

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of)	DOCKET NO. UE-040329
)	
AVISTA CORPORATION,)	ORDER NO. 01
)	
Petitioner,)	
)	
For an Order Establishing)	
Compliance with RCW 80.08.040,)	
with Respect to its Proposal to Sell)	ORDER ESTABLISHING
Securities up to \$62,000,000 and for)	COMPLIANCE WITH
Terms which may Exceed 364 days)	RCW 80.08.040
.....)	

BACKGROUND

1 On February 18, 2004, Avista Corporation (Avista or Company) filed a statement of its plan to issue securities with the Washington Utilities and Transportation Commission (Commission). The Company requested an order affirming that the Company has complied with the requirements of RCW 80.08.040.

DISCUSSION

2 In its application, the Company proposes to offer, issue and sell up to \$62,000,000 of subordinated debentures with fixed or variable rates and terms which may exceed 364 days. The application is filed pursuant to Chapter 80.08 RCW and the requirements of WAC 480-146-290.

3 According to the application and supporting materials filed by the Company, the proceeds of the financing are for one or more of the purposes allowed by RCW 80.08.030. Specifically, the application asserts that the proceeds will be used to redeem \$60,000,000 of the Company's 7.875% Junior Subordinated Deferrable Interest Debentures, Series A, due 2037. The redemption of this

security will cause the Company to redeem its Avista Capital I 7.875% Trust Originated Preferred Securities, Series A.

- 4 The new Subordinated Debentures would be offered and sold to a Delaware statutory trust ("the Trust"). The Trust would offer and sell Trust Preferred Securities to interested third parties. The Preferred Securities sold by the Trust will have an interest rate not to exceed 7% per annum for the first five years. The Preferred Securities may then be redeemed or reissued at that time with either a fixed or floating interest rate. The Company anticipates that the term of the new Preferred Securities and Subordinated Debentures is between 30 and 40 years.
- 5 In the event that the Company and the Trust elect to not redeem or remarket the Preferred Securities, or if they are unable to remarket all Preferred Securities the distributions on the Preferred Securities will thereafter be made at the higher of one of the following three options plus an initial credit rate spread to be established as part of the offering: i) the three-month LIBOR rate; ii) the ten-year Treasury rate (constant maturities); or iii) the thirty-year Treasury rate (constant maturities). A variable rate will be in effect until the underlying Preferred Securities are remarketed to establish a new fixed rate for a new period.
- 6 In its application, the Company states that the requested authority allows greater flexibility in managing its source of external funds in order to achieve lower financing costs. In addition, rating agencies have historically classified similar Subordinated Debentures as preferred securities for rating purposes, while distributions paid to the Trust by the Company are treated as interest expense for tax purposes. The Company asserts these proposed securities enable it to manage its debt and capital structure in a more efficient manner. The Company therefore, states that its request is in the public interest.

FINDINGS AND CONCLUSIONS

- 7 (1) Avista is engaged in the business of electric service within the state of Washington. As a public service company, it is subject to the jurisdiction of the Commission under the provisions of Chapter 80.08 RCW.
- 8 (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. *Chapter 480-146 WAC.*
- 9 (3) This matter was brought before the Commission at its regularly scheduled meeting on March 12, 2004.
- 10 (4) The Company's application in this Docket contains: (a) a certification by an authorized officer that the proceeds will be used for one or more purposes allowed by RCW 80.08.030; (b) a description of the proposed issuance, including the terms of financing, and (c) a statement as to why the proposed transaction is in the public interest.

ORDER

THE COMMISSION ORDERS:

- 11 (1) Avista Corporation has complied with the requirements of RCW 80.08.040 with respect to the proposals set forth in its application to sell up to \$62,000,000 of subordinated debentures with fixed or variable rates.
- 12 (2) The Company is directed to file a Report of Securities Issued as required by WAC 480-146-340. The Company is also required to file verified copies of any agreement entered into in connection with any transaction pursuant to this Order. Finally, the Company shall file a verified

statement setting forth in reasonable detail the disposition of the proceeds of each offering made pursuant to this Order.

- 13 (3) This Order shall in no way affect the authority of this Commission over rates, services, accounts, valuations, estimates, or determination of costs, or any matters whatsoever that may come before it, nor shall anything herein be construed as acquiescence in any estimate or determination of costs, or any valuation of property claimed or asserted.

The Commissioners, having determined this filing complies with the requirements of Chapter 80.08 RCW, directed the Secretary to enter this Order.

DATED at Olympia, Washington, and effective this 12th day of March, 2004.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

CAROLE J. WASHBURN, Secretary