

UE-0410329 (SR)  
3-12-04

**Avista Corp.**  
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STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION

February 18, 2004

State of Washington  
Washington Utilities and Transportation Commission  
1300 Evergreen Park Drive South  
Olympia WA 98504

Attention: Ms. Carole Washburn, Secretary

Docket No. \_\_\_\_\_

Transmitted herewith are one executed and two conformed copies of an application for approval of an order establishing compliance with RCW 80.08.040. Also enclosed is a diskette, which contains a draft order in MSWord format. The application contains as much information as is presently known. If other applicable data or documents become available, they will be forwarded to your attention.

The Company requests to receive an Order of Approval from the Commission by March 15, 2004. When complete, please send two (2) executed copies of the Order of Approval to:

Ms. Diane C. Thoren  
Assistant Treasurer  
Avista Corporation  
East 1411 Mission Avenue  
Spokane WA 99202-2600

If any questions arise or additional information is needed, please do not hesitate to contact Paul Kimball at 509-495-4584.

Sincerely,

Diane Thoren  
Assistant Treasurer

Enclosures

BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the matter of the request of )  
AVISTA CORPORATION )  
for an order establishing compliance )  
with Chapter 80.08 RCW )

Amended Application

Docket No.

Avista Corporation (hereinafter called "Applicant") hereby requests the Washington Utilities and Transportation Commission enter a written order establishing that the proposed offering, issuance and sale by the Applicant of up to \$62,000,000 of subordinated debentures, with fixed or variable rates, is in compliance with the requirements of Chapter 80.08 RCW.

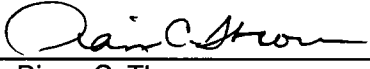
The following information is furnished in support of this application, in accordance with the requirements of RCW 80.08.040:

**(1) A Description of the Purposes for Which the Issuance is Made, Including a Certification By an Officer Authorized To Do So That the Proceeds From Any Such Securities Are For One Or More of the Purposes Allowed By Chapter 80.08 RCW.**

The Applicant will utilize the proceeds of the proposed debt offering for lawful purposes as outlined in RCW 80.08.030. Specifically, the Applicant will use the proceeds to redeem \$60 million in aggregate outstanding principal amount of the Company's 7.875% Junior Subordinated Deferrable Interest Debentures, Series A, Due 2037 which will, in turn, cause the redemption of the Avista Capital I 7.875% Trust Originated Preferred Securities, Series A. The original Trust Originated Preferred Securities, Series A, to be redeemed were issued pursuant a Commission order establishing compliance with RCW 80.08.040 in Docket No. UE-961211 (October 30, 1996).

The undersigned certifies that she has read the foregoing information with respect to proposed use of funds and knows the contents thereof and that the same are true to the best of her own knowledge or belief.

Done at Spokane, Washington this 18th day of February, 2004.

By:   
Diane C. Thoren  
Assistant Treasurer

**(2) A Description of the Proposed Issuance Including the Terms of Financing.**

The Applicant proposes to offer, issue and sell up to and including \$62,000,000 of Subordinated Debentures. The Subordinated Debentures would be offered, issued and sold to a Delaware statutory trust (the "Trust"), and the Trust would offer, issue and sell Trust Preferred Securities (the "Preferred Securities") to third party investors. The terms of the Subordinated Debentures correspond to those of the Preferred Securities. The Preferred Securities will have a fixed interest rate not to exceed 7% for the first five years, then the Preferred Securities can be redeemed or reissued with either a fixed or floating interest rate. The term of the Subordinated Debentures and the Preferred Securities will be in the range of 30 to 40 years.

Distributions will initially be paid at a rate not to exceed 7% per annum, payable semiannually in arrears, for the period from the date of original issuance of the Preferred Securities, which is expected to be in the next few months, through a five year period. If the Preferred Securities are not redeemed, the Company and the Trust will have the option to remarket the Preferred Securities prior to expiration of the original five-year period to establish a new fixed rate with respect to the Preferred Securities. Any new rate so established will be in effect for such period as the Company and the Trust determine in connection with the remarketing, provided that the period must be for a duration of at least six months. The period may not extend beyond the final maturity of the Subordinated Debentures. Prior to the expiration of any period, the Company and the Trust will have the option to again remarket the Preferred Securities to establish a new rate for a new period.

If the Preferred Securities are not redeemed and if the Company and the Trust elect not to remarket the Preferred Securities prior to expiration of the initial period or any subsequent period, or if they are unable to successfully remarket all Preferred Securities tendered for sale in a remarketing, distributions on the Preferred Securities will thereafter be payable at a variable rate reset quarterly equal to the Initial Credit Spread, plus the adjustable rate, which will be the greater of (i) the 3-month LIBOR Rate; (ii) the 10-year Treasury Rate; or (iii) the 30-year Treasury Rate. A variable rate will be in effect until the Company and the Trust subsequently remarket Preferred Securities to again establish a fixed rate for a new period.

Rating agencies have historically classified similar Subordinated Debentures as preferred securities for balance sheet purposes, while the distributions paid to the special purpose entity (i.e. the Trust) by the Applicant have been considered debt service payments for tax purposes. The payment of distributions on the Preferred Securities are guaranteed by the Applicant under a limited guaranty. The guarantee typically covers accrued and unpaid distributions from the Trust as well as the liquidation value of the securities. The terms of the Subordinated Debentures and the Preferred Securities, and the fixed or floating distribution rate will be negotiated and determined, by market conditions at the time of issuance.

(3) Statement As To Why The Transaction Is In the Public Interest.

The issuance of the requested authority allows the Applicant the maximum flexibility in managing its funds and reducing borrowing costs. The proposed authority would allow the Applicant to better manage its debt and capital in the most efficient and cost effective manner. Accordingly, Applicant believes the requested authority is in the public interest.

(4) Text of a Draft Order Granting Applicant's Request for an Order, Including A Disk Containing the Proposed Language in a Format Acceptable to the Commission.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the matter of the request of )  
AVISTA CORPORATION )  
for an order establishing compliance )  
with Chapter 80.08 RCW )

Docket No. \_\_\_\_\_  
ORDER

On February 18, 2004, Avista Corporation ("Applicant") filed its application before the Washington Utilities and Transportation Commission in this matter for an order establishing that a proposed offering, issuance and sale by the Applicant of up to \$62,000,000 of subordinated debentures with fixed or variable rates, is in compliance with the requirements of Chapter 80.08 RCW.

Background

On February 18, 2004, the Applicant, filed an application with the Commission under the provisions of Chapter 80.08 RCW for an order establishing compliance with the requirements of that statute in connection with the Applicant's proposed offering, issuance and sale of Securities for purposes permitted by law, in forms necessary or convenient to its operations, in a total amount of up to and including \$62,000,000 and for terms which may exceed 364 days.

The Applicant has filed certain information with the Commission as required under RCW 80.08.040 and has requested the Commission to enter an order that the Applicant and the proposed offering, issuance and sale of Securities by the Applicant is in compliance with the requirements of Chapter 80.08 RCW.

## FINDINGS

### THE COMMISSION FINDS:

1. The Applicant, Avista Corporation, a Washington corporation, is a public service company subject to the jurisdiction of this Commission under the provisions of Chapter 80.08 RCW.
2. As to form, the application herein meets the requirements of Chapter 80.08 RCW and the rules and regulations of the Commission adopted pursuant thereto.
3. The application in this Docket contains (a) a description of the purposes for which the proposed Securities will be issued along with certification by an authorized officer that the proceeds from this financing will be used for the purpose allowed by Chapter 80.08 RCW; (b) a description of the proposed issuance, including the terms of financing; and (c) a statement as to why the proposed transactions are in the public interest.
4. An order finding the application and the proposed offering, issuance and sale of Securities by the Applicant is in compliance with the requirements of Chapter 80.08 RCW should be entered.

## ORDER

### THE COMMISSION ORDERS:

1. The application filed by Avista Corporation, and the proposed offering, issuance and sale of the Securities by Avista Corporation as described in the application is in compliance with the requirements of Chapter 80.08 RCW.
2. Avista Corporation shall file, as soon as available:
  - a. The Report of Securities Issued required by WAC 480-146-230.
  - b. Verified copies of any agreement entered into in connection with any transaction pursuant to this order.
3. This order shall in no way affect the authority of this Commission over rates, service, accounts, valuations, estimates or determination of costs, or any matters whatsoever that may come before it, nor shall anything herein be construed as an acquiescence in any estimate or determination of costs, or any valuation of property claimed or asserted.

DONE at Olympia, Washington, and effective this            day of            , 2004.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

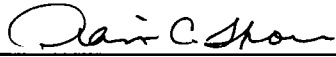
Carole Washburn  
Secretary

Wherefore, the undersigned, an authorized agent of the Applicant, requests that the Washington Utilities and Transportation Commission issue its order affirming that the applicant has complied with the requirements of RCW 80.08.040.

The undersigned certifies, under penalties of perjury as provided in RCW 9A.72.085, that she has read the foregoing application and knows the contents thereof and that the same are true to the best of her own knowledge or belief.

Done at Spokane, Washington this 18th day of February, 2004.

AVISTA CORPORATION

By:   
\_\_\_\_\_  
Diane C. Thoren  
Assistant Treasurer