

**REDACTED**

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-14 \_\_\_\_\_

DOCKET NO. UG-14 \_\_\_\_\_

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

MARK T. THIES

REPRESENTING AVISTA CORPORATION

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

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

	<u>Standard &amp; Poor's</u>		<u>Moody's</u>
<b>Last Upgraded</b>	March/August 2011 <sup>(1)</sup>		March 2011
<b>Credit Outlook</b>	Stable		Possible Upgrade <sup>(2)</sup>
	<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

(2) On November 08, 2013, Moody's Investors Service placed the ratings of most regulated utilities and utility holding companies in the United States on review for upgrade. Avista had been included in Moody's review. On January 30, 2014, Moody's upgraded Avista Corporation to Baa1, with a rating outlook of Stable.

<b>AVISTA CORPORATION</b>				
<b>Proposed Cost of Capital</b>				
<b>December 31, 2014</b>				
	<u>Amount</u>	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Component Cost</u>
Total Debt	\$ 1,590,000,000	51%	5.42%	2.76%
Common Equity	<u>1,519,487,000</u>	<u>49%</u>	<u>10.10%</u> <sup>(1)</sup>	<u>4.95%</u>
Total	<u>\$ 3,109,487,000</u>	<u>100%</u>		<u><b>7.71%</b></u>

<b>AVISTA CORPORATION</b>				
<b>Embedded Cost of Capital</b>				
<b>June 30, 2013</b>				
	<u>Amount</u>	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Component Cost</u>
Total Debt	\$ 1,350,304,403	52%	5.70%	2.94%
Common Equity	<u>1,264,245,000</u>	<u>48%</u>	<u>9.80%</u> <sup>(2)</sup>	<u>4.74%</u>
TOTAL	<u>\$ 2,614,549,403</u>	<u>100%</u>		<u><b>7.68%</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, 2014

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 12/31/2014	Effective Cost	Line No.	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(g)	(h)	(i)	(j)	(k)	(l)			
1	FMBS - SERIES A	7.530%	5/5/2023	5/6/1993	5,500,000	42,712	-	-	963,011	4,494,277	9.359%	5,500,000	514,744	1	
2	FMBS - SERIES A	7.540%	5/5/2023	5/7/1993	1,000,000	7,766	-	-	175,412	816,822	9.375%	1,000,000	93,747	2	
3	FMBS - SERIES A	7.390%	5/11/2018	5/11/1993	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%	6/11/2018	6/9/1993	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%	8/11/2023	8/12/1993	7,000,000	54,364	-	-	-	6,945,636	7.244%	7,000,000	507,064	5	
6	ADVANCE ASSOCIAT	1.818%	1	6/1/2037	6/3/1997	40,000,000	1,296,086	-	-	(1,769,125)	40,473,039	1.777%	40,000,000	710,745	6
7	FMBS - SERIES C	6.370%	6/19/2028	6/19/1998	25,000,000	158,304	-	-	188,649	24,653,047	6.475%	25,000,000	1,618,863	7	
8	5.45% SERIES	5.450%	12/1/2019	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	8	
9	FMBS - 6.25%	6.250%	12/1/2035	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	9	
10	FMBS - 5.70%	5.700%	7/1/2037	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	10	
11	5.95% SERIES	5.950%	6/1/2018	4/3/2008	250,000,000	2,246,419	16,395,000	835,000	-	230,523,581	7.034%	250,000,000	17,585,926	11	
12	5.125% SERIES	5.125%	4/1/2022	9/22/2009	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	12	
14	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	14	
15	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	15	
16	4.45% SERIES	4.450%	12/14/2041	12/14/2011	85,000,000	692,833	10,557,000	-	-	73,750,167	5.340%	85,000,000	4,538,871	16	
17	4.23% SERIES	4.230%	11/29/2047	11/30/2012	80,000,000	730,833	18,546,870	-	105,020	60,617,277	5.868%	80,000,000	4,694,533	17	
18	0.84% SERIES	0.840%	8/14/2016	8/14/2013	90,000,000	512,138	(2,900,680)	-	-	92,388,542	-0.044%	90,000,000	(39,568)	18	
19	Forecasted Issuance	5.500%	2	9/15/2044	9/15/2014	100,000,000	1,000,000	-	-	99,000,000	5.569%	100,000,000	5,568,962		
20	Forecasted Issuance	5.500%	2	1/1/2045	1/1/2015	57,000,000	570,000	-	-	56,430,000	5.569%	57,000,000	3,174,309		
21												1,490,000,000	82,878,839	21	
22														22	
23	Repurchase	8.85%	3	6/5/2028	5/24/2002	10,000,000			(2,228,153)	12,228,153	6.981%		-188,084	23	
24	Repurchase	8.83%	3	6/5/2028	4/3/2003	10,000,000			(450,769)	10,450,769	8.395%		-43,661	24	
25	Repurchase	8.83%	3	12/29/2022	3/11/2003	5,000,000			92,363	4,907,637	9.029%		10,341	25	
26	Repurchase	5.72%	3	3/1/2034	12/30/2009	17,000,000			1,916,297	15,083,703	6.661%		159,446	26	
27	Repurchase	6.55%	3	10/1/2032	12/31/2008	66,700,000			3,709,174	62,990,826	7.034%		324,360	27	
28												1,490,000,000	83,141,240	28	
29	s Short Term-Debt				100,000,000						3.042%	100,000,000	3,041,519	29	
30												1,590,000,000	86,182,759	30	
31														31	
32														32	
33														33	
34														34	
35														35	
36														36	

**Adjusted Weighted Average Cost of Debt 5.420%**

<sup>1</sup> Var. Rate Long-Term Debt, interest rate information comes from Exhibit No. MTT-2 Page 5

<sup>2</sup> This is a projected issuance, whose maturity date and coupon rate may change depending on market conditions. Forecasted Rates are based on forward rates from Thomson Reuters analysis tools plus an estimated credit spread

<sup>3</sup> The coupon rate used is the cost of debt at the time of the repurchases

<sup>4</sup> The amounts are calculated using the IRR function

<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, 2014

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

	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Avg of
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
Short-term Borrowings - Month End Balances	\$ 100,000,000	\$ 100,000,000	\$ 100,000,000	\$ 100,000,000	\$ 100,000,000	\$ 100,000,000	\$ 100,000,000	\$ 100,000,000	\$ 100,000,000	\$ 100,000,000	\$ 100,000,000	\$ 100,000,000	\$ 100,000,000	\$ 100,000,000
Number of Days in Month		31	28	31	30	31	30	31	31	30	31	30	31	365
Avg Monthly Forecasted Borrowing Rate*		1.68%	1.68%	1.68%	1.86%	1.86%	1.86%	2.09%	2.09%	2.09%	2.34%	2.34%	2.34%	
Credit Facility Interest Expense	\$ 144,624	\$ 130,628	\$ 144,624	\$ 155,308	\$ 160,485	\$ 155,308	\$ 179,697	\$ 179,697	\$ 173,900	\$ 201,250	\$ 194,758	\$ 201,250	\$ 201,250	\$ 2,021,529
Credit Facility Fees	39,178	39,178	39,178	39,178	39,178	39,178	39,178	39,178	39,178	39,178	39,178	39,178	39,178	470,136
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
<b>Total S/T Debt Expense</b>	<b>\$ 229,623</b>	<b>\$ 215,627</b>	<b>\$ 229,623</b>	<b>\$ 240,307</b>	<b>\$ 245,484</b>	<b>\$ 240,307</b>	<b>\$ 264,696</b>	<b>\$ 264,696</b>	<b>\$ 258,899</b>	<b>\$ 286,249</b>	<b>\$ 279,757</b>	<b>\$ 286,249</b>	<b>\$ 286,249</b>	<b>\$ 3,041,519</b>

**Total Borrowing Cost \$ 3,041,519**  
**Total Average Borrowings \$100,000,000**  
**Cost Rate 3.04%**

15 \*Forecasted Rates are based on forward rates from Thomson Reuters analysis tools plus the 87.5 basis points pursuant to the credit facility agreement.

**AVISTA CORPORATION**  
 Cost of Long-Term Variable Rate Debt Detail  
 December 31, 2014

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

	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	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	28	31	30	31	30	31	31	30	31	30	31	
Forecasted Rates Trust Preferred*		1.53%	1.53%	1.53%	1.71%	1.71%	1.71%	1.92%	1.92%	1.92%	2.17%	2.17%	2.17%	
Trust Preferred Interest Expense	\$	52,814	\$ 47,703	\$ 52,814	\$ 56,863	\$ 58,759	\$ 56,863	\$ 66,047	\$ 66,047	\$ 63,917	\$ 74,868	\$ 72,453	\$ 74,868	\$ 744,017

Description	Coupon Rate	Maturity Date	Settlement Date	Principal Amount	Issuance Costs	Loss/Reacq Expenses	Net Proceeds	Yield to Maturity	Outstanding 12/31/2014	Effective Cost
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Trust Preferred	1.86%	6/1/2037	6/3/1997	\$ 40,000,000	\$ 1,296,086	\$ (1,769,125)	\$ 40,473,039	1.818%	\$ 40,000,000	\$ 727,320

15 \*Original issue principal amount was \$50 million. The Company repurchased \$10 million of the securities outstanding.  
 16 \*\*Forecasted Rates are based on forward rates from Thomson Reuters analysis tools plus the 87.5 basis points pursuant to the debt agreement.

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

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

	10-Q 06/30/2013	Adjustments	Adjusted Regulatory Balance 06/30/2013	Activity	Adjusted Regulatory Balance 12/31/2014
<b>Short-term Debt</b>					
Avista Corp	\$ 95,500	\$ (38,196) a	\$ 57,304	\$ 42,696 a	\$ 100,000
Subsidiaries	52,000	(52,000) b	-		-
Total short-term debt	<u>\$ 147,500</u>	<u>\$ (90,196)</u>	<u>\$ 57,304</u>	<u>\$ 42,696</u>	<u>\$ 100,000</u>
<b>Long-term Debt</b>					
Long-term debt	\$ 1,181,925	\$ 21,075 c	\$ 1,203,000	\$ 247,000 g	\$ 1,450,000
Current Portion of long-term debt	50,320	(320) d	50,000	(50,000) h	\$ -
Debt to Affiliated Trust	51,547	(11,547) e	40,000		\$ 40,000
Total long-term debt	<u>\$ 1,283,792</u>	<u>\$ 9,208</u>	<u>\$ 1,293,000</u>	<u>\$ 197,000</u>	<u>\$ 1,490,000</u>
<b>Equity</b>					
Total Avista Corporation stockholders' equity	<u>\$ 1,293,814</u>	<u>\$ (29,569) f</u>	<u>\$ 1,264,245</u>	<u>\$ - i</u>	<u>\$ 1,264,245</u>

a Adjusted to reflect short term debt balances on a monthly average.

b We exclude short-term borrowings outstanding at our subsidiaries.

c These adjustments are made to reflect our actual principal amount outstanding. We exclude 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 \$320,000. This amount primarily relates to capital leases and debt at the subsidiaries.

e We hold \$11.547 million of these securities. The \$40 million adjusted balance relates to the current outstanding balance to third party investors.

f We exclude 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 our actual equity balance.

Equity Adjustments (dollars in thousands):

Capital Stock Expense	\$ 14,795
Accumulated other comprehensive loss	\$ 7,636
Short-term debt at subsidiaries	\$ (52,000)
<b>Total</b>	<b>\$ (29,569)</b>

g Represents the issuance of long-term debt. In August 2013 we issued \$90 million. Additionally, there are forecasted issuances of \$157 million. For additional details related to these issuances see page 3 of this Exhibit.

h Represents the maturity of \$50 million of long-term debt in 2013.

i Forecasted Equity Activity (dollars in thousands):

Change in Short-term debt at subsidiaries	<b>REDACTED - Confidential</b>
Equity Activity	<b>Per WAC 480-07-160</b>
<b>Total</b>	