Exh. CRM-7
Dockets UE-170485/UG-170486
Witness: Chris R. McGuire

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **AVISTA CORPORATION d/b/a AVISTA UTILITIES,** **Respondent.**	**DOCKETS UE-170485 and UG-170486 (*Consolidated*)**

EXHIBIT TO
TESTIMONY OF

Chris R. McGuire

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Avista Response to UTC Staff Data Request No. 267

October 27, 2017

AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	WASHINGTON	DATE PREPARED:	10/16/2017
CASE NO.:	UE-170485 & UG-170486	WITNESS:	Mark Thies
REQUESTER:	UTC Staff	RESPONDER:	Lauren Pendergraft
TYPE:	Data Request	DEPT:	Finance
REQUEST NO.:	Staff – 267 - Supplemental	TELEPHONE:	(509) 495-2998
		EMAIL:	lauren.pendergraft@avistacorp.com

REQUEST:
Please refer to Avista's response to UTC Staff Data Request No. 97. In its response, the Company states: "The goal of the Company's Interest Rate Risk Management Plan is to reduce cash flow volatility related to future interest rate variability (associated with forecasted debt issuances)."
If the identified goal of the Company's Interest Rate Risk Management Plan is to reduce cash flow volatility related to future interest rate variability, why does the Company limit its hedge ratio to 75 percent? Wouldn't hedging at 100 percent further reduce cash flow volatility? Please provide support for the Company's decision to limit its hedge ratio to 75 percent.

RESPONSE:
The Company formalized the Interest Rate Risk Management Plan in August 2013 allowing the use of hedge ratios, hedge windows, rate triggers, and rate monitoring which is highlighted in our Interest Rate Management Plan and the Plan addendums (See Avista's response to Staff_DR_096). Included as Staff_DR_235 attachment B is the slide deck of the presentation to the WUTC Staff regarding the Company's Financial Update and Interest Rate Risk Management Plan dated July 30, 2013. Execution of interest rate swaps for purposes of hedging future issuance of long-term debt have consistently been made under the guidelines of the Plan. Past revenue requirements have incorporated any hedge gains or losses associated with the Company's then-existing hedging program, including the 2014 test period reflecting the Interest Rate Risk Management Plan referenced above.

Under the Company's interest rate risk management plan, we utilize hedge ratios which allows for discretionary hedges up to 75% of forecasted security issuances. We utilize hedge ratios to manage our hedge loss risk as the unhedged portion of the debt issuance is not subject to hedge loss risk. As we cannot predict the future of interest rates, hedge ratio limits help balance interest rate risk with hedge loss risk.

Supplemental 10/16/2017
The up to 75% hedge ratio was determined by management as a measured approach, and allows us to balance interest rate risk (increasing interest rates) with hedge loss risk (decreasing interest rates). It is not possible to predict future interest rates, therefore hedge ratios help balance interest rate risk with hedge loss risk.

Hedging up to 75% provides a fixed interest rate on a portion of the debt issuance, providing a level of interest rate certainty to protect against increasing interest rates. The Company has chosen not to hedge 100% before issuance primarily due to the following: a) as discussed above, it is to balance the interest rate risk with the hedge loss risk, b) the forecasted debt issuance is a forecast amount and can change as different business scenarios unfold over time, and c) leaving a portion of the debt unhedged allows customers to benefit if interest rates otherwise decrease.

Likewise, the Company does not hedge 100% of natural gas commodity costs through its Risk Management Plan; to do so would be to "lock in" all natural gas costs at a particular price, without knowing what those future costs would be, potentially depriving customers of the benefit of lower natural gas costs in the future if prices were to decline below hedged levels.