MOODY'S
INVESTORS SERVICE

CREDIT OPINION
11 March 2016

Update

Rate this Research

RATINGS

AVISTA CORP.

Domicile	Spokane, Washington, United States
Long Term Rating	Baa1
Type	LT Issuer Rating
Date	30 Jan 2014
Outlook	Stable
Date	30 Jan 2014

Please see the ratings section at the end of this report for more information.

Contacts

Ryan Wobbrock 212-553-7104
AVP-Analyst
ryan.wobbrock@moodys.com

Richa N Patel 212-553-9475
Associate Analyst
richa.patel@moodys.com

William L. Hess 212-553-3837
MD-Utilities
william.hess@moodys.com

Avista Corp.

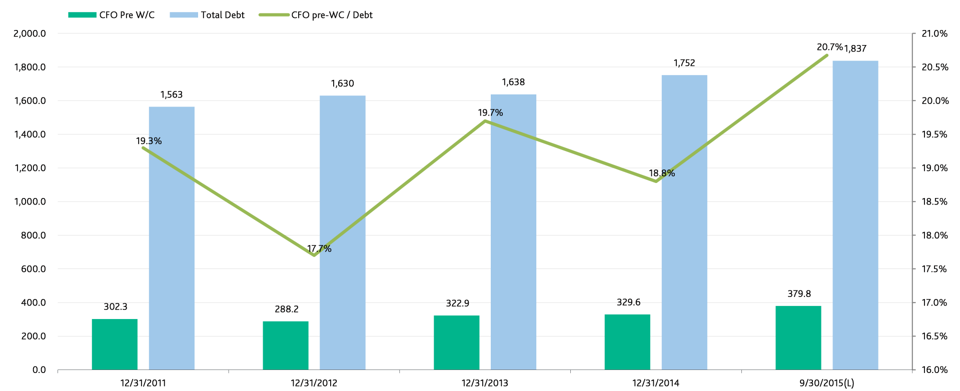
A Vertically Integrated Electric and Gas Utility

Summary Rating Rationale

Avista's Baa1 issuer rating reflects its primary business as a low-risk vertically integrated electric and gas utility with strong financial metrics. The rating is underpinned by supportive regulatory jurisdictions, which provide important cost recovery mechanisms such as electric and gas revenue decoupling.

Avista has some unregulated exposure in addition to its ownership of regulated utility Alaska Electric Light and Power (AELP, Baa3 stable), which provide marginal operational and cash flow diversity, but remain neutral in terms of affecting the ratings of Avista.

Exhibit 1
Avista's CFO pre-WC to debt is consistently in the high-teens.



Source: Moody's Investors Service

Credit Strengths

» Low-risk utility in supportive regulatory jurisdictions

» Core utility business in Washington provides stable cash flow

Credit Challenges

» High dividend payout ratio

» Eying long-term growth potential outside of rate-regulated, core business

Rating Outlook

The stable outlook incorporates our view that Avista's financial profile will maintain CFO pre-WC to debt in the high-teens range and that it will continue to receive supportive cost recovery from its regulators. The stable outlook also incorporates a view that unregulated operations will remain below 15% of consolidated earnings and cash flow, and that the company's financial policy will maintain a relatively even mix of debt and equity in its capital structure.

Factors that Could Lead to an Upgrade

The ratings for Avista could be upgraded if the company were able to produce CFO pre-WC to debt above 20% on a sustainable basis, without the benefits from one-time adjustments.

Factors that Could Lead to a Downgrade

Avista's ratings could be negatively impacted if the level of regulatory support wanes, if the contribution of its unregulated business were to increase disproportionately to those of its regulated operations, or if CFO pre-WC to debt were to fall to 15% for a sustainable period.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Avista Corp.

	12/31/2015	12/31/2014	12/31/2013	12/31/2012	12/31/2011
CFO pre-WC + Interest / Interest	5.7x	5.2x	5.0x	4.4x	4.8x
CFO pre-WC / Debt	20.7%	18.8%	19.7%	17.7%	19.3%
CFO pre-WC – Dividends / Debt	16.2%	14.3%	15.2%	13.5%	15.3%
Debt / Capitalization	44.8%	44.6%	46.7%	47.4%	47.3%

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

This publication does not announce a credit rating action. 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.

Detailed Rating Considerations

RECENT REGULATORY DECISIONS ARE CREDIT POSITIVE

The primary credit driver for Avista is the degree of regulatory support and cost recovery allowed by its regulatory authorities, and particularly via the Washington Utilities and Transportation Commission (WUTC), which regulates roughly 60% of the company's revenue. We view the WUTC to be generally supportive to credit, while having improved cost recovery provisions in the last few years. For example, in December 2014, the WUTC allowed Avista to implement electric and gas decoupling mechanisms which enhances the timely recovery of fixed costs for the utility and provides for stable and predictable gross margin and cash flow in the face of declining use, in addition to attrition adjustments for ongoing rates. This has been particularly helpful for Avista, since energy delivery to customers has fallen in both electric and gas segments for 2015.

More recently, the WUTC allowed a $10.8 million gas revenue increase in January; however, the commission also ordered the company to reduce electric rates by $8.1 million. The rate reduction was mainly driven by lower commodity and power prices compared to the time when Avista made its original filing. As such, we view the WUTC order as immaterial to Avista's credit profile, since fuel and power costs do not generate margin and the rate reduction is not a result of unsupportive regulatory treatment.

Following the electric rate decrease, Avista filed a rate case with a two–step electric and gas rate increase proposal through the 18 months ending June 2018. Avista's request includes around $50 million of electric and approaching $6 million of gas annual rate increases. Avista will also be offsetting some of the customer rate impacts through energy recovery mechanism (ERM) rebates. The filing is primarily driven by capital investments for maintaining and upgrading its system.

In Oregon, the Oregon Public Utilities Commission (OPUC) approved a $4.5 million gas rate increase on March 3, 2016, based on a 9.4% return on equity. While relatively minor in terms of scale, the decision is credit positive since Avista is now allowed to implement a revenue-per-customer decoupling mechanism.

In Idaho, the Idaho Public Utilities Commission (IPUC) authorized Avista just under $2 million of electric and just over $2 million of gas rate increases, effective January 1, 2016, with an allowed ROE of 9.5%. In addition to the settlement, the company was authorized electric and gas decoupling mechanisms, as well.

STRONG CASH FLOW METRICS OFFSET HIGH PAYOUT AND SHARE REPURCHASES MADE IN 2014

Avista's key financial metrics, such as cash flow from operations before the changes in working capital (CFO pre-WC) to debt, have been very stable over the past five years, at around 19%. The strength and consistency of Avista's financial metrics provides an offset to a dividend payout ratio that is close to 70% and the repurchase of $80 million worth of common stock in 2014. Despite these credit negative financial policies, Avista continues to maintain a financial profile in-line with Baa1 integrated peers, who have averaged just over 20% CFO pre-WC to debt and 15% CFO pre-WC less dividends to debt over the past five years; both are consistent with the levels produced by Avista over this time.

Avista's $376 million of CFO in 2015 is significantly higher than historical periods, partly due to: higher depreciation and amortization from additional plant-in-service and a full year of AELP on Avista's consolidated books; non-cash pension expense exceeding cash plan contributions by around $25 million; and a $35 million swing in power and natural gas cost deferrals. While the asset additions will continue to boost depreciation and amortization, we expect the pension and deferrals for power and fuel costs to reverse over time, as the company's recovery mechanisms true-up the temporary mismatch between the costs Avista incurred and rates charged to customers.

We expect for Avista's ongoing margin and cash flow to remain around $300 million due to margin-stabilizing decoupling mechanisms in Washington, Idaho and Oregon. This would result in about 17% of Avista's total adjusted debt at December 2015.

APPETITE FOR GROWTH MAY INTRODUCE GREATER RISK OVER THE LONG-TERM

Avista management has indicated an interest in creating new growth platforms through a non-utility subsidiary, Salix, Inc. (not rated), a subsidiary of Avista Capital, Inc. (not rated, a wholly-owned subsidiary of Avista). Salix was formed to explore opportunities to extend natural gas use beyond traditional pipeline supplied markets, via expansion of liquefied natural gas (LNG) services throughout

the region. Avista's strategy is premised on the low-price and abundant supply of natural gas, which could give LNG an economic advantage over other competing fuels. However, this strategy has slowed given the steep declines in oil prices over the last 18 months.

For now, we expect that the management will take small, measured approaches to the development of its unregulated business. Currently, we do not view Salix as a negative to Avista's credit profile; however, if Salix grows to be a larger portion of earnings and cash flow, or exhibit more business risk, it has the potential of negatively hurting the credit profile for Avista.

The current nature of Avista's capital plan is viewed positively, since the company is long power and primarily focused on basic system improvements; but, if other non-traditional areas are targeted for growth opportunities, this could have the potential to raise the risk profile of the company.

Liquidity Analysis

Avista's external liquidity source consists of a $400 million senior secured revolving credit facility, which expires in April 2019. As of December 31, 2015, there were $149 million of cash borrowings, leaving $250.4 million of available liquidity 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, but it has chosen not to do so for economic reasons. Despite the collateral staying in place at Avista's discretion, the secured nature of the credit facilities somewhat 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.

The facility has a $100 million accordion feature and is subject to grid pricing. The $400 million facility does not contain any material adverse change language for borrowings but does so to access the $100 million accordion feature. The facility also includes a debt to capitalization covenant not to exceed 65%. As of December 2015, the company had sufficient headroom available under the debt to capitalization covenant.

AEL&P has a $25 million line of credit which expires in November 2019 and has a consolidated debt to capitalization covenant of 67.5%. As of December 31, 2015, the full amount was available for borrowing and AEL&P was in compliance with its covenant.

Avista's next material debt maturities occur in August 2016 when $90 million of first mortgage bonds is due. AERC's next maturity is in 2019 when its $15 million term loan is scheduled to expire.

Profile

Avista Corp. is primarily a regulated electric and gas utility servicing around 375,000 electric and 335,000 gas customers in Washington, Idaho and Oregon. Avista also owns Alaska Energy and Resources Company (AERC; not rated), parent of Alaska Electric Light and Power Company (AELP; Baa3) which serves around 17,000 electric customers in Juneau, Alaska.

Avista's utility operations are primarily regulated by the Washington Utilities and Transportation Commission (WUTC), Idaho Public Utilities Commission (IPUC) and the Oregon Public Utility Commission (OPUC). AELP's rates are regulated by the Regulatory Commission of Alaska (RCA).

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Avista Corp.				
Regulated Electric and Gas Utilities Industry Grid [1][2]	**Current FY 12/31/2015**		**Moody's 12-18 Month Forward View As 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	A	A	A	A
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	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.3x	A	4.5x - 4.9x	A
b) CFO pre-WC / Debt (3 Year Avg)	19.8%	Baa	15% - 19%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	15.3%	Baa	11% - 15%	Baa
d) Debt / Capitalization (3 Year Avg)	45.3%	Baa	45% - 50%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2015;
[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 Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
AVISTA CORP.	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured	A2
Senior Unsecured MTN	(P)Baa1
ALASKA ELECTRIC LIGHT AND POWER COMPANY(AELP)	
Outlook	Stable
Issuer Rating	Baa3
AVISTA CORP. CAPITAL II	
Outlook	Stable
BACKED Pref. Stock	Baa2

Source: Moody's Investors Service

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S 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 TO, 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, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and 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 necessary 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 received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, 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 herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, 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, representatives, 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 any 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 SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR 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. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is 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 section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "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 or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary 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 treatment 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 and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

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

REPORT NUMBER 1018613

MOODY'S
INVESTORS SERVICE