

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION)	
)	
Complainant,)	DOCKET NO. UE-070804
)	and
v.)	DOCKET NO. UG-070805
)	(consolidated)
)	
AVISTA CORPORATION d/b/a AVISTA)	
UTILITIES)	
)	
Respondent.)	
_____)	
In the Matter of the Petition of)	
)	
AVISTA CORPORATION d/b/a AVISTA)	DOCKET NO. UE-070311
UTILITIES,)	
)	
For an Accounting Order Regarding the)	
Appropriate Treatment of the Net Costs)	
Associated With the Repurchase of Debt)	
_____)	

EXHIBIT NO.____(MPG-18)

EXCERPT OF VALUE LINE ELECTRIC UTILITY (EAST) REPORT

October 17, 2007

December 1, 2006

ELECTRIC UTILITY (EAST) INDUSTRY

157

All of the major utilities in the eastern region of the United States are reviewed in this Issue. Those serving the central region will be found in Issue 5. All of the western companies are covered in Issue 11.

Since mid-summer, the broader stock indexes have posted solid gains as investors are more confident about the prospects of the domestic economy. Though business activity has eased somewhat, the long-running expansion continues and inflation is not now a big concern.

In the past three months, the eastern electric utilities have lagged behind the overall stock market and fallen in stature under the *Value Line* ranking system. Economists have assigned a low probability to the likelihood of an easing of the Federal Reserve's monetary policy in early 2007. (Rate cuts usually lend a boost to utility stocks.) We expect 2007 to be a fairly good year for the eastern electrics. Mild weather in most of 2006 makes next year's revenue and earnings comparisons less arduous. Still, the utilities' capital budgets have increased because of the need for more capacity and improved service reliability. Recovery of these outlays (and high fuel costs) via electricity tariffs poses some risk.

Investors should stick with companies that have decent growth prospects, low-cost generation, good access to regional power supplies and strong finances.

Capital Improvements

Global warming, a growing U.S. economy, an expanding population and increasing power use in equipment and consumer products are all stressing aged power grids. A number of electric utilities, *Allegheny Energy*, *Central Vermont P.S.*, *Duquesne Light Holdings*, *Green Mountain Power*, *Northeast Utilities*, *NSTAR*, *Peppo Holdings* and *UIL Holdings* among them, are currently spending billions of dollars to revamp their transmission and distribution networks to broaden supply access, boost capacity and enhance service reliability.

On the generation side, *Allegheny* and *PPL Corp.*, for example, are also spending much money on pollution control equipment (coal scrubbers), and *Duke Energy* and *FPL Group* are building new coal plants. Over the next several years, power demand will likely continue to grow faster than available supply. Reserve margins will narrow further, and utilities will need to accelerate

INDUSTRY TIMELINESS: 64 (of 97)

construction of generation.

Rate Relief

This year, rate request activity has stepped up both at the state and federal levels. Revised federal rules over line siting and return on investment have created greater incentive for the utilities to upgrade the nation's transmission grid. Managements, however, have encountered some difficulty in securing recovery of energy delivery costs from state regulators. High unregulated wholesale power prices have attracted negative attention from local politicians and utility authorities. There has been much resistance to raising retail service tariffs, while passing on elevated supply costs to ratepayers. Multiyear rate hike phase-ins should help to relieve some of the burden on end-customers. Power delivery companies are enduring notable margin pressures. When selecting a utility for investment, it's a good idea to consider our state Regulatory Climate ratings.

Better Finances

This decade, utilities have distanced themselves from risky unregulated business forays, including commodities trading, foreign energy operations, water services and aircraft leasing. Currently, *Dominion Resources* plans to sell its oil and gas production business, *Duke* is spinning its mid-stream gas operations to shareholders, *Northeast Utilities* is divesting its merchant power generation business, and *Progress Energy* is shedding power plant and natural gas assets. Such actions have improved earnings performance and strengthened capital ratios. Companies are targeting a nearly equal weighting of debt and equity on their balance sheets, a goal that should be met by 2009-2011.

Revenue-backed and tax-exempt bonds will provide economical funding for planned capital improvements. This will further support overall finances.

Investment Considerations

Among the positive attributes that investors should look for when seeking an attractive utility are: an economically healthy local service territory (such as those in the Southeast), a large customer base, good management-regulator relations, access to low-cost power generation (coal, nuclear), and ample fixed-charge coverage. *Constellation Energy Group*, *Duke Energy*, *Exelon*, *FPL Group* and *Southern Co.* are some of the more appealing eastern electrics for 3- to 5-year stock returns.

David M. Reimer

Composite Statistics: Electric Utility Industry

2002	2003	2004	2005	2006	2007	09-11
283.5	311.7	321.8	353.4	380	400	Revenues (\$bill)
17.4	20.2	21.7	25.6	29.0	32.0	Net Profit (\$bill)
30.2%	30.7%	30.4%	29.6%	33.5%	34.5%	Income Tax Rate
5.4%	4.8%	3.7%	3.5%	4.0%	4.0%	AFUDC % to Net Profit
58.9%	59.1%	56.7%	55.1%	52.5%	52.0%	Long-Term Debt Ratio
38.1%	39.3%	42.2%	43.8%	46.5%	47.0%	Common Equity Ratio
446.5	474.0	475.3	477.1	510	520	Total Capital (\$bill)
431.8	478.9	487.1	498.5	535	560	Net Plant (\$bill)
5.9%	6.2%	6.5%	7.2%	7.0%	7.0%	Return on Total Cap'l
9.5%	10.4%	10.5%	12.0%	11.0%	11.0%	Return on Shr. Equity
9.7%	10.5%	10.6%	12.1%	11.0%	11.0%	Return on Com Equity
2.5%	4.4%	4.5%	5.3%	5.0%	5.0%	Retained to Com Eq
75%	60%	59%	57%	63%	61%	All Div'ds to Net Prof
16.7	13.8	15.3	16.0			Avg Ann'l P/E Ratio
.91	.79	.81	.85			Relative P/E Ratio
4.4%	4.3%	3.8%	3.5%			Avg Ann'l Div'd Yield

Bold figures are
Value Line
estimates

COMPOSITE OPERATING STATISTICS: ELECTRIC UTILITY INDUSTRY

	2003	2004	2005
% Change Retail Sales (kwh)	+1.3	+3	+5.4
Average Indust. Use (mwh)	1662	1384	1497
Avg. Indust. Revs. per kwh (c)	5.07	5.25	5.78
Regulated Cap. at Peak (mw)	NA	NA	NA
Peak Load, Summer (mw)	NA	NA	NA
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr.-end)	+1.9	+1.6	+1.2
Fixed Charge Coverage (%)	207	230	260

Sources: Annual Reports; Estimates, Value Line; Edison Electric Institute