

**REDACTED**

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-16 \_\_\_\_\_

DOCKET NO. UG-16 \_\_\_\_\_

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

MARK T. THIES

REPRESENTING AVISTA CORPORATION

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

	<b>Standard &amp; Poor's</b>	<b>Moody's</b>
<b>Last Upgraded</b>	March/August 2011 <sup>(1)</sup>	January 2014 <sup>(2)</sup>
<b>Credit Outlook</b>	Stable	Stable
	<b>A+</b>	<b>A1</b>
	<b>A</b>	<b>A2</b> First Mortgage Bonds Secured Medium-Term Notes
	<b>A-</b> First Mortgage Bonds Secured Medium-Term Notes	<b>A3</b>
	<b>BBB+</b>	<b>Baa1</b> Avista Corp./Issuer rating
	<b>BBB</b> Avista Corp./Corporate credit rating	<b>Baa2</b> Trust-Originated Preferred Securities
	<b>BBB-</b>	<b>Baa3</b>
<b>INVESTMENT GRADE</b>		
	<b>BB+</b> Trust-Originated Preferred Securities	<b>Ba1</b>
	<b>BB</b>	<b>Ba2</b>
	<b>BB-</b>	<b>Ba3</b>

(1) The Company received an upgrade from Standard & Poor's to its Corporate credit rating in March 2011 and to its First Mortgage Bonds in August 2011.

(2) The Company received upgrades from Moody's Investors Service in January 2014. The upgrades were one level for First Mortgage Bonds and the Issuer Rating and two levels for Trust-Originated Preferred Securities.

<b>AVISTA CORPORATION</b>				
<b>Proposed Cost of Capital</b>				
	<u>Amount</u>	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Component Cost</u>
Total Debt	\$ 1,653,000,000	51.50%	5.51%	2.84%
Common Equity	<u>1,556,708,738</u>	<u>48.50%</u> <sup>(3)</sup>	<u>9.90%</u> <sup>(1)</sup>	<u>4.80%</u>
Total	<u>\$ 3,209,708,738</u>	<u>100%</u>		<u><b>7.64%</b></u>

<b>AVISTA CORPORATION</b>				
<b>Actual Cost of Capital</b>				
<b>September 30, 2015</b>				
	<u>Amount</u>	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Component Cost</u>
Total Debt	\$1,473,410,820	51%	5.30%	2.68%
Common Equity	<u>1,435,635,110</u>	<u>49%</u>	<u>9.80%</u> <sup>(2)</sup>	<u>4.84%</u>
TOTAL	<u>\$ 2,909,045,930</u>	<u>100%</u>		<u><b>7.52%</b></u>

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

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

<sup>(3)</sup> 48.5 is the average equity percentage in 2017

**AVISTA CORPORATION**  
**Cost of Debt Detail - Washington**  
**December 31, 2016**

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 12/31/2016	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	1.756%	6/1/2037	6/3/1997	40,000,000	1,296,086	-	-	(1,769,125)	40,473,039	1.715%	40,000,000	685,849	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
13	3.89% SERIES	3.890%	12/20/2020	12/20/2010	52,000,000	385,129	-	-	6,273,664	45,341,207	5.578%	52,000,000	2,900,581	13
14	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	14
15	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	15
16	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	16
17	4.11% SERIES	4.110%	12/1/2044	12/18/2014	60,000,000	428,782	(5,429,000)	-	-	65,000,218	3.650%	60,000,000	2,190,070	17
18	4.37% SERIES	4.370%	12/1/2045	12/16/2015	100,000,000	538,639	9,383,299	-	-	90,078,062	5.013%	100,000,000	5,013,241	18
19	Forecasted Issuance	4.500%	9/15/2046	9/15/2016	150,000,000	1,500,000 <sup>6</sup>	-	-	-	148,499,994	4.562%	150,000,000	6,842,269	19
20												1,553,000,000	88,196,076	20
21														21
22	Repurchase	8.85%	6/5/2028	5/24/2002	10,000,000				(2,228,153)	12,228,153	6.981%		-188,084	22
23	Repurchase	8.83%	6/5/2028	4/3/2003	10,000,000				(450,769)	10,450,769	8.395%		-43,661	23
24	Repurchase	8.83%	12/29/2022	3/11/2003	5,000,000				92,363	4,907,637	9.029%		10,341	24
25	Repurchase	5.72%	3/1/2034	12/30/2009	17,000,000				1,916,297	15,083,703	6.661%		159,446	25
26	Repurchase	6.55%	10/1/2032	12/31/2008	66,700,000				3,709,174	62,990,826	7.034%		324,360	26
27												1,553,000,000	88,458,478	27
28	5 Short Term-Debt				100,000,000						2.663%	100,000,000	2,662,986	28
29												1,653,000,000	91,121,463	29
30														30
31											<b>Adjusted Weighted Average Cost of Debt</b>		<b>5.512%</b>	31
32														32
33														33
34														34
35														35
36														36
37														37
38														38

<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

<sup>6</sup> Issuance costs are estimated.

**AVISTA CORPORATION**  
 Cost of Short-Term Debt Detail  
 December 31, 2016

	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	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	29	31	30	31	30	31	31	30	31	30	31	366
Avg Monthly Forecasted Borrowing Rate*		1.59%	1.59%	1.59%	1.69%	1.69%	1.69%	1.83%	1.83%	1.83%	1.95%	1.95%	1.95%	
Credit Facility Interest Expense	\$ 136,813	\$ 127,987	\$ 136,813	\$ 140,633	\$ 145,321	\$ 140,633	\$ 157,480	\$ 157,480	\$ 152,400	\$ 167,934	\$ 162,517	\$ 167,934	\$ 167,934	\$ 1,793,946
Credit Facility Fees	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	336,000
Credit Facility Amort of up-front costs	44,420	44,420	44,420	44,420	44,420	44,420	44,420	44,420	44,420	44,420	44,420	44,420	44,420	533,040
Total S/T Debt Expense	\$ 209,233	\$ 200,407	\$ 209,233	\$ 213,053	\$ 217,741	\$ 213,053	\$ 229,900	\$ 229,900	\$ 224,820	\$ 240,354	\$ 234,937	\$ 240,354	\$ 240,354	\$ 2,662,986

**Total Borrowing Cost \$ 2,662,986**  
**Total Average Borrowings \$100,000,000**  
**Cost Rate 2.66%**

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

**AVISTA CORPORATION**  
 Cost of Long-Term Variable Rate Debt Detail  
 December 31, 2016

	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	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**		1.59%	1.59%	1.59%	1.72%	1.72%	1.72%	1.82%	1.82%	1.82%	1.93%	1.93%	1.93%	
Trust Preferred Interest Expense		\$ 54,760	\$ 51,227	\$ 54,760	\$ 57,467	\$ 59,382	\$ 57,467	\$ 62,734	\$ 62,734	\$ 60,710	\$ 66,554	\$ 64,407	\$ 66,554	\$ 718,753

Description	Coupon Rate	Maturity Date	Settlement Date	Principal Amount	Issuance Costs	Loss/Reacq Expenses	Net Proceeds	Yield to Maturity	Outstanding 12/31/2016	Effective Cost
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Trust Preferred	1.80%	6/1/2037	6/3/1997	\$ 40,000,000	\$ 1,296,086	\$ (1,769,125)	\$ 40,473,039	1.756%	\$ 40,000,000	\$ 702,241

\*Original issue principal amount was \$50 million. The Company repurchased \$10 million of the securities outstanding.

\*\*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)

	10-Q 9/30/2015	Adjustments		Adjusted Regulatory Balance 9/30/2015	Activity		Adjusted Regulatory Balance 12/31/2016
<b>Short-term Debt</b>							
Avista Corp	\$ 130,000	\$ (49,589)	a	\$ 80,411	\$ 19,589	a	\$ 100,000
Subsidiaries			b				
Total short-term debt	<u>\$ 130,000</u>	<u>\$ (49,589)</u>		<u>\$ 80,411</u>	<u>\$ 19,589</u>		<u>\$ 100,000</u>
<b>Long-term Debt</b>							
Long-term debt	\$ 1,391,611	\$ (128,611)	c	\$ 1,263,000	\$ 250,000	f	\$ 1,513,000
Current Portion of long-term debt and capital leases	93,105	(3,105)	c	90,000	(90,000)	g	\$ -
Debt to Affiliated Trust	51,547	(11,547)	d	40,000			\$ 40,000
Total long-term debt	<u>\$ 1,536,263</u>	<u>\$ (143,263)</u>		<u>\$ 1,393,000</u>	<u>\$ 160,000</u>		<u>\$ 1,553,000</u>
<b>Equity</b>							
Total Avista Corporation stockholders' equity	<u>\$ 1,508,553</u>	<u>\$ (72,918)</u>	e	<u>\$ 1,435,635</u>	<u>\$ -</u>	h	<u>\$ 1,435,635</u> *

\*varies slightly from approximate average used in proposed capital structure.

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 and subsidiary long-term debt are excluded from Avista Utilities long-term debt.

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

e We exclude the following: capital stock expense; in order to recover the costs incurred for issuing equity, an amount equivalent to the investment in AERC, and accumulated other comprehensive loss; in order to reflect our actual equity balance.

Equity Adjustments (dollars in thousands):

Capital Stock Expense	\$ 14,680
Accumulated other comprehensive loss	\$ 7,151
Investment in AERC	\$ (94,749)
<b>Total</b>	<b>\$ (72,918)</b>

f Represents the issuance of long-term debt. In December 2015 we issued \$100 million. Additionally, there are forecasted issuances of \$150 million. For additional details related to these issuances see page 3 of this Exhibit.

g \$90 million of debt matures on 8/14/16.

h Forecasted Equity Activity (dollars in thousands):

**REDACTED - Confidential Per WAC 480-07-160**