

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-10 _____

DOCKET NO. UG-10 _____

EXHIBIT NO. ____ (MTT-2)

MARK T. THIES

REPRESENTING AVISTA CORPORATION

AVISTA CORPORATION
Long-term Securities Credit Ratings

	Standard & Poor's	Moody's
Last Upgraded	February 2008	December 2007 and the First Mortgage Bonds and Secured Medium-term Notes were further upgraded to Baa1 from Baa2 in August 2009
Credit Outlook	Positive	Positive
	A+	A1
	A	A2
	A-	A3
	BBB+ First Mortgage Bonds Secured Medium-Term Notes	Baa1 First Mortgage Bonds Secured Medium-Term Notes
	BBB	Baa2
	BBB- Avista Corp./Corporate rating	Baa3 Avista Corp./Issuer rating
INVESTMENT GRADE		
	BB+	Ba1 Trust-Originated Preferred Securities
	BB Trust-Originated Preferred Securities	Ba2
	BB-	Ba3

AVISTA CORPORATION				
Cost of Capital				
December 31, 2010				
	Amount	Percent of Total Capital	Cost	Component
Total Debt ⁽¹⁾	\$1,228,462,129	51.61%	5.93%	3.06%
Common Equity	1,151,660,792	48.39%	10.90% ⁽²⁾	5.27%
Total	<u>\$2,380,122,921</u>	<u>100.00%</u>		<u>8.33%</u>

AVISTA CORPORATION				
Embedded Cost of Capital				
December 31, 2009				
	Amount	Percent of Total Capital	Cost	Component
Total Debt	\$1,319,555,198	55.29%	5.60%	3.10%
Common Equity	1,066,938,893	44.71%	10.20%	4.56%
Total	<u>\$2,386,494,091</u>	<u>100.00%</u>		<u>7.66%</u>

(1) Includes short term debt

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

Notes:

Refer to supporting documentation for detailed calculations

All costs are shown before tax

Assumptions:

- A Started with 12-31-2009 actuals
- B Forecasted through 12-31-2010
- C The forecasted equity and debt numbers come from forecast Dec6 model
- D Equity is adjusted for Other Comprehensive Income and capital stock expense (\$16,060,000 as of December 31, 2010 and \$15,651,454 as of December 31, 2009)
- E Forecasted issuance of \$45 million of additional equity during 2010

AVISTA CORPORATION
Forecasted Cost of Long-Term Debt Detail
December 31, 2010

Line No.	Description	Coupon Rate	Maturity Date	Settlement Date	Principal Amount	Issuance Costs	Loss/Reacq Expenses	Net Proceeds	Yield to Maturity	Principal Outstanding 12-31-2010	Effective Cost	Line No.	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)			
1	SMTN Series A	Series Costs	08-31-2010	05-01-1993		373,693					-	1	
2	SMTN Series A	6.67%	07-12-2010	07-12-1993	5,000,000	35,081	690,464	4,274,455	8.275%	-	-	2	
3	SMTN Series A	7.18%	08-11-2023	08-12-1993	7,000,000	54,364		6,945,636	7.244%	7,000,000.00	507,064.38	3	
4	SMTN Series A	7.37%	05-10-2012	05-10-1993	7,000,000	49,114	1,227,883	5,723,003	9.455%	7,000,000.00	661,876.53	4	
5	SMTN Series A	7.39%	05-11-2018	05-11-1993	7,000,000	54,364	1,227,883	5,717,753	9.287%	7,000,000.00	650,114.40	5	
6	SMTN Series A	7.45%	06-11-2018	06-09-1993	15,500,000	170,597	2,140,440	13,188,963	8.953%	15,500,000.00	1,387,715.09	6	
7	SMTN Series A	7.53%	05-05-2023	05-06-1993	5,500,000	42,712	963,011	4,494,277	9.359%	5,500,000.00	514,744.29	7	
8	SMTN Series A	7.54%	05-05-2023	05-07-1993	1,000,000	7,766	175,412	816,822	9.375%	1,000,000.00	93,746.70	8	
9	SMTN Series B	6.90%	07-01-2010	06-09-1995	5,000,000	37,944		4,962,056	6.982%	-	-	9	
10	5.70% FMB's	5.70%	07-01-2037	12-15-2006	150,000,000	8,663,162		141,336,838	6.120%	150,000,000.00	9,179,739.71	10	
11	6.125% FMB's	6.13%	09-01-2013	09-08-2003	45,000,000	1,055,140	815,824	43,129,036	6.703%	45,000,000.00	3,016,248.15	11	
12	5.45% FMB's	5.45%	12-01-2019	11-18-2004	90,000,000	1,432,081	7,244,895	81,323,024	6.462%	90,000,000.00	5,815,417.54	12	
13	6.25% FMB's	6.25%	12-01-2035	11-17-2005	150,000,000	-2,137,016	1,700,371	150,436,645	6.228%	150,000,000.00	9,342,301.43	13	
14	5.125% FMB's	5.125%	04-01-2022	09-22-2009	250,000,000	-7,701,222		257,701,222	4.795%	250,000,000.00	11,987,116.38	14	
15	5.95% FMB's	5.95%	06-01-2018	04-02-2008	250,000,000	19,476,419		230,523,581	7.034%	250,000,000.00	17,585,352.37	15	
16	7.25% FMB's	7.25%	12-16-2013	12-16-2008	30,000,000	420,306		29,579,694	7.592%	30,000,000.00	2,277,589.89	16	
17	PCB's Kettle Falls	6.00%	12-01-2023	07-29-1993	4,100,000	135,855	146,393	3,817,752	6.523%	4,100,000.00	267,441.33	17	
18	MTN's Series C	Series Costs	06-15-2013	06-15-1998		650,179				-	43,345.27	18	
19	MTN's Series C	6.37%	06-19-2028	06-19-1998	25,000,000	158,304	188,649	24,653,047	6.475%	25,000,000.00	1,618,863.48	19	
20	MTN's Series C	8.02%	10-26-2010	10-26-1999	25,000,000	161,287	707,527	24,131,186	8.513%	-	-	20	
21	PCB Colstrip 17M	1	5.36%	03-01-2034	09-15-2010	17,000,000	4,051,718	12,948,282	7.541%	17,000,000.00	1,281,999.47	21	
22	PCB Colstrip 66.7	1	5.36%	06-01-2032	09-15-2010	66,700,000	2,001,000	1,329,522	5.765%	66,700,000.00	3,845,488.42	22	
23												23	
24									6.252%	<u>1,120,800,000</u>	<u>70,076,165</u>	24	
25												25	
26	Repurchase	2	8.85%	06-05-2028	05-24-2002	10,000,000		-2,228,153	6.981%		-188,084	26	
27	Repurchase	2	8.83%	06-05-2028	04-03-2003	10,000,000		-450,769	8.395%		-43,661	27	
28	Repurchase	2	8.83%	12-29-2022	03-11-2003	5,000,000		92,363	9.029%		10,341	28	
29	Repurchase	2	8.37%	09-10-2012	07-07-2003	12,000,000		357,674	8.848%		59,291	29	
30											-162,114	30	
31												31	
32	TOPRS	4	1.81%	06-01-2037	06-03-1997	40,000,000	1,296,086	-2,500,000	41,203,914	1.703%	40,000,000.00	681,283	32
33												33	
34								TOTAL LONG-TERM DEBT	1,150,276,665	6.082%	1,160,800,000	70,595,334	34
35												35	
36		5	Short Term-Debt			67,662,129			3.385%	67,662,129	2,290,452	36	
37												37	
38								TOTAL FORECASTED COST OF DEBT 12/31/2010	5.933%	<u>1,228,462,129</u>	<u>72,885,787</u>	38	

1 Forecasted debt issuances

2 The coupon rate used is the cost of debt at the time of the repurchases

3 The amounts are calculated using the IRR function

4 Information pulls from the - Long-term Variable Rate Debt tab (page 4)

5 Information pulls from the - Short-Term Debt tab (page 5)

AVISTA CORPORATION
 Forecasted Cost of Long-Term Variable Rate Debt Detail
 December 31, 2010

	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Avg of
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)
Trust Preferred	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	40,000,000
Total Short Term Debt	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000
Number of Days in Month		31	28	31	30	31	30	31	31	30	31	30	31	365
Forecasted Rates Trust Preferred		1.63%	1.63%	1.63%	1.63%	1.63%	1.63%	1.75%	1.75%	1.75%	2.13%	2.13%	2.13%	
Trust Preferred Interest Expense		55,972	50,556	55,972	54,167	55,972	54,167	60,278	60,278	58,333	73,194	70,833	73,194	722,917
Total Interest Expense		55,972	50,556	55,972	54,167	55,972	54,167	60,278	60,278	58,333	73,194	70,833	73,194	722,917
Forecasted Monthly Borrowing Rate		1.63%	1.63%	1.63%	1.63%	1.63%	1.63%	1.75%	1.75%	1.75%	2.13%	2.13%	2.13%	
		Average borrowing rate used in the calculation of the effective costs below												1.81%
	Coupon	Maturity	Settlement	Principal	Issuance	Loss/Reacq	Net	Yield to	Outstanding	Effective				
	Rate	Date	Date	Amount	Costs	Expenses	Proceeds	Maturity	12-31-2010	Cost				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)				
Trust Preferred	1.81%	06-01-2037	06-03-1997	40,000,000	1,296,086	-2,500,000	41,203,914	1.703%	40,000,000	681,283				

AVISTA CORPORATION
Forecasted Cost of Short-Term Debt Detail
December 31, 2010

	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Avg of
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
3 Credit Facility	\$45,935,000	\$86,220,228	\$70,800,134	\$48,684,247	\$50,554,398	\$55,003,485	\$60,729,688	\$76,475,918	\$82,026,896	\$58,962,647	\$56,516,842	\$84,719,638	\$116,567,850	67,662,129
4 Total Short Term Debt	\$45,935,000	\$86,220,228	\$70,800,134	\$48,684,247	\$50,554,398	\$55,003,485	\$60,729,688	\$76,475,918	\$82,026,896	\$58,962,647	\$56,516,842	\$84,719,638	\$116,567,850	\$67,662,129
6 Number of Days in Month		31	28	31	30	31	30	31	31	30	31	30	31	365
8 CF Interest Expense		52,633	56,484	47,586	38,248	42,040	44,605	62,028	71,656	61,683	70,851	83,859	123,498	755,173
9 Avg Monthly Forecasted Borrowing Rate		0.93%	0.93%	0.93%	0.93%	0.93%	0.93%	1.05%	1.05%	1.05%	1.43%	1.43%	1.43%	
														Weighted Average S/T Borrowing Rate 1.12%
13 Credit Agreement Fees	\$ 61,510	\$ 60,885	\$ 60,885	\$ 60,885	\$ 60,885	\$ 60,885	\$ 60,885	\$ 61,104	\$ 61,323	\$ 61,323	\$ 61,104	\$ 60,885	\$ 60,885	732,563
14 Credit Agreement Amort of up-front costs	66,893	66,893	66,893	66,893	66,893	66,893	66,893	66,893	66,893	66,893	66,893	66,893	66,893	802,717
15 Total S/T Debt Expense	\$ 181,036	\$ 184,262	\$ 175,365	\$ 166,027	\$ 169,818	\$ 172,384	\$ 190,026	\$ 199,872	\$ 189,899	\$ 198,849	\$ 211,638	\$ 251,277	\$ 229,452	2,290,452

Total Short Term Cost Rate	3.39%
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(i) Short term interest is calculated on the average balance for the month times the interest rate for the month times the actual days in the month divided by 360 days.