16% from 2024-2026. That said, there is minimal cushion for financial underperformance over the next two years..

Recent settlement of multiyear electric and natural gas rate cases in Washington will help to reduce regulatory lag. Under the Washington's SB 5295 legislation, which requires the regulated utilities to file multiyear rate plans, Avista filed a multiyear rate case in January 2022. The company has reached a settlement to increase electric revenues by $38 million in 2023 and by $7.5 million in 2024, and natural gas revenues by $12 million in 2023 and $1.5 million in 2024. This settlement also includes customer refunds of $25.5 million to electric customers and $12.5 million to gas customers over this two-year period, which partially offsets the impact of the revenue increases. The settlement is subject to approval by Washington Utilities and Transportation Commission (WUTC). Overall, we believe implementing multiyear rate plans partially mitigates the near-term weakness in financial measures.

[illegible] aho [illegible] nmission (IPUC) and WUTC have approved deferral of certain costs that the company expects to recover through future rate cases.

Outlook

The stable outlook reflects our expectations for gradual improvement to Avista's regulatory construct, the company's risk mitigation practices being sufficient to mitigate its wildfire risk exposure, and the company maintaining an FFO-to-debt ratio of 15%-16%.

Downside scenario

We could lower the rating during the next 12 months if Avista's FFO to debt weakens to below 14% and stays there. This could occur if the company does not execute its financial plan successfully, leading to weaker financial measures. This could also occur if persistent regulatory lag or unforeseen liabilities related to potential wildfire outbreaks weaken the company's FFO to debt without sufficient counter measures to offset it. While unlikely, a material shift in strategic focus into other higher-risk unregulated activities could also weaken Avista's business risk and result in a downgrade.

Upside scenario

We could upgrade Avista within the next 12 months if the company materially improves its financial measures, including FFO to debt that is consistently above 20%, without any weakening of its business risk.

Our Base-Case Scenario

Assumptions

- Negative discretionary cash flow over the forecast period.

Key metrics

Avista Corp.--Key Metrics*

Mil. $	2021a	2022f	2023f	2024f
FFO to debt (%)	14.2	13-14	13-14	14-15
Debt to EBITDA (x)	5.7	5-6	5-6	5-6
FFO cash interest coverage (x)	4.6	4-5	4-5	4-5

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast.

Company Description

Avista is a vertically integrated regulated electric and natural gas utility that operates in two segments, Avista Utilities and Alaska Electric Light & Power Co. (AEL&P). Avista Utilities generates, transmits, and distributes electricity to customers in Eastern Washington and Northern Idaho (as well as few in Montana). The company also provides natural gas distribution services to retail customers in parts of Eastern Washington, Northern Idaho, and Northeastern and Southwestern Oregon. In total, Avista Utilities supplies retail electric service to about 403,000 customers and retail natural gas service to about 369,000 customers. AEL&P generates, transmits, and distributes electricity in Juneau, Alaska, to about 17,000 customers.

Peer Comparison

Avista Corp.--Peer Comparisons

	Avista Corp.	Puget Energy Inc.	IDACORP Inc.	Northwest Natural Gas Co.
Foreign currency issuer credit rating	BBB/Stable/A-2	BBB-/Stable/--	BBB/Stable/A-2	A+/Stable/A-1
Local currency issuer credit rating	BBB/Stable/A-2	BBB-/Stable/--	BBB/Stable/A-2	A+/Stable/A-1
Period	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2021-12-31
Mil.	$	$	$	$
Revenue	1,439	3,806	1,458	843
EBITDA	484	1,451	530	286
Funds from operations (FFO)	393	1,060	400	211
Interest	114	380	100	49
Cash interest paid	110	368	96	48
Operating cash flow (OCF)	274	861	351	143
Capital expenditure	445	938	303	280
Free operating cash flow (FOCF)	(171)	(78)	48	(137)
Discretionary cash flow (DCF)	(289)	(184)	(101)	(193)

Avista Corp.--Peer Comparisons				
Cash and short-term investments	22	57	215	12
Gross available cash	22	57	215	12
Debt	2,796	7,682	2,231	1,379
Equity	2,155	4,563	2,675	978
EBITDA margin (%)	33.6	38.1	36.4	33.9
Return on capital (%)	5.6	5.2	8.0	7.5
EBITDA interest coverage (x)	4.2	3.8	5.3	5.9
FFO cash interest coverage (x)	4.6	3.9	5.2	5.4
Debt/EBITDA (x)	5.8	5.3	4.2	4.8
FFO/debt (%)	14.0	13.8	17.9	15.3
OCF/debt (%)	9.8	11.2	15.7	10.3
FOCF/debt (%)	(6.1)	(1.0)	2.1	(9.9)
DCF/debt (%)	(10.3)	(2.4)	(4.5)	(14.0)

Business Risk

Avista's business risk profile reflects its low-risk, regulated electric and gas utility operations, which contribute more than 95% of the company's consolidated EBITDA. Our assessment also reflects the company's diverse geographic footprint, with regulated operations across five different states, despite Washington and Idaho accounting for over 90% of its rate base.

Due to legislation (SB 2595) passed in Washington in May 2021, Avista is now required to file multiyear rate cases of two to four years, and it's permitted to submit out-of-cycle rate cases if the utility underearns. In addition, over 90% of Avista's utility revenue is covered by regulatory mechanisms. In Washington, the company has access to an energy recovery mechanism. This is a regulatory construct that allows Avista to track certain differences in its net power supply costs compared to the costs included in base retail rates and allows the utility to true-up these amounts periodically. Similarly, the company has access to a power cost adjustment mechanism in Idaho, which allows for the deferral of 90% of its energy cost differences for future recovery. On the gas side, a purchased gas adjustment mechanism is available in all its jurisdictions, which allows the company to mitigate the risk of fluctuating gas prices. Furthermore, Avista benefits from decoupling mechanisms in Washington, Idaho, and Oregon, which provide some downside protection from reduced sales volumes.

Avista has electric and gas rate cases pending in Washington and a pending electric rate case in Alaska, which were filed in January 2022 and July 2022, respectively. The rate cases in Washington propose refunds of customer tax credits, which are expected to offset a portion the requested rate increases.

Financial Risk

We assess Avista's financial risk profile as significant. We use our medial volatility financial ratio benchmarks because of the company's mostly low-risk cash flow sources and our view of its overall management of regulatory risk. In our base case, we assume capital spending averaging around about $460 million, dividend payments of about $145 million, and periodic net electric and gas rate increases.

We expect financial measures to remain weak during 2022-2023 due to expected customer refunds. However, beginning in 2024, we expect credit metrics to improve, with FFO to debt ranging from 15%-16% during 2024-2026 period.

Debt maturities

- 2022 - $250 million
- 2023 - $14 million
- 2024 - $15 million

Avista Corp.--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	$	$	$	$	$	$
Revenues	1,442	1,446	1,397	1,346	1,322	1,439
EBITDA	501	500	475	447	492	484
Funds from operations (FFO)	418	436	350	314	384	393
Interest expense	100	104	110	109	112	114
Cash interest paid	97	106	110	107	108	110
Operating cash flow (OCF)	368	418	370	409	350	274
Capital expenditure	416	420	431	449	420	445
Free operating cash flow (FOCF)	(47)	(1)	(61)	(40)	(70)	(171)
Discretionary cash flow (DCF)	(135)	(94)	(159)	(143)	(180)	(289)
Cash and short-term investments	9	16	15	10	14	22
Gross available cash	9	16	15	10	14	22
Debt	2,111	2,177	2,412	2,509	2,641	2,796
Common equity	1,648	1,730	1,774	1,939	2,030	2,155
Adjusted ratios						
EBITDA margin (%)	34.7	34.6	34.0	33.2	37.2	33.6
Return on capital (%)	9.0	8.2	6.8	5.5	5.5	5.6
EBITDA interest coverage (x)	5.0	4.8	4.3	4.1	4.4	4.2
FFO cash interest coverage (x)	5.3	5.1	4.2	3.9	4.6	4.6
Debt/EBITDA (x)	4.2	4.4	5.1	5.6	5.4	5.8
FFO/debt (%)	19.8	20.0	14.5	12.5	14.5	14.0
OCF/debt (%)	17.4	19.2	15.3	16.3	13.2	9.8
FOCF/debt (%)	(2.2)	(0.1)	(2.5)	(1.6)	(2.7)	(6.1)
DCF/debt (%)	(6.4)	(4.3)	(6.6)	(5.7)	(6.8)	(10.3)

Reconciliation Of Avista Corp. Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	2,484	2,155	1,439	460	228	102	484	267	118	440
Cash taxes paid	-	-	-	-	-	-	19	-	-	-
Cash interest paid	-	-	-	-	-	-	(99)	-	-	-
Lease liabilities	119	-	-	-	-	-	-	-	-	-
Operating leases	-	-	-	5	3	3	(3)	2	-	-
Postretirement benefit obligations/ deferred compensation	123	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(22)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	4	(4)	(4)	-	(4)
Share-based compensation expense	-	-	-	5	-	-	-	-	-	-
Power purchase agreements	96	-	-	13	4	4	(4)	9	-	9
Asset-retirement obligations	14	-	-	1	1	1	-	-	-	-
Nonoperating income (expense)	-	-	-	-	35	-	-	-	-	-
Debt: other	(18)	-	-	-	-	-	-	-	-	-
Total adjustments	312	-	-	23	42	12	(91)	7	-	5
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	2,796	2,155	1,439	484	271	114	393	274	118	445

Liquidity

We assess Avista's liquidity as of March 31, 2022, as adequate. We expect Avista can cover its need for the next 12 months even in EBITDA declines by 10%. We expect the company's liquidity sources will exceed uses by more than 1.1x over the next 12 months. Under our stress scenario, we do not expect Avista would require access to the capital markets during that period to meet liquidity needs. Our assessment also reflects the company's generally prudent risk management, sound relationships with banks, and generally satisfactory standing in the credit markets.

Principal liquidity sources

- Cash balance of $21.6 million;
- Cash FFO of about $380 million;
- Undrawn credit facilities totaling about $220 million; and
- Working capital inflows of about $20 million.

Principal liquidity uses

- Debt maturities of 6.5 million in the next 12 months;
- Assumed maintenance capital spending of about $425 million; and
- Dividend payments of about $130 million.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	**E-3**	E-4	E-5
- Physical risks - Climate transition risk				

S-1	**S-2**	S-3	S-4	S-5
- N/A				

G-1	**G-2**	G-3	G-4	G-5
- N/A				

N/A—Not apllicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental factors are a moderately negative consideration in our credit rating analysis of Avista Corp. This reflects the company's elevated physical risks due to its service territory's exposure to higher-than-average wildfire risk. Although exposed to less severe wildfire risk than California utilities, Avista experienced heightened wildfire activity in September 2020 and we believe this risk is ongoing. This risk is slightly mitigated by the company's wildfire resiliency plan, which aims to reduce fire risk with about $330 million in capital investment over the next 10 years.

Issue Ratings--Subordination Risk Analysis

Capital structure

Avista's capital structure consists of about $2.2 billion of long-term debt, most of which is secured.

Analytical conclusions

Consistent with our criteria, we rate the preferred stock issued by **Avista Capital II** two notches below the issuer credit rating to reflect the deferability of the dividends and because it is deeply subordinated to other instruments in the capital structure. The 'A-2' short-term credit rating is based on the long-term issuer credit rating.

Issue Ratings--Recovery Analysis

Key analytical factors

Avista's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's owned or subsequently acquired real property. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an 'A-' issue-level rating, two notches above the issuer credit rating.

Rating Component Scores

Foreign currency issuer credit rating	**BBB/Stable/A-2**
Local currency issuer credit rating	**BBB/Stable/A-2**
Business risk	**Strong**
Country risk	Very Low
Industry risk	Very Low
Competitive position	Satisfactory
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bbb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb**

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

Enter Article Content Here

Ratings Detail (as of August 09, 2022)*

Avista Corp.	
Issuer Credit Rating	BBB/Stable/A-2
Senior Secured	A-
Issuer Credit Ratings History	
10-Dec-2018	BBB/Stable/A-2
15-Jun-2018	BBB/Watch Pos/A-2
19-Jul-2017	BBB/Positive/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

S&P Global
Ratings

RatingsDirect®

Tear Sheet:

Avista Corp.'s Rising Risk Of Wildfires Is Negative For Credit Quality

August 22, 2023

Primary contact

Ruchi Agrawal
Toronto
14372252983
ruchi.agrawal
@spglobal.com

Secondary contacts

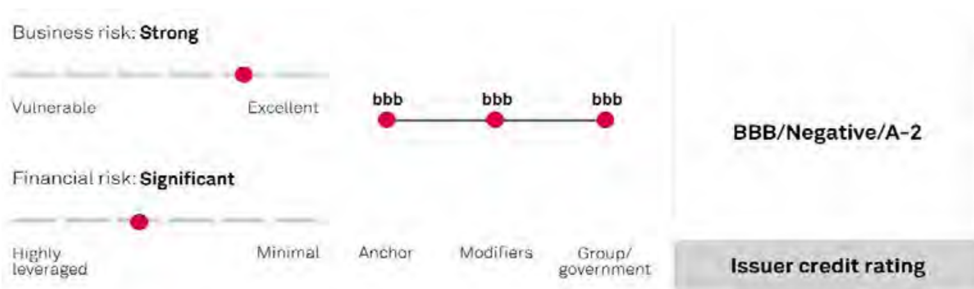
Gabe Grosberg
New York
1-212-438-6043
gabe.grosberg
@spglobal.com

Obioma Ugboaja
New York
1-212-438-7406
obioma.ugboaja
@spglobal.com

What’s new: The recent Gray Wildfire and the Oregon Road Wildfire in and around Spokane County, Washington, are causing widespread damage in the area. Initial estimates from the Washington State Department of Natural Resources suggest at least 1 fatality, more than 185 structures damaged or destroyed, and more than 20,000 acres of land have been burned from these wildfires.

Why it matters: While there is no initial indication that Avista Corp is the cause or a contributor to these wildfires, we view continued climate change related incidences as negative for credit quality. The pervasiveness of dry conditions in the Northwest U.S. has amplified, increasing the probability for wildfire conditions. Overall, we view climate change as negative for credit quality. The damage and destruction from weather-related events destroys property and can lead to fatalities. Following such events, a utility files for the recovery of damaged or destroyed property and at the same time insurance costs usually rise. To prevent further destruction from climate change, utilities also undertake a multi decade investments in system hardening and wildfire mitigation programs. Collectively, these rising costs significantly increase the customer bill, increasing the challenges for the utility to effectively manage regulatory risk. We will continue to monitor these situations and related developments.

Ratings Score Snapshot



Company Description

Avista Corp. is a vertically integrated regulated electric and natural gas utility that operates in two segments: Avista Utilities and Alaska Electric Light & Power Co. (AEL&P). Avista Utilities generates, transmits, and distributes electricity to customers in Eastern Washington and Northern Idaho (as well as few in Montana). The company also provides natural gas distribution services to retail customers in parts of Eastern Washington, Northern Idaho, and Northeastern and Southwestern Oregon. In total, Avista Utilities supplies retail electric service to about 403,000 customers and retail natural gas service to about 369,000 customers. AEL&P generates, transmits, and distributes electricity in Juneau, Alaska, to about 17,000 customers.

Outlook

The negative outlook reflects our expectation that Avista's weakening financial performance will cause its metrics to fall below our downgrade thresholds because of inflation, rising interest rates, and regulatory lag. Under our base case, we assume funds from operations (FFO) to debt of 13%-14% in 2023.

Downside scenario

We could lower our ratings on Avista over the next 12 to 24 months if adverse regulatory outcomes, regulatory lag, or rising expenses pressure its financial measures such that its FFO to debt remains consistently below 14% without a material reduction in its business risk.

Upside scenario

We could affirm our ratings and revise our outlook to stable over the next 12 to 24 months if Avista improves its financial measures such that its FFO to debt remain consistently above 14% without increasing its business risk.

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of Avista Corp. This reflects the company's elevated physical risks due to its service territory's exposure to higher-than-average wildfire risk. Although exposed to less-severe wildfire risk than California utilities, Avista experienced heightened wildfire activity in September 2020, and we believe this risk is ongoing. This risk is slightly mitigated by the company's wildfire resiliency plan, which aims to reduce its fire risk with about $330 million in capital investment over 10 years.

Rating Component Scores

Foreign currency issuer credit rating	BBB/Negative/A-2
Local currency issuer credit rating	BBB/Negative/A-2
Business risk	Strong
Country risk	Very Low
Industry risk	Very Low
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

S&P Global Ratings

RatingsDirect®

Research Update:

Avista Corp. Outlook Revised To Negative On Weaker Financial Measures; Ratings Affirmed

November 11, 2022

Rating Action Overview

- Spokane, Wash.-based Avista Corp. has historically operated with a minimal financial cushion, and we expect its financial measures to weaken to below our downgrade threshold of funds from operations (FFO) to debt of 14% through 2023.
- Inflation--which includes higher expenses, customer refunds, rising interest rates, and delayed recovery of purchased fuel costs--has contributed to the company's weakening financial measures.
- As such, we revised our outlook on Avista to negative from stable; under our base case, we expect a funds from operations FFO-to-debt ratio of 13%-14% for 2022 and 2023.
- We also affirmed our ratings on Avista, including the 'BBB' issuer credit rating (ICR), the 'A-' rating on the company's senior secured debt, the 'A-2' short term rating, and the 'BB+' rating on Avista Capital II's preferred stock.
- The negative outlook reflects our expectation for a weakening of financial performance below our downgrade threshold because of inflation, rising interest rates, and regulatory lag. Under our base case, we expect FFO-to-debt of 13%-14% for 2022 and 2023.

PRIMARY CREDIT ANALYST

Ruchi Agrawal
Toronto
+14372252983
ruchi.agrawal
@spglobal.com

SECONDARY CONTACTS

Obioma Ugboaja
New York
+ 1 (212) 438 7406
obioma.ugboaja
@spglobal.com

Michael Fedorko
New York
+1 2124380955
michael.fedorko
@spglobal.com

Rating Action Rationale

The negative outlook revision reflects our expectation for further weakening of Avista's financial performance to a level that is consistently below our downgrade threshold. Avista has historically operated with only a minimal financial cushion from its downgrade threshold. For 2018-2021, FFO to debt was 12.5%-14.5%, indicative of a minimal financial cushion. However, incorporating inflation, rising interest rates, and regulatory lag, we expect its financial measures will consistently weaken to below our downgrade threshold of FFO to debt of 14%. Specifically, we expect FFO to debt to weaken to 13%-14% through at least 2023.

Our assessment of Avista's business risk profile remains unchanged at strong. This reflects its low-risk, regulated electric and gas utility operations, which contribute more than 99% of the company's consolidated EBITDA. Our assessment also reflects the company's diverse geographic footprint, with regulated operations across five different states, despite Washington and Idaho accounting for over 90% of its rate base.

We continue to assess Avista's financial risk profile as significant. We assess Avista's financial measures under our medial volatility financial benchmark tables. This reflects the company's mostly lower-risk regulated utility operations and our view of its overall effective management of regulatory risk. Our base case incorporates about $500 million in capital spending, $128 million in assumed dividends, $135 million in equity issuance for 2022, and periodic net electric and gas rate increases. Despite our expectations for weakening of financial performance, we expect that the company's financial measures will remain within the significant financial risk profile category, albeit at the very low end of the range. Specifically, we expect Avista's consolidated FFO-to-debt ratio to be 13%-14% over the next two years.

Outlook

The negative outlook reflects our expectation for a weakening of financial performance below our downgrade threshold because of inflation, rising interest rates, and regulatory lag. Under our base case, we expect FFO-to-debt of 13%-14% for 2022 and 2023.

Downside scenario

We could lower our ratings on Avista over the next 12-24 months if adverse regulatory outcomes, regulatory lag, or rising expenses pressure the company's financial measures, such that FFO to debt remains consistently below 14% without a material reduction of business risk.

Upside scenario

We could affirm the ratings and revise the outlook back to stable over the next 12-24 months if the company improves its financial measures such that FFO to debt is consistently above 14% without increasing business risk.

Company Description

Avista is a vertically integrated regulated electric and natural gas utility that operates in two segments: Avista Utilities and Alaska Electric Light & Power Co. (AEL&P). Avista Utilities generates, transmits, and distributes electricity to customers in Eastern Washington and Northern Idaho (as well as few in Montana). The company also provides natural gas distribution services to retail customers in parts of Eastern Washington, Northern Idaho, and Northeastern and Southwestern Oregon. In total, Avista Utilities supplies retail electric service to about 403,000 customers and retail natural gas service to about 369,000 customers. AEL&P generates, transmits, and distributes electricity in Juneau, Alaska, to about 17,000 customers.

Liquidity

We assess Avista's liquidity as of Sept. 30, 2022, as adequate. We expect Avista can cover its need for the next 12 months even if EBITDA declines by 10%. We expect the company's liquidity sources will exceed uses by more than 1.1x over the next 12 months. Under our stress scenario, we do not expect Avista would require access to the capital markets during that period to meet liquidity needs. Our assessment also reflects the company's generally prudent risk management, sound relationships with banks, and generally satisfactory standing in the credit markets.

Principal liquidity sources:

- Cash balance of $14 million;
- Cash FFO of about $390 million;
- Undrawn credit facilities totaling about $125 million; and
- Working-capital inflows of about $20 million.

Principal liquidity uses:

- Debt maturities of $13 million in the next 12 months;
- Assumed maintenance capital spending of about $375 million; and
- Assumed cash dividends of about $110 million.

Covenants

Avista is required to maintain a debt-to-capitalization ratio of less than 65%. As of Sept. 30, 2022, the company was in compliance with its covenants.

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of Avista Corp. This reflects the company's elevated physical risks due to its service territory's exposure to higher-than-average wildfire risk. Although exposed to less-severe wildfire risk than California utilities, Avista experienced heightened wildfire activity in September 2020, and we believe this risk is ongoing. This risk is slightly mitigated by the company's wildfire resiliency plan, which aims to reduce fire risk with about $330 million in capital investment over the next 10 years.

Issue Ratings - Subordination Risk Analysis

Capital structure

Avista's capital structure consists of about $2.2 billion of long-term debt, most of which is secured.

Analytical conclusions

We rate the preferred stock issued by Avista Capital II two notches below the issuer credit rating to reflect the deferability of the dividends and its deep subordination to other instruments in the capital structure. The 'A-2' short-term credit rating is based on the long-term issuer credit rating.

Issue Ratings - Recovery Analysis

Key analytical factors

Avista's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's owned or subsequently acquired real property. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an 'A-' issue-level rating, two notches above the issuer credit rating.

Ratings Score Snapshot

Issuer credit rating: BBB/Negative/A-2

Business risk: Strong

- Country risk: Very Low
- Industry risk: Very Low
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: bbb

Modifiers:

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global

Corporate Issuers, Dec. 16, 2014

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Avista Corp.		
Issuer Credit Rating	BBB/Negative/A-2	BBB/Stable/A-2
Issue-Level Ratings Affirmed; Recovery Ratings Unchanged		
Avista Corp.		
Senior Secured	**A-**	
Recovery Rating	1+	
Issue-Level Ratings Affirmed		
Avista Capital II		
Preferred Stock	BB+	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

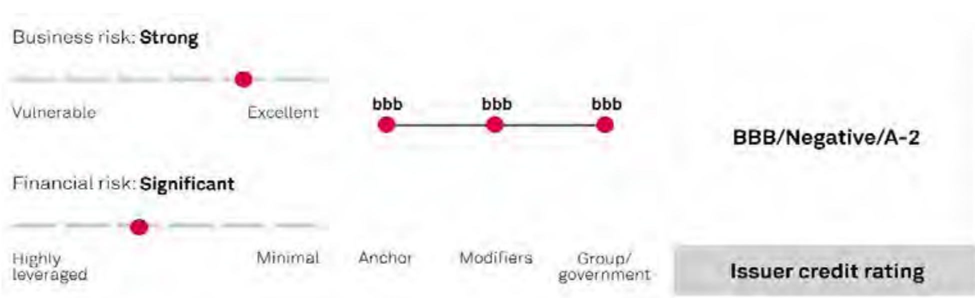
S&P Global Ratings

RatingsDirect®

Avista Corp.

December 8, 2023

Ratings Score Snapshot



Primary contact

Ruchi Agrawal
Toronto
14372252983
ruchi.agrawal
@spglobal.com

Secondary contact

Obioma Ugboaja
New York
1-212-438-7406
obioma.ugboaja
@spglobal.com

Research contributor

Dhananjay Gaikwad
CRISIL Global Analytical Center, an S&P Global Ratings affiliate
Pune

Credit Highlights

Overview

Key strengths	Key risks
Mostly lower-risk regulated utility, with nonregulated operations contributing less than 5% of the company's consolidated EBITDA.	Expected near-term weakness in credit metrics at the current rating.
Modest regulatory, operating, and geographic diversity, with Washington and Idaho accounting for most of Avista Corp.'s regulated footprint.	Service territory is susceptible to wildfire risk.
Avista engages in adequate regulatory risk management with mechanisms like decoupling and interim adjustments for purchased power and gas costs.	Significant dependence on hydroelectric generation, which introduces some fuel replacement risk.
	Negative discretionary cash flow expected over the next few years, indicating a reliance on external funding.
	Energy transition risk primarily in Washington and Oregon.

Avista's service territory remains highly susceptible to wildfire risks. In August 2023, The Gray Wildfire and the Oregon Road Wildfire caused widespread damage around Spokane County, Washington. Reports from the Washington State Department of Natural Resources indicate that over 185 structures were damaged, and more than 20,000 acres of land were ravaged by these wildfires. Although there is no evidence suggesting Avista Corp. is responsible for or contributed to these wildfires, such incidents of wildfires highlight Avista's vulnerability to physical risks–which we believe is an ongoing concern for the company. Separately, we are monitoring legal proceedings related to the September 2020 Babb Road fire (220 structures damaged or destroyed), including 11 lawsuits that have been filed naming the company as a defendant. All 11 lawsuits are now consolidated and could face trial over the coming months. While our base case incorporates the possibility of a manageable outcome, the company's financial measures are weak for the current rating. As such, an adverse outcome could further weaken Avista's financial measures, constraining the company's credit quality.

Recently approved rate cases to provide support to the company's weak credit metrics. In August 2023, the Idaho Public Utilities Commission (IPUC) approved a $26.4 million increase in electric rates and $1.3 million increase in the gas rates over two years beginning September 2023. This rate increase was premised on a 9.4% return on equity (ROE) and 50% equity ratio. During the same month the Regulatory Commission of Alaska (RCA) approved an electric rate increase for Alaska Electric Light and Power Company (AEL&P) for $2.1 million based on a 11.45% ROE and 60.7% equity ratio. Further, in October 2023, the Oregon Public Utility Commission (OPUC) approved a natural gas revenue increase of $7.2 million, based on a 9.5% ROE and 50% equity ratio. S&P Global Ratings expects the cumulative increase from these rate cases coupled with expiration of customer tax credits in 2024 to partially mitigate the company's weak financial measures, given other offsetting factors such as its elevated capital spending of about $500 million, regulatory-lag, and that the company experienced higher operating costs and interest rates in 2023. Overall, we expect the company's financial measures will remain at the lower end of the range for its financial risk profile category, including funds from operations (FFO) to debt of 13%-14% for 2023-2024.

Potential energy transition risks in Washington and Oregon could affect credit quality over time. This reflects recent passage of the Washington Climate Commitment Act (WCCA), and the Oregon Climate Protection Plan (OCPP), both of which seek to reduce carbon emissions.

Outlook

The negative outlook reflects our expectation that Avista's weakening financial performance will cause its metrics to fall below our downgrade thresholds because of inflation, rising interest rates, and regulatory lag. Under our base case, we assume FFO to debt of 13%-14% in 2024.

Downside scenario

We could lower our ratings on Avista over the next 12 to 24 months if adverse regulatory outcomes, regulatory lag, or rising expenses pressure its financial measures such that its FFO to debt remains consistently below 14% without a material reduction in its business risk.

Upside scenario

We could affirm our ratings and revise our outlook to stable over the next 12 to 24 months if Avista improves its financial measures such that its FFO to debt remains consistently above 14% without increasing its business risk.

Our Base-Case Scenario

Assumptions

- Continued use of existing regulatory mechanisms;
- Periodic and timely rate case filings;
- Implementation of multiyear rate case increase in Washington;
- Refund of customer tax credits;
- No material weakening in the company's capital structure;
- Capital spending averaging about $500 million annually;
- Dividends averaging around $145 million annually;
- Equity issuance of about $120 million in 2023;
- Refinancing of all debt maturities; and
- Negative discretionary cash flow over the forecast period.

Key metrics

Period ending	**Dec-31-2021**	**Dec-31-2022**	**Dec-31-2023**	**Dec-31-2024**	**Dec-31-2025**	**Dec-31-2026**
(Mil. $)	2021a	2022a	2023e	2024f	2025f	2026f
EBITDA (reported)	460	443	493	557	627	685
Plus: Operating lease adjustment (OLA) rent	5	5	5	5	5	5
Plus/(less): Other	18	24	15	16	22	22
EBITDA	484	472	514	578	654	713
Funds from operations (FFO)	393	352	366	414	458	518
Debt	2,796	3,048	2,933	3,085	3,209	3,310
Adjusted ratios						
Debt/EBITDA (x)	5.8	6.5	5.7	5.4	4.9	4.7
FFO/debt (%)	14.0	11.6	12.5	13.4	14.3	15.7

Company Description

Avista Corp. is a vertically integrated regulated electric and natural gas utility that operates in two segments: Avista Utilities and Alaska Electric Light & Power Co. (AEL&P). Avista Utilities generates, transmits, and distributes electricity to customers in Eastern Washington and Northern Idaho (as well as few in Montana). The company also provides natural gas distribution services to retail customers in parts of Eastern Washington, Northern Idaho, and Northeastern and Southwestern Oregon. In total, Avista Utilities supplies retail electric service to about 403,000 customers and retail natural gas service to about 369,000 customers. AEL&P generates, transmits, and distributes electricity in Juneau, Alaska to about 17,000 customers.

Peer Comparison

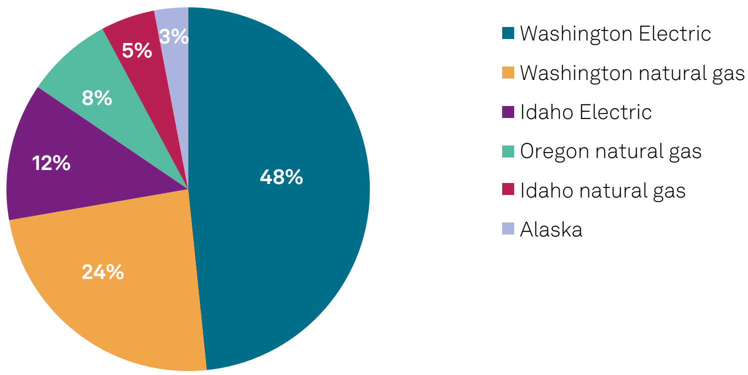
Avista Corp.--Peer Comparisons

	Avista Corp.	Puget Energy Inc.	IDACORP Inc.	Northwest Natural Gas Co.
Foreign currency issuer credit rating	BBB/Negative/A-2	BBB-/Stable/--	BBB/Stable/A-2	A+/Negative/A-1
Local currency issuer credit rating	BBB/Negative/A-2	BBB-/Stable/--	BBB/Stable/A-2	A+/Negative/A-1
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Mil.	$	$	$	$
Revenue	1,710	4,221	1,644	1,014
EBITDA	472	1,407	524	292
Funds from operations (FFO)	352	998	377	236
Interest	126	376	104	52
Cash interest paid	118	362	101	51
Operating cash flow (OCF)	134	833	336	146
Capital expenditure	459	1,051	429	319
Free operating cash flow (FOCF)	(326)	(218)	(92)	(173)
Discretionary cash flow (DCF)	(455)	(234)	(250)	(236)
Cash and short-term investments	13	106	178	13
Gross available cash	13	106	178	13
Debt	3,048	7,831	2,239	1,397
Equity	2,335	4,964	2,815	1,191
EBITDA margin (%)	27.6	33.3	31.9	28.8
Return on capital (%)	5.0	4.4	8.0	7.2
EBITDA interest coverage (x)	3.7	3.7	5.0	5.6
FFO cash interest coverage (x)	4.0	3.8	4.7	5.6
Debt/EBITDA (x)	6.5	5.6	4.3	4.8
FFO/debt (%)	11.6	12.7	16.8	16.9
OCF/debt (%)	4.4	10.6	15.0	10.5
FOCF/debt (%)	(10.7)	(2.8)	(4.1)	(12.4)
DCF/debt (%)	(14.9)	(3.0)	(11.1)	(16.9)

Business Risk

Avista's business risk profile reflects its low-risk, regulated electric and gas utility operations, which contribute more than 95% of the company's consolidated EBITDA. Our assessment also reflects the company's diverse geographic footprint, with regulated operations across five different states, despite Washington and Idaho accounting for around 90% of its rate base.

Avista Utilities Rate Base



Source: Company presentation and reports

Over 90% of Avista's utility revenue is covered by regulatory mechanisms. In Washington, the company has access to an energy recovery mechanism. This is a regulatory construct that allows Avista to track certain differences in its net power supply costs compared to the costs included in base retail rates and allows the utility to true-up these amounts periodically. Similarly, the company has access to a power cost adjustment mechanism in Idaho, which allows for the deferral of 90% of its energy cost differences for future recovery. On the gas side, a purchased gas adjustment mechanism is available in all its jurisdictions, which allows the company to mitigate the risk of fluctuating gas prices. Furthermore, Avista benefits from decoupling mechanisms in Washington, Idaho, and Oregon, which provide some downside protection from reduced sales volumes. Partially offsetting is the company's exposure to physical risk, and that the company potentially faces energy transition risks that must be managed.

The company's electricity generation mix consists of approximately 48% hydro generation, exposing it to potential fuel replacement risks during periods of unfavorable hydro flows. Additionally, in our evaluation of Avista's business risk, we take into account its exposure to high wildfire risk territories, which remains an ongoing concern.

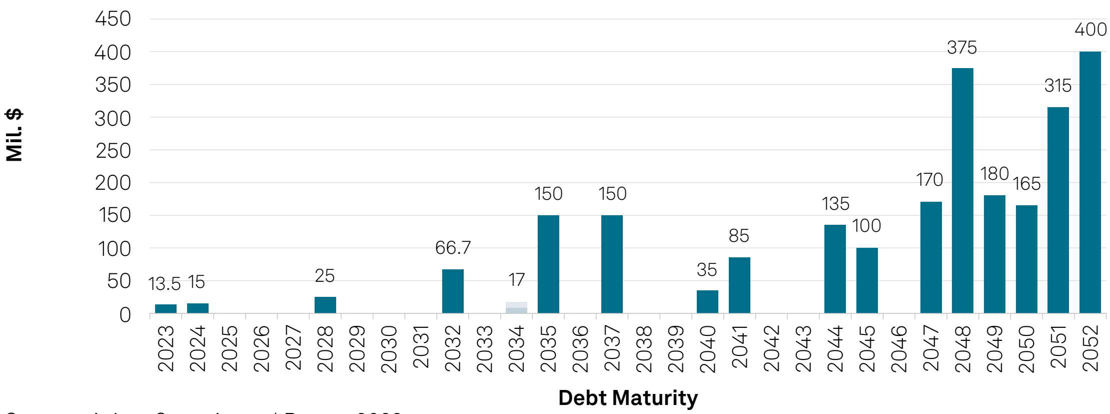
Financial Risk

We assess Avista's financial risk profile as significant, under medial volatility financial ratio benchmarks, reflecting the company's mostly lower-risk cash flow sources and our view of its overall management of regulatory risk. Under our base case, we assume capital spending averaging around about $500 million, dividend payments of about $145 million, $120 million of equity issuance in 2023, timely recovery of costs incurred during the second quarter, and implementation of recent electric and gas rate increases. Overall, we expect Avista's financial measures to remain weak for 2023 and 2024 due to the effect of customer refunds stemming primarily from the company's prior rate case outcome in Washington and continued cost pressures. However, beginning in 2025 we expect credit metrics to improve, with FFO to debt ranging from 14%-16% during the 2025-2027 period.

Debt maturities

Debt Maturities

As of December 2022



Source. Avista Corp. Annual Report 2022

Avista Corp.--Financial Summary

Period ending	**Dec-31-2017**	**Dec-31-2018**	**Dec-31-2019**	**Dec-31-2020**	**Dec-31-2021**	**Dec-31-2022**
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	$	$	$	$	$	$
Revenues	1,446	1,397	1,346	1,322	1,439	1,710
EBITDA	500	475	447	492	484	472
Funds from operations (FFO)	436	350	314	384	393	352
Interest expense	104	110	109	112	114	126
Cash interest paid	106	110	107	108	110	118
Operating cash flow (OCF)	418	370	409	350	274	134
Capital expenditure	420	431	449	420	445	459
Free operating cash flow (FOCF)	(1)	(61)	(40)	(70)	(171)	(326)
Discretionary cash flow (DCF)	(94)	(159)	(143)	(180)	(289)	(455)
Cash and short-term investments	16	15	10	14	22	13
Gross available cash	16	15	10	14	22	13
Debt	2,177	2,412	2,509	2,641	2,796	3,048
Common equity	1,730	1,774	1,939	2,030	2,155	2,335
Adjusted ratios						
EBITDA margin (%)	34.6	34.0	33.2	37.2	33.6	27.6
Return on capital (%)	8.2	6.8	5.5	5.5	5.6	5.0
EBITDA interest coverage (x)	4.8	4.3	4.1	4.4	4.2	3.7
FFO cash interest coverage (x)	5.1	4.2	3.9	4.6	4.6	4.0
Debt/EBITDA (x)	4.4	5.1	5.6	5.4	5.8	6.5
FFO/debt (%)	20.0	14.5	12.5	14.5	14.0	11.6
OCF/debt (%)	19.2	15.3	16.3	13.2	9.8	4.4

Avista Corp.--Financial Summary

FOCF/debt (%)	(0.1)	(2.5)	(1.6)	(2.7)	(6.1)	(10.7)
DCF/debt (%)	(4.3)	(6.6)	(5.7)	(6.8)	(10.3)	(14.9)

Reconciliation Of Avista Corp. Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	2,809	2,335	1,710	443	190	115	472	124	129	452
Cash taxes paid	-	-	-	-	-	-	(2)	-	-	-
Cash interest paid	-	-	-	-	-	-	(107)	-	-	-
Lease liabilities	114	-	-	-	-	-	-	-	-	-
Operating leases	-	-	-	5	3	3	(3)	2	-	-
Postretirement benefit obligations/ deferred compensation	66	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(13)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	4	(4)	(4)	-	(4)
Share-based compensation expense	-	-	-	9	-	-	-	-	-	-
Power purchase agreements	87	-	-	15	4	4	(4)	11	-	11
Asset-retirement obligations	12	-	-	1	1	1	-	-	-	-
Nonoperating income (expense)	-	-	-	-	60	-	-	-	-	-
Debt: other	(27)	-	-	-	-	-	-	-	-	-
Total adjustments	239	-	-	29	67	11	(120)	9	-	7
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	3,048	2,335	1,710	472	257	126	352	134	129	459

Liquidity

We assess Avista's liquidity as adequate because its sources will likely cover uses by more than 1.1x over the next 12 months and we expect sources will cover uses even if forecasted consolidated EBITDA declines by 10%. We believe the predictable regulatory framework for Avista provides it with manageable cash flow stability even in times of economic stress. In addition, we believe Avista can absorb high-impact, low-probability events because it maintains about $525 million in committed credit facilities through 2028 and we expect it can lower its capital spending (averaging about $500 million annually) and dividends (averaging around $145 million annually) during stressful periods, which indicates a limited need for refinancing under such conditions. Furthermore, our assessment reflects the company's generally prudent risk management and sound relationships with banks. Overall, we believe the company could withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations. The company does not have any material debt maturities till 2028.

Principal liquidity sources

- Cash balance of $8.6 million;
- Cash FFO of about $410 million;
- Undrawn credit facilities totaling about $300 million; and
- Working capital inflows of about $20 million.

Principal liquidity uses

- Assumed capital spending of about $500 million; and
- Dividend payments of about $145 million.

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of Avista Corp. This reflects the company's elevated physical risks due to its service territory's exposure to higher-than-average wildfire risk. Although exposed to less-severe wildfire risk than California utilities, Avista experienced heightened wildfire activity in September 2020 and August 2023, and we believe this risk is ongoing. This risk is slightly mitigated by the company's wildfire resiliency plan, which aims to reduce its fire risk with about $330 million in capital investment over 10 years.

Issue Ratings--Subordination Risk Analysis

Capital structure

Avista's capital structure consists of about $2.7 billion of debt, most of which is secured.

Analytical conclusions

Consistent with our criteria, we rate the preferred stock issued by Avista Capital II two notches below the issuer credit rating to reflect the deferability of the dividends and because it is deeply subordinated to other instruments in the capital structure. The short-term credit rating is based on the long-term issuer credit rating.

Issue Ratings--Recovery Analysis

Key analytical factors

Avista's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's owned or subsequently acquired real property. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue-level rating two notches above the issuer credit rating.

Rating Component Scores

Foreign currency issuer credit rating	BBB/Negative/A-2
Local currency issuer credit rating	BBB/Negative/A-2
Business risk	Strong
Country risk	Very Low
Industry risk	Very Low
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of December 08, 2023)*

Avista Corp.

Issuer Credit Rating	BBB/Negative/A-2
Senior Secured	A-

Issuer Credit Ratings History

11-Nov-2022	BBB/Negative/A-2
10-Dec-2018	BBB/Stable/A-2
15-Jun-2018	BBB/Watch Pos/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

S&P Global
Ratings

RatingsDirect®

Rising Risks: Outlook For North American Investor-Owned Regulated Utilities Weakens

February 14, 2024

PRIMARY CREDIT ANALYST

Gabe Grosberg
New York
+ 1 (212) 438 6043
gabe.grosberg
@spglobal.com

SECONDARY CONTACT

Paul Montiel
New York
paul.montiel
@spglobal.com

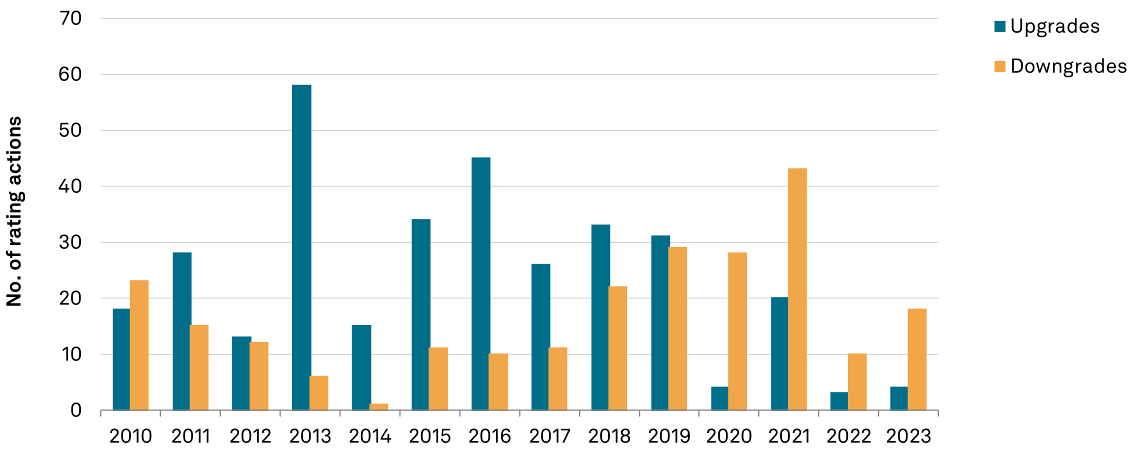
Key Takeaways

- We are updating our 2024 outlook on the investor-owned North American regulated utility industry to negative.
- Given the relatively high percentage of companies with negative outlooks, we expect that 2024 will likely be the fifth consecutive year that downgrades outpace upgrades.
- The industry faces rising physical risks and high cash flow deficits that may not be sufficiently funded in a credit-supportive manner.
- Still, we expect that the utility industry will maintain a median investment-grade rating of 'BBB+'.
- We also expect that a smaller percentage of companies rated 'BBB' or lower are more likely to implement measures to maintain or even improve credit quality.

Credit quality for North American investor-owned regulated utilities has weakened over the past four years, with downgrades outpacing upgrades by more than three times. We expect downgrades to again surpass upgrades in 2024 for the fifth consecutive year. In the decade prior to 2020, upgrades generally outpaced downgrades in the industry.

Chart 1

Upgrades and downgrades for North American regulated utilities



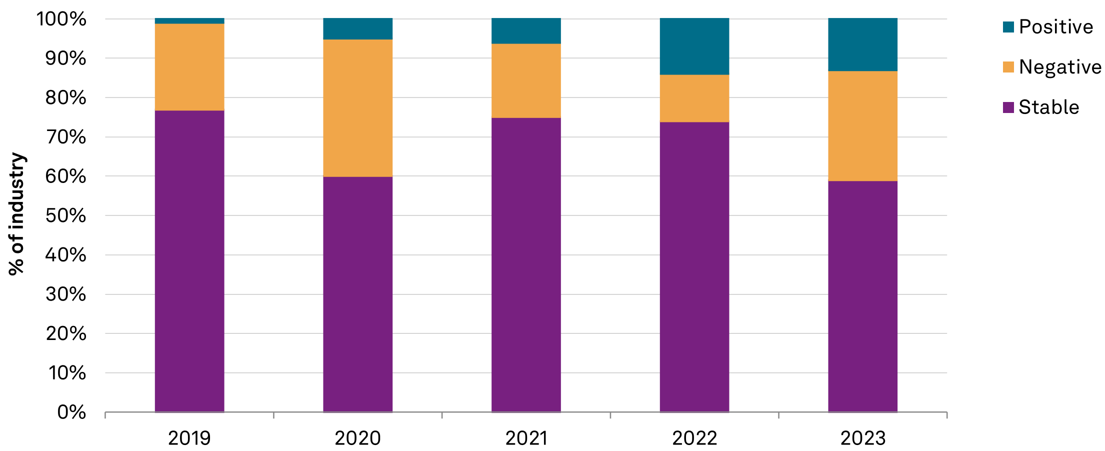
Source: S&P Global Ratings.

High Percentage Of Negative Outlooks

Currently, about 28% of the industry has a negative outlook or is listed on CreditWatch with negative implications. This is now the third time in the past five years that the year-end percentage of negative outlooks and CreditWatch listings has exceeded 20%. Given the current high percentage of negative outlooks it is increasingly likely that credit quality will again weaken in 2024.

Chart 2

Outlooks for the North American regulated utilities industry
At year end.

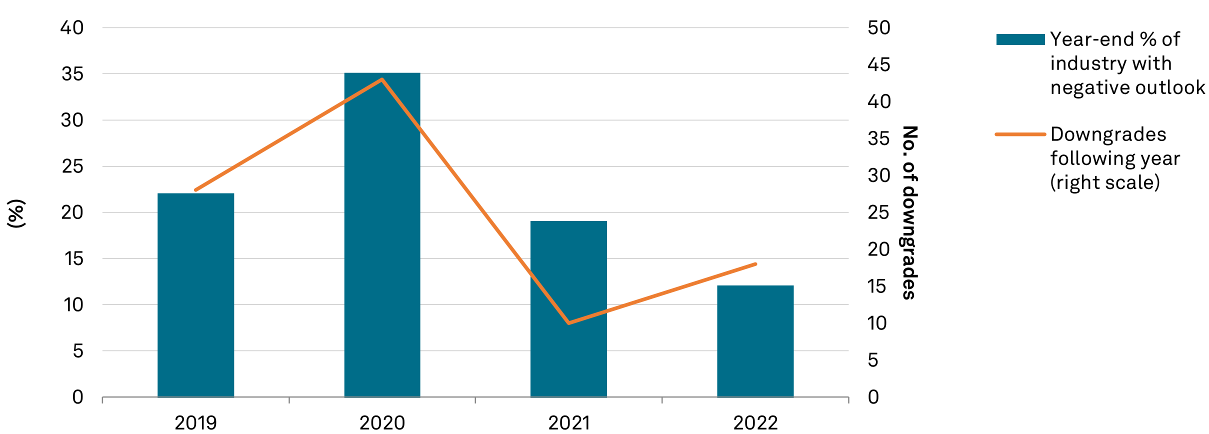


Source: S&P Global Ratings.

Future rating actions are typically correlated with our outlooks. The industry's share of negative outlooks reached a record high of 35% at year-end 2020, and the following year saw a record 43 downgrades. The industry's current percentage of negative outlooks is significantly larger than it was at year-ends 2021 and 2022, when downgrades still materially outpaced upgrades the following year. As such, given the current high percentage of negative outlooks, we anticipate that 2024 will be another challenging year for the industry's credit quality.

Chart 3

North American regulated utilities' correlation of negative outlooks to downgrades



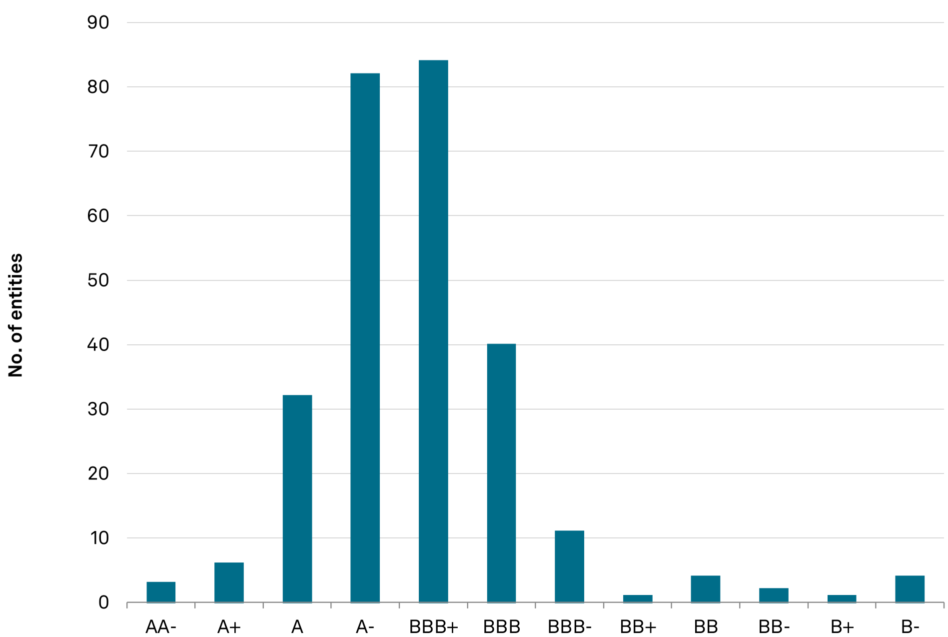
Source: S&P Global Ratings.

Median Credit Rating To Remain Investment Grade

The median rating among North American investor-owned regulated utilities is 'BBB+'. Despite our expectations for downgrades to again outpace upgrades in 2024, we expect that the median rating will remain 'BBB+'. To weaken the median rating to 'BBB', the industry would need about 70 downgrades to 'BBB' from the 'BBB+' level or above. This degree of credit weakening is well above our base-case expectations for 2024. However, this magnitude of weakening could occur over the next three years if this negative pace persists.

Chart 4

North American regulated utilities ratings distribution
As of Feb. 1, 2024.



Source: S&P Global Ratings.

Headwinds To Credit Quality

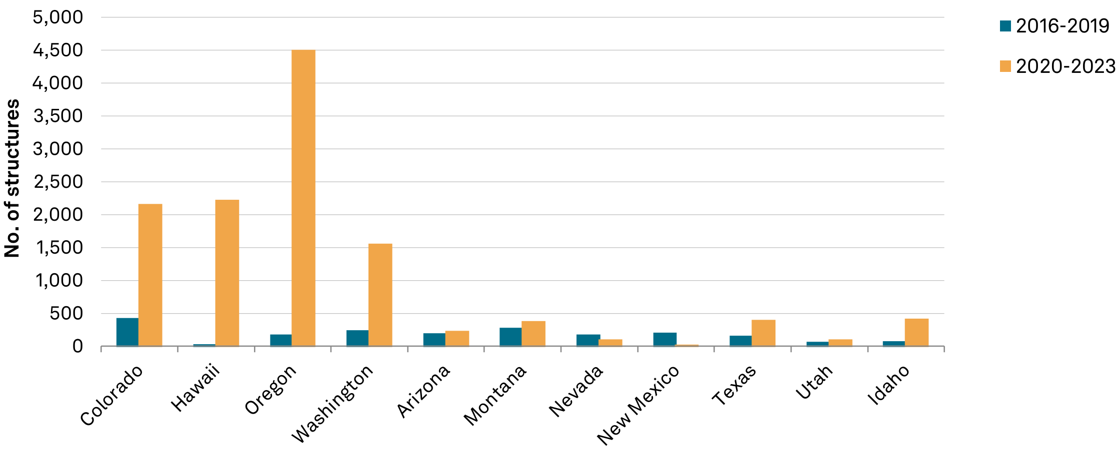
The industrywide negative outlook reflects rising physical risks as well as financial measures, which are weakening due to rising capital spending and cash flow deficits that are not funded in a sufficiently credit supportive manner. Furthermore, much of the industry operates with minimal financial cushion from their downgrade threshold. This increases the susceptibility to a downgrade if negative events occur beyond our base case.

Increase in physical risk

Climate change and an increase in wildfire risks are threatening credit quality. Wildfire risk was generally limited to California utilities just five years ago but has spread over the past several years.

Chart 5

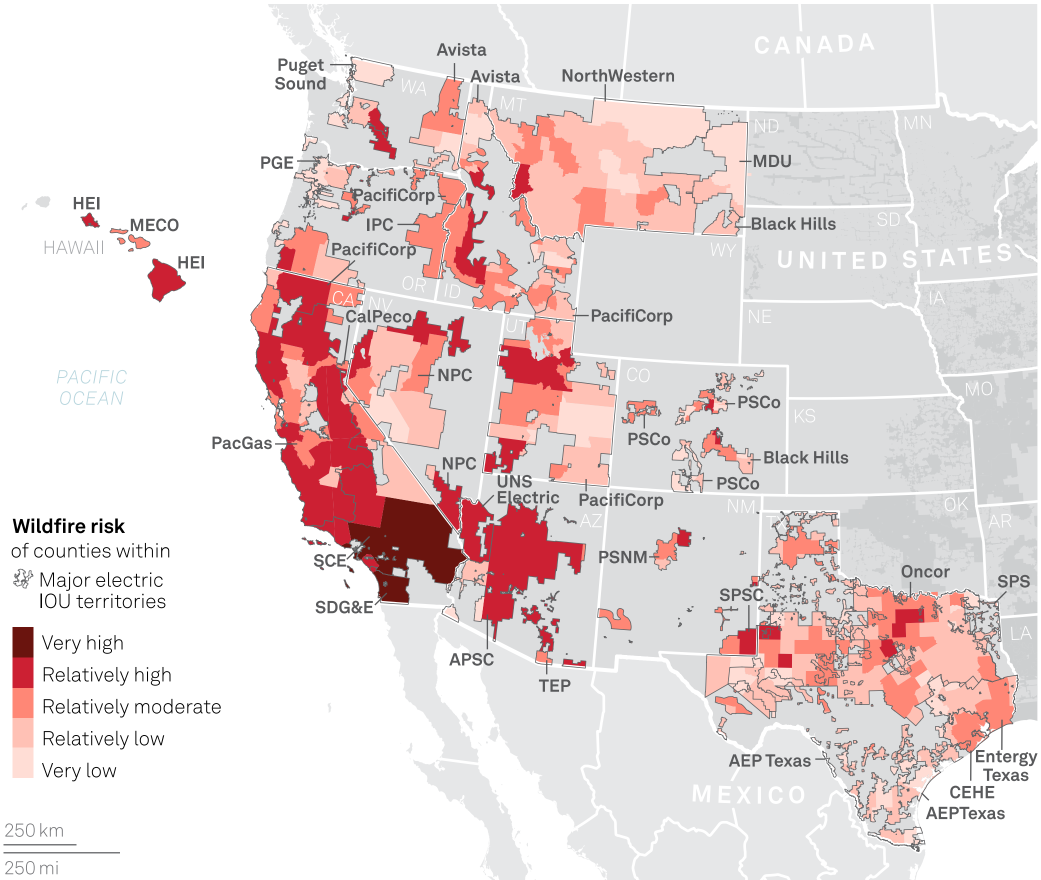
Structures destroyed by wildfires in Western U.S. states
Excludes California



Sources: Headwaters Economics; National Fire and Aviation Management (FAMWeb).

Since 2020, the number of structures destroyed by wildfires in Colorado, Hawaii, Idaho, Oregon, Washington, and Texas have all increased by more than 100% compared to 2016-2019. Meanwhile, Arizona, Montana, and Utah have each experienced increases of at least 20% over the same timeframe. Additionally, areas designated as high fire risk continue to increase across the Western U.S. due to climate change. To reduce these risks, many utilities are actively implementing mitigation plans designed to reduce wildfire exposure and litigation risks.

Wildfire risk across West Coast electricity territories



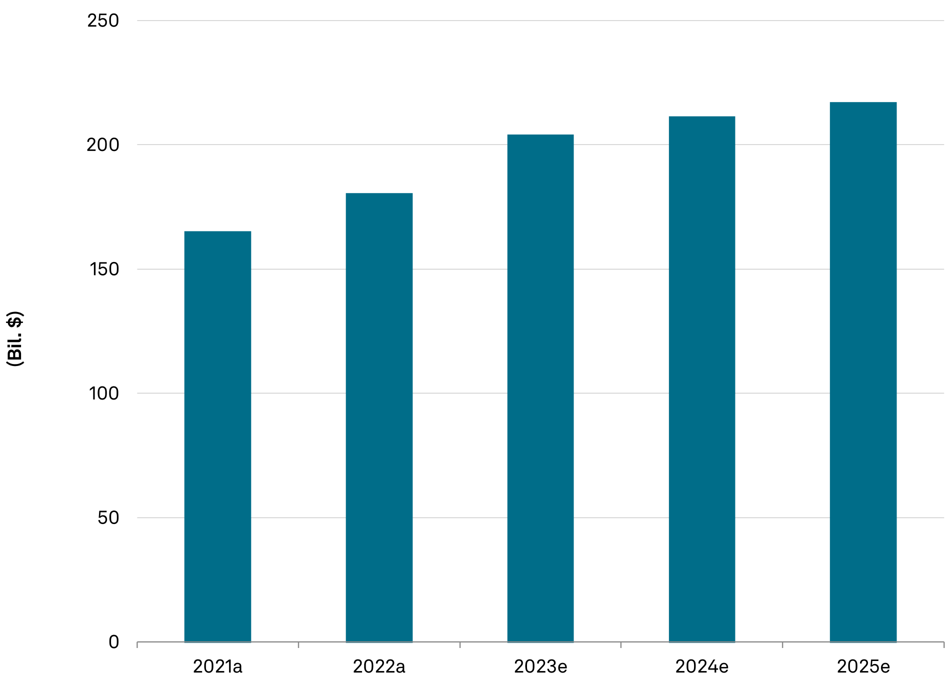
Source: FEMA, S&P Global Market Intelligence.

Increase in capital expenditure and cash flow deficits

The industry's capital spending remains at record levels, supporting initiatives for safety, reliability, energy transition, and growth. We consider these trends long term and expect that capital spending will only continue to increase over this decade.

Chart 6

North American regulated utilities' capital expenditure is rising

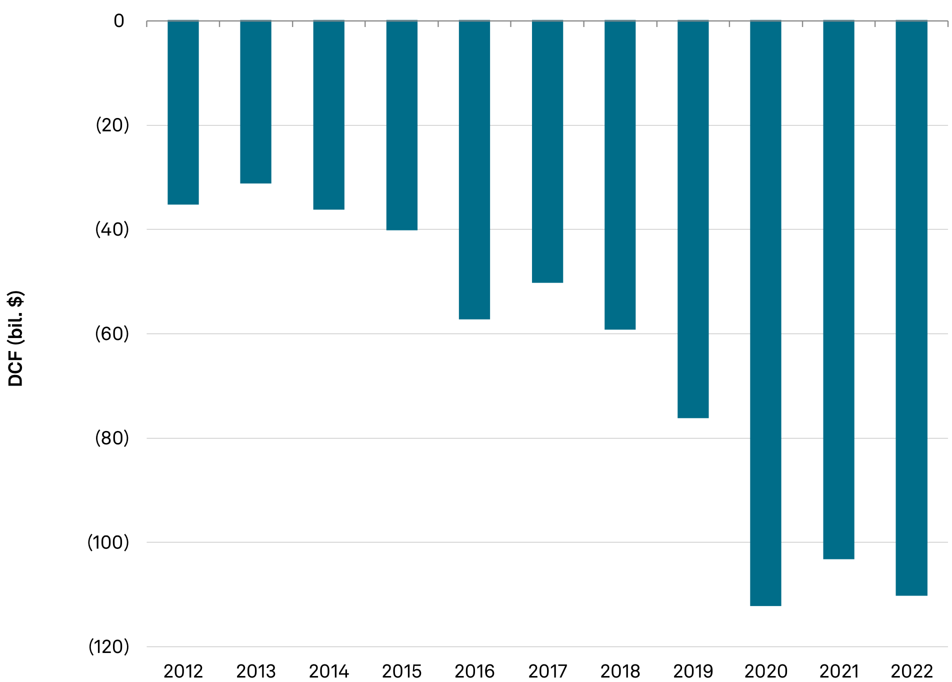


a--Actual. e--Estimate. Source: S&P Global Ratings.

Accordingly, cash flow deficits have increased, pressuring the industry's credit quality. For 2024, our base case assumes that the industry will fund its approximate $85 billion of cash flow deficits with about $40 billion in asset sales and equity issuance.

Chart 7

Discretionary cash flow (DCF) of rated investor-owned utilities

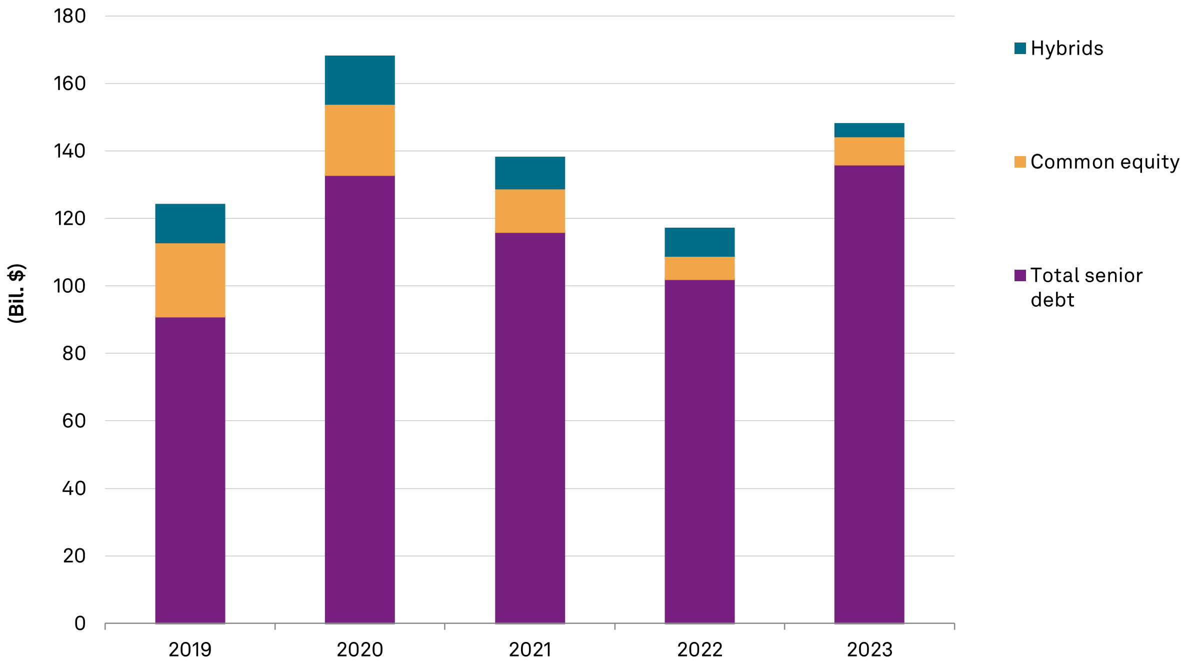


Source: S&P Global Ratings.

For 2023, the industry's actual equity issuance was considerably below our expectations, resulting in a weakening of financial performance and credit quality. If this trend persists, credit quality will again likely experience pressure in 2024.

Chart 8

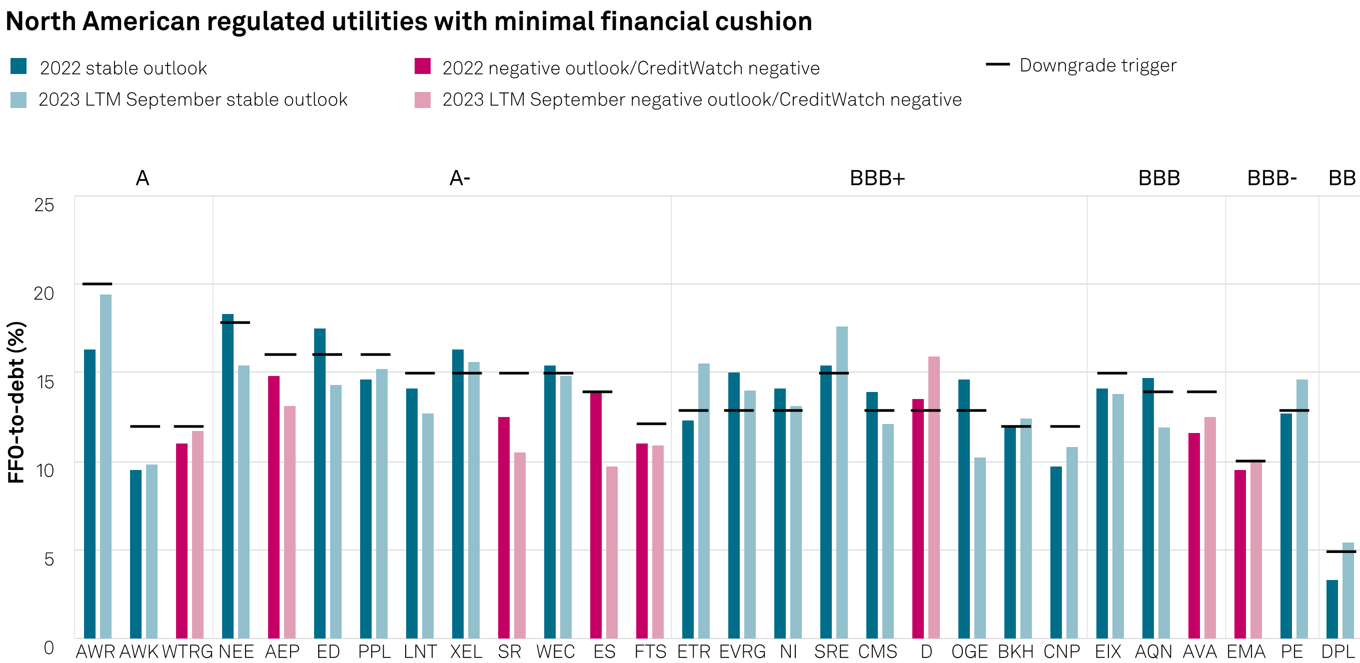
Capital market issuance for North American regulated utilities



Senior debt includes first-mortgage bonds and senior unsecured. Hybrids includes junior subordinated debt, preferreds, subordinated debt, and equity units. Source: S&P Global Ratings, S&P Market Intelligence.

Strained financial cushion

About 35% of the industry is sustaining performance with minimal financial cushion, reflecting funds from operations (FFO) to debt that is less than 100 basis points (bps) above their downgrade threshold. The limited financial cushion affects a company's ability to absorb unexpected events beyond the base case for our ratings, increasing its susceptibility to a downgrade. Such unexpected events include higher interest rates, changes to inflation, delays to offshore wind projects, and rising taxes.



Data as of Feb. 6, 2024. FFO--Funds from operations. LTM--Last 12 months. AWR--American States Water Co. AWK--American Water Works Co. Inc. WTRG--Essential Utilities Inc. NEE--NextEra Energy Inc. AEP--American Electric Power Co. Inc. ED--Consolidated Edison Inc. PPL--PPL Corp. LNT--Alliant Energy Corp. XEL--Xcel Energy Inc. SR--Spire Inc. WEC--WEC Energy Group Inc. ES--Eversource Energy. FTS--Fortis Inc. ETR--Entergy Corp. EVRG--Evergy Inc. NI--NiSource Inc. SRE--Sempra. CMS--CMS Energy Corp. D--Dominion Energy Inc. OGE--OGE Energy Corp. BKH--Black Hills Corp. CNP--CenterPoint Energy Inc. EIX--Edison International. AQN--Algonquin Power & Utilities Corp. AVA--Avista Corp. EMA--Emera Inc. PE--Puget Energy Inc. DPL--DPL Inc.
Source: S&P Global Ratings.

Upcoming debt maturities amid higher interest rates

The industry has considerable near-term debt maturities that must be refinanced, as well as rising discretionary cash flow deficits that are mostly funded with debt. Because of the regulatory lag, which is the timing difference between when a utility incurs costs and when it's recovered from ratepayers, rising interest rates weaken financial performance. S&P Global economists expect the federal funds rate will stabilize in 2024 and then begin to modestly decrease. Accordingly, as interest rates stabilize, it will ease pressure on the industry's financial performance.

Additionally, the spread between the 10-year treasury and the average authorized return on equity (ROE) has narrowed. Over the past three years, the 10-year treasury has increased by about 250 bps to about 4.0% from about 1.5% at year-end 2020. At the same time, average authorized ROE has essentially remained flat at about 9.5%. The narrowing of this spread directly hinders the industry's financial performance.

Elevated inflation rates

Although the rate of inflation has slowed from 2022 levels, it remains elevated relative to historical levels. We anticipate this will result in higher operations and maintenance (O&M) costs that could weaken financial performance. While some utilities have interim mechanisms that reduce the regulatory lag, most will have to file rate cases on a more frequent basis if inflation remains higher over the longer term.

Delayed renewable energy projects

Recently, several large offshore wind projects were delayed or canceled because of rising costs for these more challenging projects. For example, we recently placed Eversource Energy's ratings on CreditWatch with negative implications directly related to its share of higher costs associated with its offshore wind projects.

Alternative minimum tax (AMT)

The Inflation Reduction Act of 2022 includes a 15% corporate AMT that we expect will weaken the financial measures of only about 10% of the industry. This is because the ATM is applicable to corporations with at least $1 billion of income that also do not have sufficient offsetting tax credits. Accordingly, we expect that most fully integrated large utilities with a growing or significant renewable generation portfolio will use their renewable tax credits to minimize or eliminate the AMT. However, the AMT could weaken financial measures of large electric transmission and distribution utilities, large natural gas local distribution companies, and large water utilities.

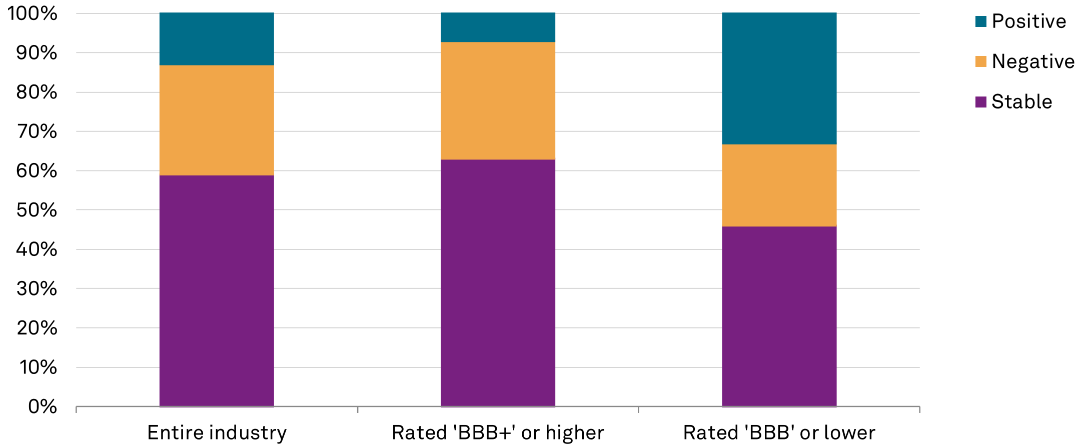
Lower-Rated Companies Will Likely Protect Credit Quality

We expect a majority of the industry's future downgrades will come from companies that are currently rated 'BBB+' or higher, as about 30% of companies in this category have a negative outlook. Overall, these higher-rated companies account for about 75% of the industry's portfolio. Conversely, we expect companies rated 'BBB' or lower will likely take measures to support or improve credit quality. This reflects the more than 30% of companies in this category that have a positive outlook.

Consequently, there is a broad industry trend that is bifurcating higher-rated and lower-rated companies that will likely result in weakening credit quality for the higher-rated companies and stable to improving credit quality for the smaller percentage of lower-rated companies. We believe this trend is consistent with the industry's current economic conditions of robust growth, cash flow deficits, and higher interest rates. Some higher-rated companies are determining that, under current conditions, they have excess credit capacity while lower-rated companies believe it is most optimal for them to operate at a higher rating.

Chart 9

North American regulated utilities outlook at year-end 2023



Source: S&P Global Ratings.

This report does not constitute a rating action.