

**REDACTED**

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-12 \_\_\_\_\_

EXHIBIT NO. \_\_\_\_\_ (MTT-2)

MARK T. THIES

REPRESENTING AVISTA CORPORATION

**AVISTA CORPORATION**  
Long-term Securities Credit Ratings

Exhibit No.\_\_\_\_(MTT-2)

	<b>Standard &amp; Poor's</b>		<b>Moody's</b>
<b>Last Upgraded</b>	March/August 2011 <sup>(1)</sup>		March 2011
<b>Credit Outlook</b>	Stable		Stable
	<b>A+</b>		<b>A1</b>
	<b>A</b>		<b>A2</b>
	<b>A-</b> First Mortgage Bonds Secured Medium-Term Notes		<b>A3</b> First Mortgage Bonds Secured Medium-Term Notes
	<b>BBB+</b>		<b>Baa1</b>
	<b>BBB</b> Avista Corp./Corporate credit rating		<b>Baa2</b> Avista Corp./Issuer rating
	<b>BBB-</b>		<b>Baa3</b>
<b>INVESTMENT GRADE</b>			
	<b>BB+</b> Trust-Originated Preferred Securities		<b>Ba1</b> Trust-Originated Preferred Securities
	<b>BB</b>		<b>Ba2</b>
	<b>BB-</b>		<b>Ba3</b>

(1) The Company received an upgrade to its Corporate credit rating in March 2011 and to its First Mortgage Bonds in August 2011

**AVISTA CORPORATION**  
**Pro forma Cost of Capital**  
**December 31, 2012**

	Amount	Percent of Total Capital	Cost	Component Cost
Total Debt	\$ 1,340,787,120	51.6%	5.76%	2.97%
Common Equity	1,256,706,338	48.4%	10.90% <sup>(1)</sup>	5.27%
Total	<u>\$ 2,597,493,458</u>	<u>100%</u>		<u><b>8.25%</b></u>

**AVISTA CORPORATION**  
**Embedded Cost of Capital**  
**December 31, 2011**

	Amount	Percent of Total Capital	Cost	Component Cost
Total Debt	\$ 1,301,591,222	52.6%	5.72%	3.01%
Common Equity	1,170,569,063	47.4%	10.20% <sup>(2)</sup>	4.83%
TOTAL	<u>\$ 2,472,160,285</u>	<u>100%</u>		<u><b>7.84%</b></u>

<sup>(1)</sup> Proposed return on common equity

<sup>(2)</sup> Based on last known allowed return on common equity

**AVISTA CORPORATION**  
 Cost of Debt Detail - Washington  
 December 31, 2012

Exhibit No. \_\_\_\_ (MTT-2)

Line No.	Description	Coupon Rate	Maturity Date	Settlement Date	Principal Amount	Issuance Costs	SWAP Loss/(Gain)	Discount (Premium)	Loss/Reacq Expenses	Net Proceeds	Yield to Maturity	Principal Outstanding 12-31-2012	Effective Cost	Line No.
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(g)	(h)	(i)	(j)	(k)	(l)	
1	FMBS - SERIES A	7.530%	05-05-2023	05-06-1993	\$ 5,500,000	\$ 42,712	\$ -	\$ -	\$ 963,011	\$ 4,494,277	9.359%	\$ 5,500,000	\$ 514,744	1
2	FMBS - SERIES A	7.540%	05-05-2023	05-07-1993	\$ 1,000,000	\$ 7,766	\$ -	\$ -	\$ 175,412	\$ 816,822	9.375%	1,000,000	93,747	2
3	FMBS - SERIES A	7.390%	05-11-2018	05-11-1993	\$ 7,000,000	\$ 54,364	\$ -	\$ -	\$ 1,227,883	\$ 5,717,753	9.287%	7,000,000	650,114	3
4	FMBS - SERIES A	7.450%	06-11-2018	06-09-1993	\$ 15,500,000	\$ 120,377	\$ -	\$ 50,220	\$ 2,140,440	\$ 13,188,963	8.953%	15,500,000	1,387,715	4
5	FMBS - SERIES A	7.180%	08-11-2023	08-12-1993	\$ 7,000,000	\$ 54,364	\$ -	\$ -	\$ -	\$ 6,945,636	7.244%	7,000,000	507,064	5
6	KETTLE FALLS P C	6.000%	12-01-2023	07-29-1993	\$ 4,100,000	\$ 115,355	\$ -	\$ 20,500	\$ 146,393	\$ 3,817,752	6.523%	4,100,000	267,441	6
7	DEBT TO AFFILIATED TRUST <sup>1</sup>	1.79%	06-01-2037	06-03-1997	\$ 40,000,000	\$ 1,296,086	\$ -	\$ -	\$ (1,769,125)	\$ 40,473,039	1.751%	40,000,000	700,528	7
8	SERIES C Setup COST	N/A	06-15-2013	06-15-1998	\$ -	\$ 666,169	\$ -	\$ -	\$ -	\$ -	-	-	44,411	8
9	FMBS - SERIES	6.370%	06-19-2028	06-19-1998	\$ 25,000,000	\$ 158,304	\$ -	\$ -	\$ 188,649	\$ 24,653,047	6.475%	25,000,000	1,618,863	9
10	5.45% SERIES	5.450%	12-01-2019	11-18-2004	\$ 90,000,000	\$ 1,192,681	\$ -	\$ 239,400	\$ 7,244,918	\$ 81,323,001	6.462%	90,000,000	5,815,420	10
11	FMBS - 6.25%	6.250%	12-01-2035	11-17-2005	\$ 150,000,000	\$ 1,812,935	\$ (4,445,000)	\$ 367,500	\$ 1,700,376	\$ 150,564,188	6.222%	150,000,000	9,332,891	11
12	FMBS - 5.70%	5.700%	07-01-2037	12-15-2006	\$ 150,000,000	\$ 4,702,304	\$ 3,738,000	\$ 222,000	\$ -	\$ 141,337,696	6.120%	150,000,000	9,179,674	12
13	5.95% SERIES	5.950%	06-01-2018	04-02-2008	\$ 250,000,000	\$ 2,246,419	\$ 16,395,000	\$ 835,000	\$ -	\$ 230,523,581	7.034%	250,000,000	17,585,352	13
14	5.125% SERIES	5.125%	04-01-2022	09-22-2009	\$ 250,000,000	\$ 2,284,788	\$ (10,776,222)	\$ 575,000	\$ 2,875,817	\$ 255,040,618	4.907%	250,000,000	12,268,615	14
15	1.68% SERIES	1.680%	12-30-2013	12-30-2010	\$ 50,000,000	\$ 305,790	\$ -	\$ -	\$ -	\$ 49,694,210	1.891%	50,000,000	945,329	15
16	3.89% SERIES	3.890%	12-20-2020	12-20-2010	\$ 52,000,000	\$ 383,338	\$ -	\$ -	\$ 6,273,664	\$ 45,342,997	5.578%	52,000,000	2,900,325	16
17	5.55% SERIES	5.550%	12-20-2040	12-20-2010	\$ 35,000,000	\$ 258,834	\$ -	\$ -	\$ 5,263,822	\$ 29,477,345	6.788%	35,000,000	2,375,887	17
18	4.45% SERIES	4.450%	12-14-2041	12-14-2011	\$ 85,000,000	\$ 682,771	\$ 10,557,000	\$ -	\$ -	\$ 73,760,229	5.339%	85,000,000	4,538,120	18
19	Forecasted Issuance <sup>2</sup>	5.750%	06-01-2042	06-01-2012	\$ 75,000,000	\$ 750,000	\$ -	\$ -	\$ -	\$ 74,250,000	5.821%	75,000,000	4,365,664	19
20												1,292,100,000	75,091,906	20
21														21
22	Repurchase	8.85% <sup>3</sup>	06-05-2028	05-24-2002	\$ 10,000,000				\$ (2,228,153)	\$ 12,228,153	6.981% <sup>4</sup>		(188,084)	22
23	Repurchase	8.83% <sup>3</sup>	06-05-2028	04-03-2003	\$ 10,000,000				\$ (450,769)	\$ 10,450,769	8.395% <sup>4</sup>		(43,661)	23
24	Repurchase	8.83% <sup>3</sup>	12-29-2022	03-13-2003	\$ 5,000,000				\$ 92,363	\$ 4,907,637	9.029% <sup>4</sup>		10,341	24
25	Repurchase	5.72% <sup>3</sup>	03-01-2034	12-30-2009	\$ 17,000,000				\$ 1,957,496	\$ 15,042,504	6.683% <sup>4</sup>		163,206	25
26	Repurchase	6.55% <sup>3</sup>	10-01-2032	12-31-2008	\$ 66,700,000				\$ 3,709,755	\$ 62,990,245	7.034% <sup>4</sup>		324,414	26
27											5.83%	\$1,292,100,000	\$ 75,358,121	27
28	Short-term debt				\$48,687,120						3.911%	48,687,120	1,904,100	28
29											5.76%	1,340,787,120	77,262,221	29
30	<sup>1</sup> Var. Rate Long-Term Debt, interest rate information comes from Exhibit No. MTT-2 Page 5													
31	<sup>2</sup> This is a projected issuance, whose maturity date and coupon rate may change depending on market conditions. Coupon rate, maturity date and issuance cost are based on the Company's DEC7 forecast													
32	<sup>3</sup> The coupon rate used is the cost of debt at the time of the repurchases													
33	<sup>4</sup> The amounts are calculated using the IRR function													
34	<sup>5</sup> Short-Term Debt information comes from Exhibit No. MTT-2 Page 4													

**AVISTA CORPORATION**  
 Cost of Short-Term Debt Detail  
 December 31, 2012

Exhibit No.\_\_\_\_(MTT-2)

	Dec-11 (B)	Jan-12 (C)	Feb-12 (D)	Mar-12 (E)	Apr-12 (F)	May-12 (G)	Jun-12 (H)	Jul-12 (I)	Aug-12 (J)	Sep-12 (K)	Oct-12 (L)	Nov-12 (M)	Dec-12 (N)	Avg of (O)
3 Credit Facility Borrowings - Month End Balances	\$61,000,000	\$61,042,744	\$28,252,982	\$26,310,515	\$37,241,747	\$30,018,175	\$28,404,539	\$34,119,543	\$36,327,272	\$68,929,871	\$74,348,699	\$75,887,760	\$105,723,194	\$ 48,687,120
5 Number of Days in Month		31	29	31	30	31	30	31	31	30	31	30	31	366
7 Avg Monthly Forecasted Borrowing Rate		1.50%	1.50%	1.50%	1.63%	1.63%	1.63%	1.75%	1.75%	1.75%	1.88%	1.88%	1.88%	
9 Credit Facility Interest Expense	\$ 78,819	\$ 53,950	\$ 35,239	\$ 43,030	\$ 47,059	\$ 39,557	\$ 47,110	\$ 53,080	\$ 76,750	\$ 115,668	\$ 117,372	\$ 146,613	\$ 854,246	
10 Credit Facility Fees	42,350	39,617	42,350	40,984	42,350	40,984	42,350	40,984	42,350	40,984	42,350	40,984	42,350	500,000
11 Credit Facility Amort of up-front costs	45,821	45,821	45,821	45,821	45,821	45,821	45,821	45,821	45,821	45,821	45,821	45,821	45,821	549,854
12 Total S/T Debt Expense	\$ 166,990	\$ 139,388	\$ 123,410	\$ 129,835	\$ 135,229	\$ 126,362	\$ 135,281	\$ 141,251	\$ 163,555	\$ 203,838	\$ 204,177	\$ 234,784	\$ 1,904,100	

<b>Total Borrowing Cost</b>	<b>\$ 1,904,100</b>
<b>Total Average Borrowings</b>	<b>\$48,687,120</b>
<b>Cost Rate</b>	<b>3.91%</b>

15 Monthly borrowings, rates, and fees are based on the DEC7 forecast and exclude Avista Corp's subsidiaries short-term borrowings

**AVISTA CORPORATION**  
 Cost of Long-Term Variable Rate Debt Detail  
 December 31, 2012

Exhibit No.\_\_\_\_(MTT-2)

	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Avg of												
(a)	(b)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(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												
Number of Days in Month		31	29	31	30	31	30	31	31	30	31	30	31													
Forecasted Rates Trust Preferred*		1.58%	1.58%	1.58%	1.700%	1.700%	1.700%	1.825%	1.825%	1.825%	1.950%	1.950%	1.950%													
Trust Preferred Interest Expense	\$	54,250	\$	50,750	\$	54,250	\$	56,667	\$	58,556	\$	56,667	\$	62,861	\$	62,861	\$	60,833	\$	67,167	\$	65,000	\$	67,167	\$	717,028

  

Description	Coupon Rate	Maturity Date	Settlement Date	Principal Amount	Issuance Costs	Loss/Reacq Expenses	Net Proceeds	Yield to Maturity	Outstanding 12-31-2012	Effective Cost
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Trust Preferred	1.79%	06-01-2037	06-03-1997	\$ 40,000,000	\$ 1,296,086	\$ (1,769,125)	\$ 40,473,039	1.751%	\$ 40,000,000	\$ 700,528

\*Forecasted Rates are based on the DEC7 forecast

**AVISTA CORPORATION**  
Capital Structure Reconciliation  
(dollars in thousands)

Exhibit No.\_\_\_\_(MTT-2)

	10-K 12/31/2011	Adjustments	Adjusted Regulatory Balance 12/31/2011	Forecasted activity 2012	Adjusted Regulatory Balance 12/31/2012
<b>Short-term Debt</b>					
Avista Corp	\$ 61,000	\$ 16,491	a \$ 77,491	\$ (28,804)	a \$ 48,687
Subsidiaries	35,000	(35,000)	b -		-
Total short-term debt	<u>\$ 96,000</u>	<u>\$ (18,509)</u>	<u>\$ 77,491</u>	<u>\$ (28,804)</u>	<u>\$ 48,687</u>
<b>Long-term Debt</b>					
Long-term debt	\$ 1,169,826	\$ 7,274	c \$ 1,177,100	\$ 25,000	g \$ 1,202,100
Current Portion of long-term debt	7,474	(474)	d 7,000	43,000	h 50,000
Debt to Affiliated Trust	51,547	(11,547)	e 40,000		40,000
Total long-term debt	<u>\$ 1,228,847</u>	<u>\$ (4,747)</u>	<u>\$ 1,224,100</u>	<u>\$ 68,000</u>	<u>\$ 1,292,100</u>
<b>Equity</b>					
Total Avista Corporation stockholders' equity	<u>\$ 1,185,701</u>	<u>\$ (15,132)</u>	<u>f \$ 1,170,569</u>	<u>\$ 86,137</u>	<u>i \$ 1,256,706</u>

- a Adjusted to reflect short term debt balances on a monthly average.
- b The Company excludes the short-term borrowings outstanding at its' subsidiaries.
- c These adjustments are made to reflect the Company's actual principal amount outstanding. The Company excludes amounts related to settled interest rate swaps and unamortized debt discount. The amounts related to settled interest rate swaps and unamortized debt discount are included as a cost of debt. Additionally, amounts related to capital leases are excluded from long-term debt.
- d Current portion of long-term debt excludes \$474,000, which primarily relates to capital leases and debt at the subsidiaries.
- e The Company holds \$11.547 million of these securities. The \$40 million adjusted balance relates to the current outstanding balance to third party investors.
- f The Company excludes the following: Capital Stock Expense - in order to recover the costs incurred for issuing equity, an amount equivalent to the actual short-term debt borrowings at the subsidiaries, and accumulated other comprehensive loss - in order to reflect the Company's actual equity balance.

2011 Equity Adjustments (dollars in thousands):

Capital Stock Expense	\$ 14,231
Accumulated other comprehensive loss	\$ 5,637
Short-term debt at subsidiaries	\$ (35,000)

- g Represents the issuance of \$75 million 30 year bonds, less \$50 million of long-term debt becoming current.
- h Represents \$50 million of long-term debt becoming current, less the maturity of \$7 million of long-term debt in 2012
- i Forecasted 2012 Equity Activity (dollars in thousands):
- |   |                                |
|---|--------------------------------|
| Capital Stock Expense   |                                |
| Change in Short-term debt at subsidiaries                             |                                |
| Dividends   |                                |
| Net Income  | <b>REDACTED - Confidential</b> |
| Net Common Stock Issuance   | <b>Per WAC 480-07-160</b>      |
| Adjustment to retained earnings due to forecasted subsidiary activity |                                |