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Summary:

Avista Corp.

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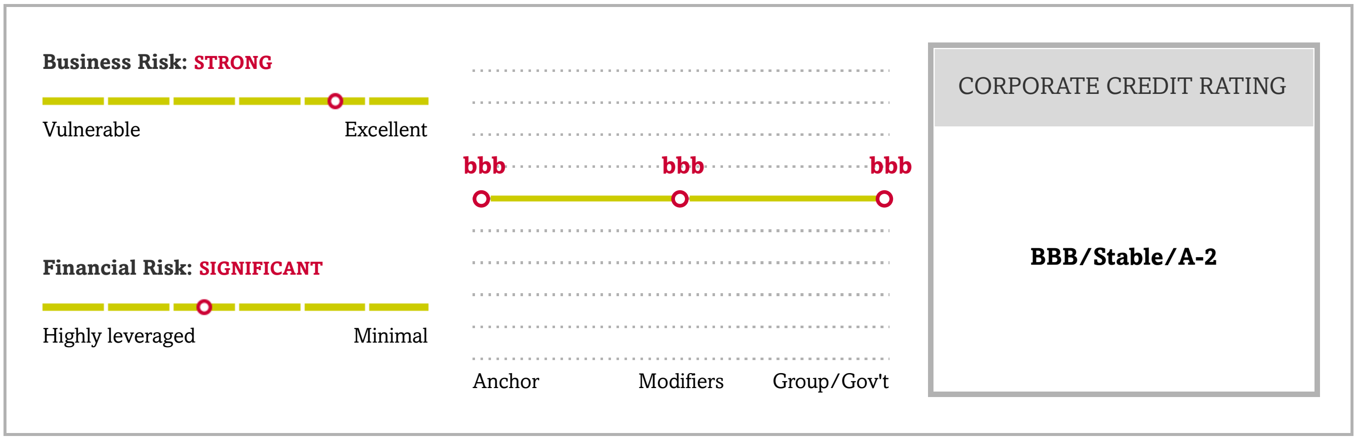

Rationale

Business Risk: Strong	Financial Risk: Significant
• Regulated vertically integrated electric and natural gas distribution utility. • Geographic and operational diversity but largely Washington focus. • Higher hydroelectric power use. • Regulatory mechanisms provide cash flow stability when purchasing power during low water periods.	• Elevated capital spending over the next few years. • Negatively discretionary cash flow after dividends. • Consistent access to capital markets to fund capital spending. • A "strong" liquidity position that provides the utility a cushion due to its hydroelectric power use.

Outlook: Stable

The stable outlook on Avista Corp. reflects our expectation over the next two years that the company will continue to effectively manage regulatory risks, fund capital spending in a manner that does not meaningfully increase leverage, preserve adequate liquidity, and maintain comparable financial performance. Under our base-case scenario we expect funds from operations (FFO) to total debt to average about 16%.

Downside scenario

We could lower the rating in the next two years if business risk were to materially rise or credit measures diminish such that FFO to debt would be consistently below 13%. This could occur as a result of greater borrowing or increased rate lag, a large deferral, or adverse regulatory decisions.

Upside scenario

In the next two years, we do not currently contemplate an upgrade given the company's current business mix and its focus on regulated operations. Credit quality could strengthen if cash flow measures considerably improve, specifically FFO to debt of more than 23% on a sustained basis. In addition, we would expect debt to EBITDA of less than 3.5x. The company can accomplish this by paying down debt with higher internally generated cash flow, increased equity issuances, or asset dispositions.

Standard & Poor's Base-Case Scenario

Assumptions

- Average capital spending of $360 million in 2015 and declining to $350 million for 2016.
- Dividends of roughly $85 million per year over the forecasted period.
- Regular recovery of electric and gas rates through respective surcharges.
- Average operation and maintenance expenses consistent with historical levels.
- Negative discretionary cash flow indicating external funding needs.

Key Metrics

	2014A	2015E	2016E
FFO/total debt (%)	20.8	14.2-15.5	15.7-16.5
Debt/EBITDA (x)	4.5	4.2-4.6	3.8-4.2
OCF/total debt (%)	24	17-18.5	17-18.5

Note: Standard & Poor's adjusted figures. A--Actual. E--Estimate. FFO--Funds from operations. OCF--Operating cash flow.

Business Risk: Strong

In our assessment, Avista's business risk profile is "strong" based on what we consider the utility's "satisfactory" competitive position, "very low" industry risk of the regulated utility industry, and "very low" country risk of the U.S. where the company operates. The company's competitive position incorporates its vertically integrated electric and natural gas distribution utility operations in Washington and Idaho, electric operations in Alaska, and gas distribution in Oregon. Although the company operates in four states, it has fewer than 400,000 electric and about 330,000 natural gas customers with no meaningful industrial concentration. When needed, the utility requests through the regulatory process to recover costs. Since the utility has hydroelectric power exposure, recovery mechanisms are important to mitigate the need to purchase power for customers when the hydro power is unavailable. The company has some flexibility in implementing incremental rate changes through its energy recovery mechanism in Washington and the power cost adjustment in Idaho, but the recovery of excess power costs in Washington is more restrictive with minimum thresholds and deferral bands. Purchased gas adjustments for gas distribution units in all three gas jurisdictions, along with hedging, mitigate gas supply risk. We view these as important in averting large cost adjustment requests and support the business risk profile.

Financial Risk: Significant

We base our financial risk profile assessment of "significant" on the medial volatility financial ratio benchmarks. Our assessment takes into consideration the mostly steady cash flows from the utility business. Our base case indicates that capital spending along with dividend payments will lead to negative discretionary cash flow over the next few years. External funding will be needed to cover the deficit since internally generated cash flow is insufficient. Our base-case scenario suggests mostly steady key credit measures for the next several years, including FFO to debt from about 14% to 16%. Our base case indicates that the supplemental ratio of operating cash flow to debt is expected to range from about 17% to about 18.5%, bolstering the "significant" financial risk profile assessment.

Liquidity: Strong

Avista has "strong" liquidity as our criteria define the term. We believe the company's liquidity sources are likely to cover its uses by more than 1.5x over the next 12 months and remain above 1x over the subsequent 12 months. We expect the company to meet cash outflows even with a 30% decline in EBITDA.

Principal Liquidity Sources	Principal Liquidity Uses
• We estimate FFO of about $280 million in 2015 and $310 million in 2016. • Revolving credit facility of $425 million in 2015 and 2016.	• Capital spending of about $360 million in 2015 and $350 million in 2016. • Dividends of roughly $85 million per year in 2015 and 2016.

Other Credit Considerations

Other modifiers have no impact on the rating outcome.

Group Influence

Avista is subject to the group rating methodology criteria. We view Avista as the parent that is also the driver of the group credit profile. As a result, Avista's group and stand-alone credit profiles are the same at 'bbb'.

Ratings Score Snapshot

Corporate 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:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb

Recovery Analysis

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

Issue Ratings

- We rate the preferred stock two notches below the issuer credit rating to reflect the discretionary nature of the dividend and the deeply subordinated claim if a bankruptcy occurs.

- The short-term rating on Avista is 'A-2' based on the issuer credit rating and our assessment of its liquidity as at least adequate.

Related Criteria And Research

Related Criteria

- 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: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 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
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 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-