Exhibit No. ___ (KLE-4)
Dockets UE- 140188/UG-140189
Witness: Kenneth L. Elgin

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **AVISTA CORPORATION, dba AVISTA UTILITIES,** **Respondent.**	**DOCKETS UE-140188 and UG-140189 *(Consolidated)***

EXHIBIT TO
TESTIMONY OF

Kenneth L. Elgin

STAFF OF WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Standard & Poor's RatingsDirect: Avista May 9, 2014

July 22, 2014

STANDARD & POOR'S
RATINGS SERVICES
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RatingsDirect®

Summary:
Avista Corp.

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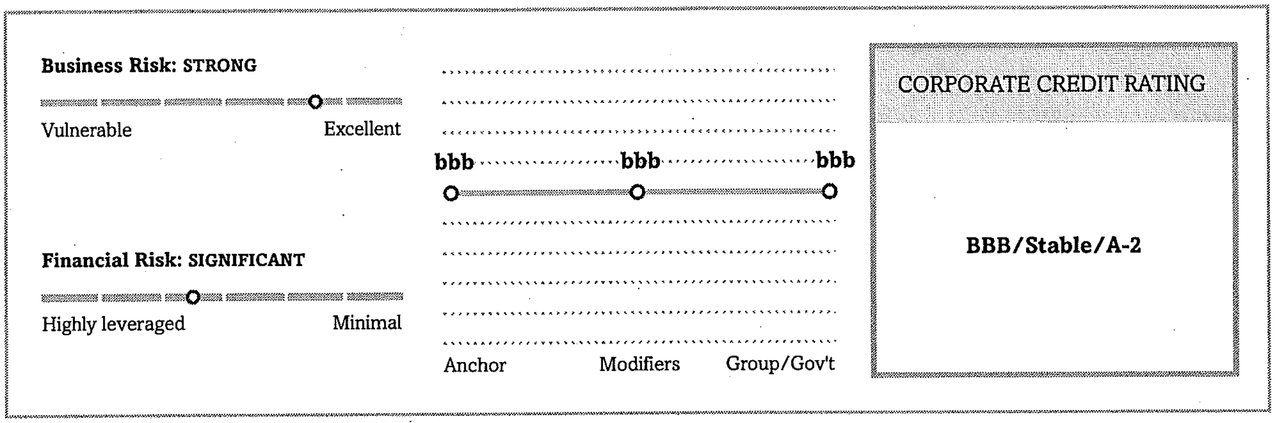
Summary:

Avista Corp.



Rationale

Business Risk: Strong	Financial Risk: Significant
• Primarily a regulated electric and natural gas distribution utility • Geographic and operational diversity, and customer diversity • Heavily dependent on hydroelectric power, regulatory mechanisms provide cash flow stability when purchasing power during low water periods	• Sufficient cash flow measures to maintain a "significant" financial risk profile • Capital spending slowing, which could strengthen cash flow measures • Regulatory decisions continue to support the company's cash flow measures • "Strong" liquidity position supports replacement power purchases when hydroelectric generation declines

Outlook: Stable

The stable outlook reflects our expectation that the company will continue to effectively manage regulatory risks, fund capital spending in a manner that does not meaningfully increase leverage, preserve adequate liquidity, and maintain comparable financial performance. Under our base case scenario we expect funds from operations (FFO) to total debt of 16%.

Downside scenario

We could lower the rating if business risk would materially rise or credit measures diminished such that FFO to debt would be consistently below 13%. Causes could include greater borrowing or increased rate lag, a large deferral, or adverse regulatory decisions.

Upside scenario

We could raise the rating if the business risk greatly improves or financial measures strengthen to levels including FFO to debt over 23%.

Standard & Poor's Base-Case Scenario

Assumptions

- Low-single-digit EBITDA growth
- Capital spending of about $250 million per year
- Negative discretionary cash flow, results in external funding

Key Metrics

	2013A	2014E	2015E
FFO to debt (%)	16.7	15-17	16-18
CFO to debt (%)	15.6	14-15.5	14.7-16.1
Debt/EBITDA (x)	4.0	4-5	4-5

A--Actual. E--Estimated. FFO--Funds from operations. CFO--Cash flow from operations.

Business Risk: Strong

Our assessment of Avista's business risk profile is "strong", as defined in our criteria, based on what we consider the utility's "satisfactory" competitive position, "very low" industry risk of the regulated utility industry, and "very low" country risk of the U.S. The company's competitive position incorporates its vertically-integrated electric and natural gas distribution utility operations in Washington and Idaho, and gas distribution in Oregon. The utility has had mixed results through the regulatory process but has filed when needed to recover costs. Since the utility has hydroelectric power exposure, recovery mechanisms are important to mitigate the need to purchase power for customers when the hydro power is unavailable. The company has some flexibility in implementing incremental rate changes through its energy recovery mechanism in Washington and the power cost adjustment in Idaho, but the recovery of excess power costs in Washington is incomplete due to minimum thresholds and deferral bands.

Purchased gas adjustments for gas distribution units in all three jurisdictions, along with hedging, mitigate gas supply risk. We view these as important in averting large cost adjustment requests and help support the rating. The company is acquiring Alaska Energy & Resources Co., which is the parent of Alaska Electric Light & Power Co., a Juneau, Ala.-based electric utility for $174 million. Ecova Inc., an energy cost-management business, is the only significant nonutility business that remains within Avista Corp. Although the business does not require significant capital investments since it is a service business, the expansion of this business, along with its attendant volatility, could weaken the business risk profile.

Financial Risk: Significant

Based on the medial volatility financial ratio benchmarks, our assessment of Avista's financial risk profile is "significant". Our base case indicates that capital spending along with dividend payments will lead to negative discretionary cash flow over the next few years. External funding will be needed to cover the deficit since internally generated cash flow is insufficient. Our base case forecast suggests mostly steady key credit measures for the next several years. Debt leverage could grow modestly, with debt to EBITDA between 4x and 4.5x. For the 12 months ended Dec. 31, 2013, FFO to debt was 16.7%, cash flow from operations (CFO) to debt was 15.6%, and debt to EBITDA was 4x. Our baseline forecast for the next few years includes FFO to debt between 15% and 18% and CFO to debt between 14% and 16%. If completed, the acquisition of Alaska Energy and Resources is unlikely to result in material deterioration to the Avista's financial risk profile.

Liquidity: Strong

Avista has "strong" liquidity as our criteria define the term. We believe the company's liquidity sources are likely to cover its uses by more than 1.5x over the next 12 months and remain above 1x over the subsequent 12 months. We expect the company to meet cash outflows even with a 30% decline in EBITDA.

Principal Liquidity Sources	Principal Liquidity Uses
• FFO of about $250 million in 2014 and about $265 million in 2015 • Credit facility availability of about $450 million in 2014 and about $450 million in 2015	• Dividends of $80 million in 2014 and $85 million in 2015 • Capital spending of $260 million in 2014 and $250 million in 2015

Other Modifiers

Other modifiers have no impact on the rating outcome.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Stable/A-2

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Financial policy:** Neutral (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb

Recovery Analysis

- We assign recovery ratings to first-mortgage bonds (FMBs) issued by U.S. utilities, which can result in issue ratings being notched above an issuer credit rating (ICR) on a utility depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria.
- The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future.
- Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a CCR on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio.
- Avista's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating

two notches above the ICR, or 'A-'.

Related Criteria And Research

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- Criteria - Corporates - General: 2008 Corporate Criteria: Commercial Paper, April 15, 2008
- Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-