

**REDACTED**

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-15\_\_\_\_\_

DOCKET NO. UG-15\_\_\_\_\_

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

MARK T. THIES

REPRESENTING AVISTA CORPORATION

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

Exhibit No.\_\_\_\_(MTT-2)

	<u>Standard &amp; Poor's</u>	<u>Moody's</u>
<b>Last Upgraded</b>	March/August 2011 <sup>(1)</sup>	January 2014 <sup>(2)</sup>
<b>Credit Outlook</b>	Stable	Stable
<b>AAA</b>		<b>Aaa</b>
<b>AA+</b>		<b>Aa1</b>
<b>AA</b>		<b>Aa2</b>
<b>AA-</b>		<b>Aa3</b>
<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>				
<b>December 31, 2015</b>				
	<u>Amount</u>	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Component Cost</u>
Total Debt	\$ 1,613,000,000	52%	5.20%	2.71%
Common Equity	1,489,671,000	48%	9.90% <sup>(1)</sup>	4.75%
Total	<u>\$ 3,102,671,000</u>	<u>100%</u>		<u><b>7.46%</b></u>

<b>AVISTA CORPORATION</b>				
<b>Embedded Cost of Capital</b>				
<b>September 30, 2014</b>				
	<u>Amount</u>	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Component Cost</u>
Total Debt	\$ 1,414,970,000	50%	5.25%	2.64%
Common Equity	1,405,578,000	50%	9.80% <sup>(2)</sup>	4.88%
TOTAL	<u>\$ 2,820,548,000</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

**AVISTA CORPORATION**  
 Cost of Debt Detail - Washington  
 December 31, 2015

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 12-31-2015	Effective Cost	Line No.
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(g)	(h)	(i)	(j)	(k)	(l)		
1	FMBS - SERIES A	7.530%	05-05-2023	05-06-1993	5,500,000	42,712	-	-	963,011	4,494,277	9.359%	5,500,000	514,744	1
2	FMBS - SERIES A	7.540%	05-05-2023	05-07-1993	1,000,000	7,766	-	-	175,412	816,822	9.375%	1,000,000	93,747	2
3	FMBS - SERIES A	7.390%	05-11-2018	05-11-1993	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%	06-11-2018	06-09-1993	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%	08-11-2023	08-12-1993	7,000,000	54,364	-	-	-	6,945,636	7.244%	7,000,000	507,064	5
6	ADVANCE ASSOCIAT	1.370%	06-01-2037	06-03-1997	40,000,000	1,296,086	-	-	(1,769,125)	40,473,039	1.332%	40,000,000	532,738	6
7	FMBS - SERIES C	6.370%	06-19-2028	06-19-1998	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%	12-01-2019	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%	12-01-2035	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%	07-01-2037	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%	06-01-2018	04-03-2008	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%	04-01-2022	09-22-2009	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
14	3.89% SERIES	3.890%	12-20-2020	12-20-2010	52,000,000	383,338	-	-	6,273,664	45,342,997	5.578%	52,000,000	2,900,325	14
15	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	15
16	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	16
17	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	17
18	0.84% SERIES	0.840%	08-14-2016	08-14-2013	90,000,000	512,138	(2,900,680)	-	-	92,388,542	-0.044%	90,000,000	(39,568)	18
19	4.11% SERIES	4.110%	12-15-2044	12-15-2014	60,000,000	450,000	(5,429,000)	-	-	64,979,000	3.652%	60,000,000	2,191,454	
20	Forecasted Issuance	4.500%	09-15-2045	09-15-2015	120,000,000	1,200,000	-	-	-	118,800,000	4.562%	120,000,000	5,473,815	
21												1,513,000,000	81,622,830	21
22														22
23	Repurchase	8.85%	06-05-2028	05-24-2002	10,000,000				(2,228,153)	12,228,153	6.981%		-188,084	23
24	Repurchase	8.83%	06-05-2028	04-03-2003	10,000,000				(450,769)	10,450,769	8.395%		-43,661	24
25	Repurchase	8.83%	12-29-2022	03-11-2003	5,000,000				92,363	4,907,637	9.029%		10,341	25
26	Repurchase	5.72%	03-01-2034	12-30-2009	17,000,000				1,916,297	15,083,703	6.661%		159,446	26
27	Repurchase	6.55%	10-01-2032	12-31-2008	66,700,000				3,709,174	62,990,826	7.034%		324,360	27
28												1,513,000,000	81,885,232	28
29	<sup>s</sup> Short Term-Debt				100,000,000						2.039%	100,000,000	2,038,851	29
30												1,613,000,000	83,924,083	30
31														31
32														32
33														33
34														34
35														35
36														36

<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.

**Adjusted Weighted Average Cost of Debt 5.203%**

**AVISTA CORPORATION**  
 Cost of Short-Term Debt Detail  
 December 31, 2015

Exhibit No.\_\_\_\_(MTT-2)

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	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	28	31	30	31	30	31	31	30	31	30	31	365
Avg Monthly Forecasted Borrowing Rate*		0.95%	0.95%	0.95%	1.07%	1.07%	1.07%	1.25%	1.25%	1.25%	1.48%	1.48%	1.48%	
Credit Facility Interest Expense	\$ 81,521	\$ 73,632	\$ 81,521	\$ 89,167	\$ 92,139	\$ 89,167	\$ 107,940	\$ 107,940	\$ 104,458	\$ 127,479	\$ 123,367	\$ 127,479	\$ 127,479	\$ 1,205,811
Credit Facility Fees	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	300,000
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	\$ 150,941	\$ 143,052	\$ 150,941	\$ 158,587	\$ 161,559	\$ 158,587	\$ 177,360	\$ 177,360	\$ 173,878	\$ 196,899	\$ 192,787	\$ 196,899	\$ 196,899	\$ 2,038,851

**Total Borrowing Cost \$ 2,038,851**  
**Total Average Borrowings \$100,000,000**  
**Cost Rate 2.04%**

15 \*Forecasted Rates are based on forward rates from Thomson Reuters analysis tools plus the 67.5 basis points pursuant to the credit facility agreement.

**AVISTA CORPORATION**  
 Cost of Long-Term Variable Rate Debt Detail  
 December 31, 2015

Exhibit No.\_\_\_\_(MTT-2)

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	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	28	31	30	31	30	31	31	30	31	30	31	
Forecasted Rates Trust Preferred*		1.15%	1.15%	1.15%	1.27%	1.27%	1.27%	1.45%	1.45%	1.45%	1.68%	1.68%	1.68%	
Trust Preferred Interest Expense	\$	39,497	\$ 35,675	\$ 39,497	\$ 42,333	\$ 43,744	\$ 42,333	\$ 50,065	\$ 50,065	\$ 48,450	\$ 57,880	\$ 56,013	\$ 57,880	\$ 563,435

Description	Coupon Rate	Maturity Date	Settlement Date	Principal Amount	Issuance Costs	Loss/Reacq Expenses	Net Proceeds	Yield to Maturity	Outstanding 12-31-2015	Effective Cost
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Trust Preferred	1.41%	06-01-2037	06-03-1997	\$ 40,000,000	\$ 1,296,086	\$ (1,769,125)	\$ 40,473,039	1.370%	\$ 40,000,000	\$ 548,033

15 \*Original issue principal amount was \$50 million. The Company repurchased \$10 million of the securities outstanding.  
 16 \*\*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)

Exhibit No.\_\_\_\_(MTT-2)

	10-Q 9/30/2014	Adjustments		Adjusted Regulatory Balance 9/30/2014	Activity		Adjusted Regulatory Balance 12/31/2015
<b>Short-term Debt</b>							
Avista Corp	\$ 35,000	\$ 46,970	a	\$ 81,970	\$ 18,030	a	\$ 100,000
Subsidiaries			b	-			-
Total short-term debt	<u>\$ 35,000</u>	<u>\$ 46,970</u>		<u>\$ 81,970</u>	<u>\$ 18,030</u>		<u>\$ 100,000</u>
<b>Long-term Debt</b>							
Long-term debt	\$ 1,412,211	\$ (125,682)	c	\$ 1,286,529	\$ 180,000	f	\$ 1,466,529
Current Portion of long-term debt	6,471			6,471			\$ 6,471
Debt to Affiliated Trust	51,547	(11,547)	d	40,000			\$ 40,000
Total long-term debt	<u>\$ 1,470,229</u>	<u>\$ (137,229)</u>		<u>\$ 1,333,000</u>	<u>\$ 180,000</u>		<u>\$ 1,513,000</u>
<b>Equity</b>							
Total Avista Corporation stockholders' equity	<u>\$ 1,492,208</u>	<u>\$ (86,630)</u>	e	<u>\$ 1,405,578</u>	<u>\$ 84,093</u>	g	<u>\$ 1,489,671</u>

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 actual short-term debt borrowings at the subsidiaries, and accumulated other comprehensive loss; in order to reflect our actual equity balance.

Equity Adjustments (dollars in thousands):

Capital Stock Expense	\$ 14,769
Accumulated other comprehensive loss	\$ 3,898
Short-term debt at subsidiaries	<u>\$ (105,297)</u>
<b>Total</b>	<u><b>\$ (86,630)</b></u>

f Represents the issuance of long-term debt. In December 2014 we issued \$60 million. Additionally, there are forecasted issuances of \$120 million. For additional details related to these issuances see page 3 of this Exhibit.

g Forecasted Equity Activity (dollars in thousands):

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