

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the matter of the request of)	Application
AVISTA CORPORATION)	
for an order establishing compliance)	Docket No.
with RCW Chapter 80.08 with respect to the)	
issuance of securities, and compliance with RCW)	
Chapter 80.16 regarding affiliated transactions)	

Avista Corporation (hereinafter referred to as "Applicant" or "Avista") hereby requests that the Washington Utilities and Transportation Commission ("Commission") enter a written order establishing that the proposed issuance by Avista of up to 7,250,000 of authorized but unissued shares of its common stock is in compliance with the requirements of RCW Chapter 80.08, and that Avista has satisfied the requirements of RCW Chapter 80.16 with respect to the proposed affiliated transactions.

I. Issuance of Securities

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 Such Securities Are For One Or More of the Purposes Allowed By Chapter 80.08 RCW.

The issuance of common stock by Avista will be used for one or more of the following purposes: (a) The acquisition of property, or the construction, completion, extension, or improvement of its facilities, or (b) the improvement or maintenance of service, or (c) the issuance of stock dividends, or (d) the discharge or refunding of its obligations, or (e) the reimbursement of moneys actually expended from income or from the treasury of the Applicant to the extent permitted by RCW 80.08.030, or (f) for other purposes permitted by law.

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

On November 4, 2013, Avista entered into an Agreement and Plan of Merger (Merger Agreement), with Alaska Merger Sub, Inc. (Merger Sub), and Alaska Energy and Resources Company (AERC). Merger Sub is a wholly-owned corporation of Avista and was created solely for the purpose of facilitating Avista's acquisition of AERC, which includes the utility operations of Alaska Electric Light and Power (AEL&P). Upon receipt of all necessary approvals, Merger Sub would merge with and into AERC and dissolve as a corporate entity, leaving AERC as a wholly-owned subsidiary of Avista. AEL&P is a vertically integrated electric utility providing electric service to the City and Borough of Juneau, Alaska, and is regulated by the Regulatory Commission of Alaska (RCA).

At the closing of the acquisition of AERC by Avista, the issued and outstanding shares of AERC common stock would be exchanged for shares of Avista common stock, per the terms of the Merger Agreement. The purchase price for AERC at closing is \$170 million, less the assumption of then-outstanding debt and other closing adjustments per the Merger Agreement. Using current projections, the value of Avista common stock to be issued in exchange for AERC common stock is estimated to be \$145 million. The actual number of shares of Avista common stock to be issued is dependent on the closing price of Avista's shares over the 10 trading days preceding the closing of the transaction. Using only Avista's closing stock price on November 26, 2013 (\$27.18), the Company would issue approximately 5.3 million shares of common stock to AERC shareholders to complete the transaction subject to the above adjustments. The actual share price utilized to determine the number of Avista common shares to be issued will be set at closing (subject to a floor per share price of \$21.48 and a ceiling per share price of \$34.30). Additionally, the currently estimated \$145 million net consideration will change at closing based

upon the actual amount of debt outstanding, and other adjustments per the Merger Agreement, at that time. Avista is requesting authority to issue up to 7,250,000 shares of common stock.¹ Avista's request for authorized shares up to 7,250,000 shares is limited to the acquisition of AERC. Any unused shares of the 7,250,000 related to the AERC acquisition would be terminated. Following the closing of the transaction, debt would be issued at AEL&P and AERC to rebalance the capital structure to achieve a capital structure for AERC that is comparable to the existing capital structure at Avista. This debt would be backed by the assets of AEL&P and AERC, and not the utility assets of Avista. The end result will be that Avista's utility customers will experience the same capital structure after the completion of the transaction, as they currently do prior to the transaction.

As part of the rebalancing of the capital structure at AEL&P and AERC, funds would be transferred from AERC to Avista, which would be used to fund the utility capital budget and utility operating costs at Avista. Therefore, a portion of the proceeds from the initial common equity issuance would ultimately be used to fund the utility capital budget and utility operating costs at Avista. That is, absent the issuance of Avista common stock related to the AERC transaction, Avista would have otherwise issued approximately \$70 million of common equity to fund the utility operations of Avista.

Following the announcement of the Agreement, Standard and Poor's affirmed the credit rating of Avista as stable, and Moody's stated that the acquisition of AERC was credit neutral.

The corporate structure of Avista both before and after completion of the proposed acquisition of AERC is provided on pages 1 and 2 of Exhibit A. A copy of the Merger Agreement itself is provided in Exhibit B.

(3) Statement As To Why The Proposed Issuance of Securities Is In the Public Interest.

Following the issuance of securities proposed in this Application, the capital structure for Avista will be essentially the same as it currently is prior to the issuance of the new securities. The regulated electric utility operations of AEL&P will be operated on a stand-alone basis using the same AEL&P management team and other employees, and will not adversely affect the utility operations of Avista. To the extent any Avista employees dedicate time or incur costs related to AEL&P or AERC, those costs would be separately tracked and directly assigned to AEL&P and AERC, as further explained later in this Application. Therefore, Avista's existing utility customers would see a slight reduction of costs (benefit) as a result of this direct assignment of costs.

The proposed issuance of securities is in the public interest. The acquisition of AERC and AEL&P will result in no harm to Avista Utilities' existing customers, and will provide a benefit to customers through the assignment of costs to AERC and AEL&P.

(4) Text of a Draft Order Granting Applicant's Request for an Order.

See Exhibit C.

II. Compliance With RCW 80.16.020 Regarding Affiliated Transactions

AEL&P is a wholly-owned subsidiary of AERC, and would continue to be a wholly-owned subsidiary of AERC following the completion of the proposed acquisition by Avista. AEL&P would continue to be operated by the same employees operating the utility today, including the existing management team of AEL&P. AEL&P has 60 full-time employees. AEL&P serves approximately 15,900 retail customers under the authority of the Regulatory Commission of Alaska, and is the sole electric utility serving the City and Borough of Juneau.

¹ The requested authority to issue the 7.25 million shares of Common Stock is in addition to the authority previously granted by the Washington Utility and Transportation Commission through Order Numbers UE-931521, UE-051895, and U-111687.

The customers, service territory, facilities and generating resources of AEL&P are geographically and electrically isolated, which limits Avista's opportunity to integrate AEL&P's operations with its existing utility operations in Washington, Idaho and Oregon. Avista intends to hold and manage AEL&P as a stand-alone utility, as shown in the corporate structure on page 2 of Exhibit A. Exhibit D provides additional details related to AEL&P. Page 1 shows the current corporate structure for AERC, including AEL&P. Page 2 includes a map showing the service area of AEL&P, as well as the location of its major generation and transmission facilities. Page 3 of Exhibit D shows the installed capacity of owned and contracted-for generating facilities, as well as the actual energy production from the facilities during 2012.

To the extent Avista employees dedicate time and incur costs supporting the operation of AERC and AEL&P, those costs would be separately tracked and directly assigned to AERC and AEL&P. Likewise, if AEL&P employees were to provide support for Avista's utility operations, such costs would be directly assigned to Avista. The Company expects such assignment of costs, both to AEL&P and from AEL&P, to be relatively small since AEL&P will continue to operate as a standalone utility. In the future, if opportunities arise for the consolidation of certain Avista and AEL&P utility functions, it may be appropriate to propose some form of cost allocation between the two utilities.

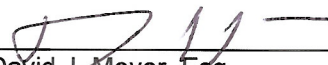
With regard to Avista's existing subsidiary operations, some of Avista's general office employees spend time providing services and support to our existing subsidiaries. These employee costs are charged to suspense accounts (Deferred Debit Account No. 186), are loaded for benefits, and are then established as a receivable (FERC Account No. 146) when billed to the subsidiary.² If other resources are expended during the course of this work, such as travel or consulting services, these costs are also charged to suspense accounts and billed to the subsidiary. All corporate services provided, and costs incurred, are direct billed to subsidiaries at cost. No additional margin or profit is included and no assets are allocated. This assignment of Avista employee costs, which are then billed back to the subsidiary at cost, serve to reduce the utility's expenses. Avista will use the same methodology for direct assignment of costs to the proposed AERC and AEL&P subsidiary operations, as per the attached Protocol for Direct Assignment in Exhibit E.

III. Requested Authorizations

Avista, having provided herewith all information and statements required by RCW 80.08.030, WAC 480-100-242 (1)-(4) and WAC 480-90-242 (1)-(4), respectfully requests an order affirming compliance with such requirements as part of the planned issuance of securities, and compliance with RCW Chapter 80.16 regarding affiliated transactions, and any other approvals as the Commission may deem necessary.

Done at Spokane, Washington this 3rd day of December 2013.

AVISTA CORPORATION

By: 
David J. Meyer, Esq.
Vice President & Chief Counsel for
Regulatory & Governmental Affairs

² Avista determines office space costs per square foot (including building costs, common area costs, computer workstation costs, copier expense and annual office furniture rental, etc.), and using the relationship of labor hours charged to subsidiary activities by employee compared to total labor hours by employee, assigns those costs to the subsidiary operations.

STATE OF WASHINGTON)
County of Spokane)

The undersigned certifies under penalty of perjury under the laws of the State of Washington that the foregoing is true and correct to the best of my knowledge and belief, and that the proposed issuance of securities will be used for the purposes allowed by Chapter 80.08 RCW.

Done at Spokane, Washington this 3rd day of December 2013.

By: [Signature]
David J. Meyer, Esq.
Vice President & Chief Counsel for
Regulatory & Governmental Affairs

SUBSCRIBED AND SWORN to before me this
3rd day of December 2013

[Signature]
Notary Public for Washington

My Commission Expires: 11/23/2017

