Exhibit No.___(MPG-9)
Docket No. UE-060181
Witness: Michael Gorman

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of AVISTA CORPORATION, d/b/a AVISTA UTILITIES, For Continuation of the Company's Energy Recovery Mechanism, with Certain Modifications.	)	**Docket No. UE-060181**

EXHIBIT NO.___(MPG-9)

DIRECT TESTIMONY OF JOHN THORNTON

IN WUTC DOCKET NO. UE-010395

April 21, 2006

**BEFORE THE WASHINGTON UTILITIES
AND
TRANSPORTATION COMMISSION**

**DOCKET NO. UE-010395
AVISTA CORPORATION**

**DIRECT TESTIMONY
OF
JOHN S. THORNTON, JR.**

**ON BEHALF
OF
INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES
AND
OFFICE OF THE ATTORNEY GENERAL OF WASHINGTON,
PUBLIC COUNSEL SECTION**

AUGUST 24, 2001

Prepared Direct Testimony of John S. Thornton, Jr.
August 24, 2001

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Witness Identification

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is John S. Thornton, Jr. and my business address is 7752 E. Pepper Tree Lane, Scottsdale AZ 85250-7948.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I appear as an independent consultant to the Industrial Customers of Northwest Utilities (ICNU) and the Public Counsel Section of the Attorney General of Washington.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I hold a Master of Science degree from the University of London, having completed the Master's program (economics with specialty in corporate finance) at The London School of Economics and Political Science (The LSE). I also hold a Graduate Diploma from The LSE with a specialty in international economics. I participated as a cost-of-capital expert in numerous electric utility, local gas distribution, and telephone cases in the state of Oregon, and in gas pipeline cases before the Federal Energy Regulatory Commission. I was a Senior Economist for the Public Utility Commission of Oregon (OPUC) and its chief rate-of-return witness, having been employed at the OPUC for thirteen years. I now serve as the Chief of Accounting and Rates for the Arizona Corporation Commission. My witness qualifications statement is found in Exhibit JST-2.

Q. HAVE YOU PREPARED ANY EXHIBITS?

A. Yes. I prepared exhibits JST-2 through JST-4.

Scope of Testimony

Q. WHAT WAS YOUR ASSIGNMENT IN THIS CASE?

A. My assignment was to evaluate the testimony of Avista Corporation d/b/a Avista Utilities ("Avista" or the "Company") in Docket UE-010395. Specifically, I reviewed the testimonies of Messrs. Gary Ely, Jon E. Eliassen, and Ronald R. Peterson. Avista is the parent corporation of a number of companies including Avista Utilities, Avista Labs, Avista Energy, Avista Power and Avista Communications. Until January 1, 1999, Avista conducted business under the name Washington Water Power ("WWP"). Avista is sometimes referred to by that name in this testimony.

Summary Findings

Q. PLEASE SUMMARIZE YOUR FINDINGS AFTER REVIEWING THE TESTIMONY.

A. I found that for the past six years Avista's non-utility ventures have dragged down Avista's debt ratings, raised its financing costs, and reduced Avista's financial flexibility, and they continue to do so. I recommend that the Commission consider how Avista got its senior secured debt rating down to the "BBB" range from the "A" range in the first place before considering rate relief to prevent any further downgrade. I present several alternatives and options for the Commission to consider in lieu of, or in conjunction with rate relief.

Q. THE COMPANY CLAIMS THAT IT WILL BE UNABLE TO COMPLETE FINANCINGS NECESSARY TO FUND ONGOING OPERATIONS OF THE COMPANY UNLESS PROMPT RATE RELIEF IS GRANTED. (*SEE* DIRECT TESTIMONY OF MR. GARY G. ELY, PAGE 2 AT 5-7.) IS AVISTA IN FINANCIAL DISTRESS?

A. I do not necessarily agree with the notion that the firm is in financial distress. I find it difficult to reconcile implicit claims of financial distress with the fact that Avista recently declared a full quarterly dividend without reduction. I do not view Avista's recent dividend declaration consistent with its implicit claims of financial distress. Exhibit JST-3 presents a news release on the recent dividend, declared on August 10, 2001. Financial distress is more associated with the notion of being unable to pay existing obligations, rather than the state of having difficulty taking on new obligations such as debt to finance Coyote Springs 2. I would not characterize Avista's situation as a state of emergency or inequity that warrants a surcharge.

Avista's Debt Rating History

Q. WHAT HAS BEEN AVISTA'S DEBT RATING HISTORY SINCE 1995?

A. Avista's (then WWP) Standard & Poor's ("S & P") debt rating was "A" for senior secured credit from 1995 through August 18, 1998, when S&P revised its outlook from stable to negative. I reviewed the response to Washington Utilities and Transportation Commission ("WUTC" or the "Commission") staff data request number 154 that asked for a detailed description of Avista's bond rating history since 1995 including any actions or commentaries published by any rating agency. I have attached the statements from Avista's response to WUTC staff data request 154 referred to in my testimony as Exhibit JST-4. A synopsis of rating actions since 1995 based on the Avista response follows.

On August 18, 1998, S & P's said:

> The revised outlook reflects management's strategy to aggressively grow its assets and customer base through acquisitions and strategic alliances. This strategy is likely to accelerate the evolution toward a riskier business profile and to pressure key financial measures, which are already somewhat weak for the current ratings. WWP has already placed increasing emphasis on inherently riskier nonregulated business activities, mainly those of Avista Energy, the energy trading unit.
>
> The Company reduced its common dividend by 61% in preparation for its aggressive growth plans. This cut will provide the company with at least $30 million of annualized cash flow over the next three years to help fund management's expansion strategy.

In short, S&P's outlook was revised from stable to negative because of expansion and non-regulated business activities. Apparently, WWP's management was willing to cut the dividend to improve cash flow to finance expansion strategies. The Commission should consider requiring Avista to reduce the current dividend to support cash flow at the regulated utility.

The next rating action was from Moody's Investors Service ("Moody's") on July 15, 1999, who revised Avista's rating outlook from stable to negative. Moody's said:

> New York, July 15, 1999–Moody's Investors Service changed the outlook for the ratings of securities issued by Avista Corp. to negative from stable to reflect the aggressive and more risky business strategy being pursued by the company. Although management has implemented strict financial and credit risk management plans for the company's energy marketing and trading operations, which are conducted through Avista Energy, the risks have come to the fore during the first half of

> 1999, with losses at Avista Energy pressuring financial performance. Furthermore, management is demonstrating somewhat less conservative financial strategies from a fixed income investor's perspective, including a common stock repurchase plan. Because we anticipate that the company will become increasingly dependent on the potentially more volatile earnings stream from Avista Energy to help minimize external funding of growth initiatives, success in adequately mitigating risks relating to energy marketing and trading activity will be integral to maintaining the current ratings.

Avista Energy was already having a negative effect on Avista, and its major subsidiary, Avista Utilities.

On August 13, 1999, Duff & Phelps Credit Rating Co. ("Duff & Phelps") lowered Avista's senior secured debt rating from "A" to "A-." The press release said:

> The downgrade is based on increasing business risk through investments in unregulated subsidiaries, lacking improved financial coverage ratios to support higher potential cash flow volatility. As a percentage of consolidated EBITDA, the utility contribution is decreasing. AVA is devoting capital to electricity and natural gas trading, with infant investments in Greenfield merchant generation, fuel cell development, and Internet energy billing service and a competitive local exchange carrier.
>
> The regulated utility owns desirable, low-cost hydro assets, operating in a territory that is closed to competition. It has, however, little growth in its retail jurisdiction, and its higher-margin wholesale contracts continue to roll off.
>
> . . .
>
> While the energy and trading subsidiary has achieved strides in structuring the organization to desired parameters, its business scope remains characterized by risk. Its trades are primarily of physical electricity on a national basis, while owning little underlying generation. Pricing of these positions, some of which have 10 years' duration, can be illiquid [sic] and highly volatile.

> The trading subsidiary lost more than $19 million for the six months ended June 30, 1999, of which $11 million was lost in the second quarter.
>
> . . .
>
> Bondholders should note two events that are weakening their position. First, AVA is repurchasing equity. The company has a 5.6 million share repurchase program, which should be completed within two years. At a $17 average share price, capital outflow is estimated to be $95 million. As of June 30, 1999, 1.6 million shares had been repurchased under the program. Second, some proceeds from new bond issuances at the parent are downstreamed to the subsidiaries to fund growth. Subsidiary assets are pledged to lenders independent of the parent, and the subsidiaries do not pay a regular dividend.

Clearly, Duff & Phelps lowered its rating because of Avista's non-regulated ventures. The rating agency also expressed concern over management's equity repurchase program that was expected to result in a capital outflow of $95 million.

On August 23, 1999, S&P lowered its ratings of Avista's senior secured debt from "A" to "BBB+." S&P said:

> The lower ratings reflect Avista's aggressive growth strategy that emphasizes the inherently riskier nonregulated business, especially Avista Energy Inc., the company's energy trading unit, and notably weaker financial measures. Avista Energy acquired Vitol Gas and electric Trading LLC in February 1999 and has incurred losses of $19.2 million due to weak national energy prices and the lack of volatility within virtually all commodities through the first six months of 1999.
>
> . . .
>
> OUTLOOK: STABLE.
> The stable outlook reflects the company's strong utility operations and adequate consolidated financial measures for the current ratings. Continued aggressive growth of its nonregulated businesses and the ability to improve financial performance at the energy trading unit will be essential for ratings stability . . . .

Clearly, Avista Energy caused Avista's rating downgrade.

On May 9, 2000, S&P revised its outlook from stable to negative. S&P said:

> The outlook revision reflects a weakening of Avista's financial position primarily as a result of the poor performance of the company's nonregulated trading operations. The financial position may be further weakened at the regulated level if the Washington Utilities and Transportation Commission (WUTC) adopts a rate order comparable with the rate reduction recommended by its staff in the amount of $16.5 million. Avista had requested electric and gas rate increases totaling $31 million. Standard & Poor's recognizes that the staff's proposal is a recommendation only.
>
> The ratings of Avista are based on the company's consolidated average business profile, which reflects the utility's low-risk hydroelectric operations, competitive electric rates, and moderate rate needs. These strengths are tempered by the company's participation in the inherently risky and nonregulated energy trading business through Avista Energy, Inc., as well as other nonregulated ventures, including telecommunications, Internet-based services, energy technologies, and power project development. Avista's hydroelectric power generation provides about 50% of the company's power supply needs for retail sales, which contributes to a cost structure that is among the lowest in the nation. Although power purchases are substantial, these are offset by firm sales.

S&P's outlook revision from stable to negative was primarily related to the poor performance of the unregulated trading operations.

On June 22, 2000, Moody's reviewed Avista Corp's debt ratings for possible downgrade from "A3." Moody's said:

> Moody's Investors Service placed the credit ratings of Avista Corp. on review for possible downgrade. The rating review is prompted by a confluence of events, including concerns about an adverse staff recommendation in the company's pending rate case, as well as trading losses tied to a wholesale short position exceeding management guidelines, and unprecedented spikes in power supply prices in the Northwest and California.

> . . .
>
> In reviewing Avista's credit ratings, Moody's will also explore with the company in more detail its plans for administrative and utility capital expense reductions, more conservative strategies with respect to wholesale energy sales in the utility sector, plans to add generation, and strategies to strengthen the company's balance sheet.

Moody's review was prompted by resolution of the rate case and trading losses. Absent the trading losses, the review would have been less likely.

On June 23, 2000, Fitch lowered its Avista senior secured rating from "A-" to "BBB+." Fitch said:

> Due to losses related to energy purchases and sales over the past two years, significant reductions in consolidated financial performance have occurred. In 2000, Avista is forecasting breakeven results for the full year 2000, before preferred dividends. In 1999, Avista recorded a $98 million pretax loss from energy trading at its unregulated energy marketing subsidiary. EBITDA/Interest expense has steadily declined since 1997, as higher margin wholesale contracts have rolled off, and losses have occurred at trading-related businesses.
>
> . . .
>
> Avista Corp. (the regulated utility) has been infusing funds into its unregulated subsidiaries. While these monies are booked as loans, they are significant amounts that decrease Avista Corp.'s financial flexibility.

Avista's unregulated operations clearly harmed the overall financial health of the Company and aggravated the higher risk of the regulated utility.

On July 27, 2000, Moody's downgraded Avista's senior secured debt ratings from "A3" to "Baa1." Moody's said:

> The rating action reflects expectations that even a satisfactory resolution of the company's pending electric and gas base rate cases is likely to result in prospective debt protection measurements that would be considered more in line with the lower rating level.

> . . .
>
> Finally, Moody's will continue to assess the ability for Avista's more risky non-regulated businesses, including Avista Energy, Avista Advantage, Avista Labs, Avista Power, and Avista Communications, to be self funding as they aggressively pursue their growth objectives. Moody's remains concerned about the extent to which Avista expects to rely on earnings from its more risky non-regulated businesses going forward.

The ratings downgrade reflected Moody's concern about Avista Utilities' financial performance, but it recognized the financial drain the unregulated subsidiaries had on Avista and the need for the unregulated subsidiaries to be self-financing.

On July 31, 2000, S&P lowered its corporate credit ratings for Avista from "BBB+" to "BBB", but affirmed senior secured debt ratings at "BBB+." S&P mentioned that its outlook for Avista was negative. S&P said:

> The rating for the senior secured debt is one notch above the corporate credit rating because debt is collateralized by utility property whose value is projected to substantially exceed the maximum amount of mortgage bonds that could be outstanding under the terms of the indenture. . . .
>
> The rating actions reflect a weakened financial profile resulting from substantial power trading losses, accompanied by increased business risk by the company's regulated utility operations. In addition, continued funding needs related to <u>Avista's</u> nonregulated ventures and a change in the company's nonregulated nationwide trading strategy during 1999 have contributed to increased risk in the company's business profile.
>
> . . .
>
> In order to reduce the strain of funding the nonregulated ventures, <u>Avista</u> is pursuing various alternative financing arrangements, the timing of which is uncertain. <u>Avista</u> is also relying on favorable regulatory action to help stabilize its financial profile by filing for an accounting order to recover,

> on a deferred basis, excess purchased power costs starting with July 2000. . . .
>
> OUTLOOK: NEGATIVE.
>
> The negative outlook reflects concerns that transcend substantial trading losses that might have been avoided with appropriate risk oversight of power marketing operations. Concerns are also tied to a forecast of continuing weak financial margins reflective of management's pursuit of investments in unregulated ventures in an effort to enhance shareholder value. To preserve Avista's rating, management needs to demonstrate the implementation of a long-term strategy for sound financial performance that is consistent with bondholders' interests . . . .

S&P first cited Avista's weakness caused by power trading losses, accompanied by increased risk at the regulated utility. S&P's negative outlook indicates the S&P's continued concern with Avista's unregulated ventures.

On March 27, 2001, Fitch lowered its ratings of Avista's senior secured debt from "BBB+" to "BBB". The rating action primarily reflected Avista's rising deferred fuel and purchased power balances. Fitch also said:

> Funding the deferrals is pressuring liquidity. Further liquidity stress comes from Avista Corp. providing support for unregulated subsidiaries in the telecommunications, internet-based energy management and alternative generation businesses. These businesses remain in start-up mode, and are not yet profitable.

On August 2, 2001, S&P lowered Avista's ratings and also put it on CreditWatch with negative implications. The senior secured debt rating was lowered to "BBB" from "BBB+." S&P said:

> The ratings downgrade reflects the increasing business risk at subsidiary Avista Utilities, stemming from the continuation of significantly deteriorated hydrogeneration conditions, increasing financial risk resulting from mounting power-cost deferrals, and uncertainty regarding the outcome of the

> company's recent filing for a rate surcharge with the Washington Utilities and Transportation Commission (WUTC) and the Idaho Public Utilities Commission (IPUC). The CreditWatch listing addresses the potential for the assignment of speculative-grade ratings, unless the company receives adequate relief in the form of a rate surcharge within the next few months, completes a proposed equity offering, and closes financing for the Coyote Springs 2 plant. Without these events, Avista's liquidity may be compromised and ratings will be further lowered.
>
> . . .
>
> The ratings on Avista are based on the company's average business position, characterized by low-cost, hydroelectric generation, competitive rates, operating and regulatory diversity in the states of Washington and Idaho, and an above-average service area. However, these strengths are offset by current hydro-generation conditions, which are significantly worse than average; a challenging, albeit improving, regulatory environment in Washington; and continuing involvement in riskier, nonregulated ventures. Nonregulated activities remain a focus for Avista, although at a reduced level, eventually leading to lower business risk.

S&P's ratings reduction was primarily focused on the utility, but S&P included the risk of nonregulated ventures in its consideration of aggravating factors and the agency went on to comment on the funding requirements of the unregulated subsidiaries.

Q. WHAT CONCLUSION DO YOU DRAW FROM THIS HISTORY?

A. I draw several conclusions:

(1) Avista's unregulated ventures significantly eroded the company's financial position and increased its business risk. The erosion of credit quality and increase in risk was transmitted to Avista Utilities, the regulated utility. Avista Utilities is faced with the specter of below-investment grade ratings because Avista chose a corporate structure that didn't adequately insulate the utility from the unregulated ventures.

(2) Avista has used the utility to significantly fund its unregulated ventures.

(3) Avista is ready to reduce its dividend if it wishes to improve cash flow for unregulated ventures but it has not reduced its dividend in the face of worsening cash-flow conditions at the utility.

(4) Avista needs more equity to strengthen its balance sheet.

(5) Avista should develop self-funding for its unregulated subsidiaries and use internally generated funds to strengthen its balance sheet.

Alternatives and Options

Q. WHAT ALTERNATIVES AND OPTIONS MIGHT THE COMMISSION CONSIDER IN LIEU OF, OR IN CONJUNCTION WITH THE SPECIFIC RATE RELIEF THAT AVISTA SEEKS?

A. The Commission might consider several alternatives and options in lieu of, or in conjunction with the specific rate relief that Avista seeks. I discuss several options and alternatives below.

Do Nothing

The Commission should consider no action at this time. I am familiar with emergency and interim rate relief associated with a general rate case but I am not familiar with "emergency" or "interim" rates associated with a power cost deferral mechanism. The Commission could wait until Avista's expected November 1, 2001 general rate case filing before considering interim rates. A complete rate case filing would allow for a more comprehensive review and provides the proper context for considering interim relief. According to Avista witness Mr. Peterson, the Company would generally meet its covenant status with additional financings and without any surcharge. (See RRP-1, page 1.) In other words, the Company could finance its way back to meeting the covenants.

Accelerated Depreciation

The Commission could raise rates by accelerating the Company's depreciation to the extent the Commission determines that some amount of increased cash flow is reasonable and immediately necessary. Rates would increase by increased depreciation expense, providing the Company with the increased cash flow that it needs in the short term but eventually reducing rate base below what it would have been otherwise, favoring future ratepayers. I would recommend accelerated depreciation of distribution assets, rather than generation or transmission assets.

Grant the Interim Relief with Conditions

If, and only if Avista has met the standard for interim rate relief, the Commission could grant some form of "interim" relief but condition new rates on Avista performing several actions. Those actions might include some of the following:

(1) Cut Avista's dividend to improve internal cash flow.

(2) Successfully issue new equity to achieve the Company's 50/50 debt/equity goal. The Company estimated the amount of equity to be $220 million to achieve this goal. (*See* Exhibit RRP-1, page 2.)

(3) Enhance the financial wall between Avista Utilities and the unregulated subsidiaries of Avista such that the unregulated subsidiaries are self-funding and dividends paid by Avista Utilities to Avista are fully paid out to shareholders.

(4) Sell Coyote 2. The Commission might reasonably conclude that Coyote 2 is the expansion catalyst that is the focus of recent credit concerns. Selling Coyote 2 property and rights would generate funds and reduce the need for external debt finance.

(5) Reduce or eliminate any discretionary stock buy-back program. The Company should be retaining equity in the Company and issuing new shares of stock rather than spending cash on repurchasing outstanding shares.

Grant Interim Rate Relief at a Lower Recovery Level to Meet Fixed Charge Ratios

The Commission could grant a lesser interim rate relief than the Company requested by targeting the same fixed charge ratio the Company used to demonstrate its financial distress. Company Exhibit RRP-1, page 1, shows that if the Commission grants Avista the rate relief the Company seeks (and the Company achieves its financings) then the Company will exceed its required ratios. For example, Mr. Peterson's Exhibit RRP-1, page 1, column "G" indicates that with the new financings and the surcharge the Company will achieve a 2.23 fixed charge coverage ratio in June 2001,which is significantly higher than the 1.25 required ratio. The Commission might consider a lesser surcharge that is expected to result in meeting the minimum required fixed charge coverage ratio. I have not calculated what amount of increased revenue requirement would result in meeting the minimum fixed coverage ratios shown on page 1 of RRP-1. The Commission could verify Mr. Peterson's financial model and calculate rates based on his model that resulted in coverage ratios complying with the covenants.

Conclusion

Q. WHAT DO YOU CONCLUDE FROM YOUR REVIEW OF AVISTA'S TESTIMONY AND OTHER INFORMATION?

A. I conclude that the Commission might consider a number of options and alternatives in evaluating the surcharge the Company requested. Avista is not necessarily in financial distress, but the Company apparently faces difficulty in obtaining new financing for Coyote Springs 2. Much of this difficulty is a result of Avista's unregulated ventures which have harmed the financial flexibility of the regulated utility. The Commission should seriously question the necessity of granting rate relief while Avista continues to pay out a dividend and use the utility to finance the unregulated ventures that have caused Avista Utilities some harm.

Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?

A. Yes, it does.

**BEFORE THE WASHINGTON UTILITIES
AND
TRANSPORTATION COMMISSION**

**DOCKET NO. UE-010395
AVISTA CORPORATION**

EXHIBIT JST-2

WITNESS QUALIFICATIONS STATEMENT

JOHN S. THORNTON, JR.

AUGUST 24, 2001

Witness Qualifications Statement for John S. Thornton, Jr.

ADDRESS: 7752 East Pepper Tree Lane, Scottsdale, AZ 85250-7948

EDUCATION:

Master of Science Degree from the University of London, having completed the graduate program in economics at The London School of Economics and Political Science (1986)

Graduate Diploma in Economics from The London School of Economics (1985)

Bachelor of Arts degree, major in economics, from Willamette University (1984)

Certified Rate of Return Analyst, member of the Society of Utility and Regulatory Financial Analysts

1998 - passed level I exam of the CFA
1995 PaineWebber Seminar on Corporate Finance for the Utility Industry
1990 MIT-Harvard Public Disputes Resolution Program seminar
1990 National Association of Regulatory Utility Commissioners (NARUC) Advanced Regulatory Studies Program
1988 NARUC Annual Regulatory Studies Program

EXPERIENCE:

Chief of Accounting & Rates, Arizona Corporation Commission, Utilities Division, April 2001 to present
Public Utility Analyst 2 with the Public Utility Commission of Oregon, February 1991 to February 2001
Public Utility Analyst 1 with the Public Utility Commission of Oregon; February 1988 to February 1991
Testified or provided rate of return analyses in the following dockets:

- UE–102-PGE disaggregation/general rate case (chief rate of return witness).
- UE 94–PacifiCorp general rate case (chief rate of return witness).
- UE 93 (UM 592, UM 694)–Portland General Electric Co. excess power cost/Coyote/BPA filing.
- UE 92–Idaho Power general rate case.
- UE 88–Portland General Electric Co. general rate case (chief rate of return witness).
- UE 85/UM 529–Portland General Electric Co. Earnings test for Trojan Shutdown Cost Adjustment Account.

UE 84–Idaho Power Co. deferred account earnings benchmark.
UE 82/UM 445–Trojan Outage Cost Adjustment Account earnings test benchmark.
UE79–Portland General Electric Co. general rate case (chief rate of return witness).
UG 104/UG 105/UG 106–LDC deferred account earnings test benchmarks.
UG88–Cascade Natural Gas Co. general rate case (chief rate of return witness).
UG81–Northwest Natural Gas Co. general rate case (chief rate of return witness).
UT 125–US WEST Communications, Inc general rate case (chief rate of return witness).
UT 113–GTE Northwest general rate case (chief rate of return witness).
UT101–United Telephone Co. of the Northwest general rate case (chief rate of return witness).
UT85–US WEST general rate case (capital structure and debt cost witness).
RP95-409–Northwest Pipeline general rate case (FERC).
RP93-5–Northwest Pipeline general rate case (FERC).

Responsibilities have also included the following:
Analyses and recommendations in over one hundred financing dockets.
UM 903: Cost of capital analysis for purchased gas adjustment mechanism, Northwest Natural.
UM 21: Cost of capital analysis for avoided cost calculations.
UM 351: Cost of capital analysis for long-run incremental-cost studies.
UM 773: Cost of capital analysis for long-run incremental-cost studies.
UM 573: Analysis of purchased power on the utility's cost of capital.

Speaker-US Agency for International Development's Conference on Private Sector Participation in the Colombian Power Sector, 1991.

Presented cost of equity and distribution risk discount testimony on behalf of the Mirage Resorts, Inc., Park Place Entertainment Corp., and the Mandalay Group before the Public Utility Commission of Nevada, Docket nos. 99-4001 and 99-4005.

Presented beta adjustment and distribution risk discount testimony on behalf of the Division of Ratepayer Advocates of the California Public Utility Commission, Application Nos. 98-05-019, 021, & 024.

**BEFORE THE WASHINGTON UTILITIES
AND
TRANSPORTATION COMMISSION**

**DOCKET NO. UE-010395
AVISTA CORPORATION**

EXHIBIT JST-3

PRESS RELEASE ON AVISTA'S AUGUST 10, 2001, DIVIDEND DECLARATION

JOHN S. THORNTON, JR.

AUGUST 24, 2001

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Friday August 10, 2:29 pm Eastern Time

Press Release

SOURCE: Avista Corp.

Avista Corp. Board Declares Common and Preferred Dividends

SPOKANE, Wash., Aug. 10 /PRNewswire/ -- Avista Corp.'s (NYSE: AVA - news) board of directors today declared a quarterly dividend of $0.12 per share on the company's common stock. A quarterly dividend of $1.73750 per share was declared on all outstanding shares of preferred stock Series K. The common and preferred stock dividends are payable Sept. 14, 2001, to shareholders of record at the close of business on Aug. 21, 2001.

Related Quotes

AVA	17.10	-0.25

delayed 20 mins - disclaimer

Get Quotes

- (Photo: http://www.newscom.com/cgi-bin/prnh/19990629/AVALOGO)

Avista Corp. is an energy, information and technology company whose utility and subsidiary operations focus on delivering superior products and providing innovative solutions to business and residential customers throughout North America.

Avista Corp.'s affiliate companies include Avista Utilities, which operates the company's electric and natural gas generation, transmission and distribution business. Avista's non-regulated businesses include Avista Advantage, Avista Labs, Avista Communications, Avista Energy and Avista Power.

Avista Corp.'s stock is traded under the ticker symbol ``AVA.'' For more information about Avista Corp. and its affiliate businesses, visit the corporate website at http://www.avistacorp.com/

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SOURCE: Avista Corp.

**BEFORE THE WASHINGTON UTILITIES
AND
TRANSPORTATION COMMISSION**

**DOCKET NO. UE-010395
AVISTA CORPORATION**

EXHIBIT JST-4

RESPONSE TO WUTC DATA REQUEST NO. 154

AVISTA'S BOND RATING HISTORY SINCE 1995

JOHN S. THORNTON, JR.

AUGUST 24, 2001

AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	Washington	DATE PREPARED:	8/13/01
CASE NO:	UE-010395	WITNESS:	Ron Peterson
REQUESTER:	WUTC	RESPONDER:	Diane Thoren
TYPE:	Data Request	DEPT:	Finance
DUE DATE:		TELEPHONE:	(509) 495-4331
REQUEST NO.:	154		

REQUEST:

Please describe in detail the Company's bond rating history since 1995 (which may include the Washington Water Power Company and describe the events that caused changes to the Company's bond rating. Provide the associated rating actions/commentaries published by Moody's, Standard & Poor's, Duff & Phelps, and any other rating agency.

RESPONSE:

Please see Exhibit No. ___ (RRP-1) , page 4 for the Company's bond rating history since 1995. The following news releases are attached announcing the various credit rating agency actions and reasons for such actions since 1995:

1.	8/18/98	Standard & Poor's	Outlook from Stable to Negative
2.	7/15/99	Moody's	Outlook from Stable to Negative
3.	8/13/99	Duff & Phelps	Ratings lowered-Senior secured from "A" to "A-"
4.	8/23/99	Standard & Poor's	Ratings lowered-Corporate Rating and Senior secured from "A" to "BBB+"; Outlook from Negative to Stable
5.	5/9/00	Standard & Poor's	Outlook from Stable to Negative
6.	6/22/00	Moody's	Ratings on review for potential downgrade
7.	6/23/00	Fitch/D&P	Ratings lowered-Senior secured from "A-" to "BBB+"; Outlook Stable
8.	7/27/00	Moody's	Ratings lowered-Senior secured from "A3" to "Baa1"; Ratings still on review for possible further downgrade
9.	7/31/00	Standard & Poor's	Rating lowered-Corporate Rating from "BBB+" to "BBB"; Outlook remained Negative
10.	3/27/01	Fitch/D&P	Ratings lowered-Senior secured from "BBB+" to "BBB"; Outlook is Negative
11.	8/2/01	Standard & Poor's	Ratings lowered-Corporate Rating from "BBB" to "BBB-" and Senior secured from "BBB+" to "BBB"; CreditWatch-Negative

STANDARD &POOR'S | RATINGSDIRECT

Return to Regular Format

Research:

S&P Affms Washington Water Pwr Rtgs; Outlk To Negative

Publication Date: 18-Aug-1998

Analyst: Raymond M Leung, New York (1) 212-208-1621

NY -- Standard & Poor's CreditWire 8/18/98 -- Standard & Poor's today revised Washington Water Power Co.'s (WWP) rating outlook to negative from stable. Also, Standard & Poor's affirmed WWP's single-'A' senior secured and corporate credit ratings and single-'A'-minus senior unsecured, preferred stock, and bank loan ratings. The single-'A'-minus preferred stock ratings for Washington Water Power Capital I and Washington Water Power Capital II were also affirmed.

The revised outlook reflects management's strategy to aggressively grow its assets and customer base through acquisitions and strategic alliances. This strategy is likely to accelerate the evolution toward a riskier business profile and to pressure key financial measures, which are already somewhat weak for the current ratings. WWP has already placed increasing emphasis on inherently riskier nonregulated business activities, mainly those of Avista Energy, the energy trading unit.

The company reduced its common dividend by 61% in preparation for its aggressive growth plans. This cut will provide the company with at least $30 million of annualized cash flow over the next three years to help fund management's expansion strategy. The annualized common dividend savings incorporates WWP's exchange offer plan. This offer will provide common shareholders the option to exchange their common shares for mandatory convertible preferred stock, which would maintain the historic dividend level for about three years. After three years, the mandatory convertible preferred stock will be converted back to common shares and should provide another $10 million in annualized savings. The company, however, has the option to convert before the end of the three-year period. The mandatory convertible preferred stock, which Standard & Poor's will view as common equity given the proposed mandatory conversion, will be exchanged for up to 20 million common shares (about 35% of outstanding common shares). If more than 20 million common shares are tendered, the tendered shares will be prorated. The convertible preferred stock is subject to certain regulatory approvals. If not approved by Oct. 23, the exchange offer will not be made and the full benefits of the common dividend reduction would be realized. The revised dividend rate of 48 cents per share will be implemented on Dec. 15, 1998.

OUTLOOK: NEGATIVE

The negative outlook reflects WWP's plans to actively pursue opportunities through acquisitions and strategic alliances that are expected to elevate the company's business risk profile. Furthermore, management's intent to use greater leverage is a concern despite the significant common dividend reduction, Standard & Poor's said. --CreditWire

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Moody's Investors Service
Global Credit Research

Fundamental Credit Research
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MOODY'S REVISES OUTLOOK FOR RATINGS OF AVISTA CORP. TO NEGATIVE

Approximately $780 Million of Securities Affected

New York, July 15, 1999 -- Moody's Investors Service changed the outlook for the ratings of securities issued by Avista Corp. to negative from stable to reflect the aggressive and more risky business strategy being pursued by the company. Although management has implemented strict financial and credit risk management plans for the company's energy marketing and trading operations, which are conducted through Avista Energy, the risks have come to the fore during the first half of 1999, with losses at Avista Energy pressuring financial performance. Furthermore, management is demonstrating somewhat less conservative financial strategies from a fixed income investor's perspective, including a common stock repurchase plan. Because we anticipate that the company will become increasingly dependent on the potentially more volatile earnings stream from Avista Energy to help minimize external funding of growth initiatives, success in adequately mitigating risks relating to energy marketing and trading activity will be integral to maintaining the current ratings.

Avista Corp. is a diversified energy company, maintaining electric and gas utility and non-regulated energy and non-energy subsidiary operations throughout North America.

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Company Press Release

SOURCE: Duff & Phelps Credit Rating Co.

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Avista Ratings Downgraded by DCR

CHICAGO, Aug. 13 /PRNewswire/ -- Duff & Phelps Credit Rating Co. (DCR) has lowered its ratings of Avista Corp. (AVA) debt and preferred stock by one notch. AVA's first mortgage bonds and secured medium-term notes are now rated 'A-' (Single-A-Minus), down from the earlier 'A' (Single-A). Debentures and unsecured medium-term notes are now rated 'BBB+' (Triple-B-Plus) down from the earlier 'A-' (Single-A-Minus). The company's preferred stock. TOPrS and capital securities are lowered to 'BBB' (Triple-B) from 'BBB+' (Triple-B- Plus). Approximately $633 million of existing debt and $414 million of preferred securities are affected. The company's $400 million shelf registration to issue medium-term notes is also rated 'BBB+' (Triple-B-Plus). Debt to be issued under the shelf registration is pari passu with other unsecured debt.

The downgrade is based on increasing business risk through investments in unregulated subsidiaries, lacking improved financial coverage ratios to support higher potential cash flow volatility. As a percentage of consolidated EBITDA, the utility contribution is decreasing. AVA is devoting capital to electricity and natural gas trading, with infant investments in greenfield merchant generation, fuel cell development, an Internet energy billing service and a competitive local exchange carrier.

The regulated utility owns desirable, low-cost hydro assets, operating in a territory that is closed to competition. It has, however, little growth in its retail jurisdiction, and its higher-margin wholesale contracts continue to roll off.

Significant cash flow volatility is derived from Avista's energy trading subsidiary. The trading group has been challenged to integrate its personnel and information systems among three cities since the purchase of Vitol Energy and Trading on February 1, 1999.

While the energy trading subsidiary has achieved strides in structuring the organization to desired parameters, its business scope remains characterized by risk. Its trades are primarily of physical electricity on a national basis, while owning little underlying generation. Pricing of these positions, some of which have 10 years' duration, can be illiquid and highly volatile.

The trading subsidiary lost more than $19 million for the six months ended June 30, 1999, of which $11 million was lost in the second quarter. These losses occurred in three of the firm's traded markets.

AVA is also monetizing certain non-core assets which are unrelated to the trading business. Since November 1998, approximately $218 million in cash has been raised, with the potential to receive an additional $65-100 million by the end of 2000. On a net basis, AVA does not plan to reduce debt near term.

Bondholders should note two events that are weakening their position. First, AVA is repurchasing equity. The company has a 5.6 million share repurchase program, which should be completed within two years. At a $17 average share price, capital outflow is estimated to be $95 million. As of June 30, 1999, 1.6 million shares had been repurchased under the program. Second, some proceeds from new bond issuances at the parent are downstreamed to the subsidiaries to fund growth. Subsidiary assets are pledged to lenders independent of the parent, and the subsidiaries do not pay a regular dividend.

Avista Corp is a diversified energy company with its headquarters in Spokane, Wash. The electric utility serves a 26,000 square-mile area in eastern Washington and northern Idaho with a population of approximately 825,000. Additional natural gas service is provided to a 4,000 square-mile area in northeast and southwest Oregon and in the South Lake Tahoe region of California. Through its unregulated subsidiaries, AVA owns an investment portfolio of small companies, trades in electricity and natural gas, owns an Internet-based bill payment subsidiary, a competitive local exchange carrier and a fuel cell development business.

DCR is a leading global rating agency with 33 local market offices providing ratings and research on debt issues and insurance claims paying ability in more than 50 countries. For additional research on AVA, visit DCR's Web site athttp://www.dcrco.com (Quick Search: Avista). DCR's research is also available on Bloomberg at DCR<GO> and First Call's BondCall Direct/Research Direct at http://www/firstcall.com, as well as through other third-party providers.

SOURCE: Duff & Phelps Credit Rating Co.

More Quotes and News:
- Avista Corp (NYSE:AVA - news)
- Duff and Phelps Credit Rating Co (NYSE:DCR - news)

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S&P Lowers Ratings of Avista; Outlook to Stable

NEW YORK (Standard & Poor's CreditWire) Aug. 23, 1999--Standard and Poor's today lowered its ratings of Avista Corp. as follows:

-- Corporate credit and senior secured debt ratings to triple-'B'-plus from single-'A';

-- Senior unsecured debt and bank loan ratings to triple-'B' from single-'A'-minus; and

-- Preferred stock (including Avista Capital I and Avista Capital II) rating to triple-'B'-minus from triple-'B'-plus.

Also, Standard & Poor's today assigned its triple-'B' rating to Avista's $400 million unsecured debt securities Rule 415 shelf filing. The outlook was revised to stable from negative.

The lower ratings reflect Avista's aggressive growth strategy that emphasizes the inherently riskier nonregulated business, especially Avista Energy Inc., the company's energy trading unit, and notably weaker financial measures. Avista Energy acquired Vitol Gas and Electric Trading LLC in February 1999 and has incurred losses of $19.2 million due to weak national energy prices and the lack of volatility within virtually all commodities through the first six months of 1999. Standard & Poor's is concerned about the challenges of integrating the operations of three trading locations (Boston, Spokane, and Houston), which may have contributed to the recent poor performance together with the trading company's lack of physical assets. Management has implemented several changes that include new systems, risk-management controls, and financial and trading personnel. However, management's ability to stabilize financial performance and effectively integrate operations will be critical to supporting the current ratings. Consolidated financial measures will remain under pressure because of the changing business risk profile and a share repurchase program. Although capital spending is expected to remain manageable and largely internally funded, financial measures remain somewhat weak given the increased business risk profile, with adjusted cash flow interest coverage projected to stay around 3.75x and adjusted cash flow to average total debt near 25%.

Avista's ratings are based on the company's consolidated average business and financial profiles. The business profile reflects the utility's low-risk hydroelectric operations, very competitive electric rates, and moderate rate needs. These strengths are offset by the lack of a fuel clause in Washington and management's aggressive growth strategy in the inherently risky nonregulated energy trading business.

OUTLOOK: STABLE

The stable outlook reflects the company's strong utility operations and adequate consolidated financial measures for the current ratings. Continued aggressive growth of its nonregulated businesses and the ability to improve financial performance at the energy trading unit will be essential for ratings stability, Standard & Poor's said. --CreditWire

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AGL Resources' Ratings Placed on Watch Neg After Acquisition Announcement

On May 9, Standard & Poor's placed its ratings for AGL Resources Inc. ('BBB+') on CreditWatch with negative implications. The rating action reflects AGL's expected acquisition of Virginia Natural Gas Inc. from Dominion Resources Inc. in a cash deal valued at $500 million.

The CreditWatch listing acknowledges uncertainties concerning the financial implications of the acquisition, as the debt required to effect the acquisition would nearly double the amount of debt on AGL's balance sheet. Standard & Poor's will further assess the affect of the deal when more information becomes available regarding the longer-term capital structure of the consolidated entity. The acquisition could impair AGL's ability to generate financial performance commensurate with the existing ratings. Standard & Poor's expects to resolve the CreditWatch listing once the affect of the acquisition on the financial profile of the consolidated company is evaluated and the necessary regulatory approvals are received. The acquisition is expected to close by year-end 2000.

The acquisition of Virginia Natural Gas, a regulated entity with relatively predictable cash flow, would bolster the business profile of the consolidated company. The rating on AGL is derived mainly from the credit quality of Atlanta Gas Light Co., the company's regulated natural gas distribution business, which provided 97% of fiscal 1999 net income. AGL's historically stable financial performance reflects the utility's results.

AGL moved into the nonregulated arena, which carries a business risk that exceeds that of the regulated utility, as a result of the 1997 Natural Gas Competition and Deregulation Act, which unbundled the Georgia natural gas utility market and opened the merchant function to competition. Atlanta Gas Light's gas delivery service continues to be regulated as a natural monopoly. Thus, the utility's financial performance is expected to remain stable, given low debt levels, a monopolistic market position, and the opportunity to earn a regulated rate of return on its gas delivery business. However, AGL has become an aggressive participant in Georgia's unregulated natural gas merchant market, earning about a 35% market share during the transition to competition in 1999. The marketing company, Georgia Natural Gas Services Inc. (GNGS), assumes commodity risk related to supply and price. However, a portion of this risk is mitigated by GNGS' hedging program and by the presence of Dynegy Inc., with its strong risk and credit management skills and physical presence in the gas markets, as a joint venture partner. ■

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Avista's Ratings Affirmed; Outlook Revised to Negative

On May 9, Standard & Poor's affirmed its ratings on Avista Corp. ('BBB+'). At the same time, Standard & Poor's revised its outlook to negative from stable.

The outlook revision reflects a weakening of Avista's financial position primarily as a result of the poor performance of the company's nonregulated trading operations. The financial position may be further weakened at the regulated level if the Washington Utilities and Transportation Commission (WUTC) adopts a rate order comparable with the rate reduction recommended by its staff in the amount of $16.5 million. Avista had requested electric and gas rate increases totaling $31 million. Standard & Poor's recognizes that the staff's proposal is a recommendation only.

The ratings for Avista are based on the company's consolidated average business profile, which reflects the utility's low-risk hydroelectric operations, competitive electric rates, and moderate rate needs. These strengths are tempered by the company's participation in the inherently risky and nonregulated energy trading business through Avista Energy Inc., as well as other nonregulated ventures, including telecommunications, internet-based services, energy technologies, and power project development. Avista's hydroelectric power generation provides about 50% of the company's power supply needs for retail sales, which contributes to a cost structure that is among the lowest in the nation. Although power purchases are substantial, these are offset by firm sales.

Avista's poor performance in the volatile energy trading business stemmed from the acquisition of Vitol Gas & Electric LLC and the subsequent disposal of that company in 1999. As a result of its unsuccessful implementation of a national trading strategy, Avista incurred a $50.7 million after-tax loss in 1999, significantly affecting total company earnings. Avista has since revised its strategy to focus on regional energy marketing and trading in the West, a move that should partly mitigate the expected volatility of trading activity. Standard & Poor's views that the company's use of physical assets to back its marketing and trading activities mitigates the risks of this business. Furthermore, the company has stated that it intends to move away from energy trading and closer to energy marketing where margins tend to be higher. However, the shift in direction is expected to take a few years to fully implement.

Consolidated financial measures are expected to remain pressured, although manageable capital spending will be largely internally funded. Adjusted cash flow interest coverage is projected to be about 3.2 times, and adjusted cash flow to average total debt should range between 15% and 20%, which are weak for the current ratings.

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The negative outlook reflects the company's weakened consolidated credit profile and the poor performance of the energy trading business. An adverse ruling by the WUTC, in line with the staff's recommendation, would further hamper financial performance. ■

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Cleco's Ratings Lowered; Outlook Still Negative

On May 8, Standard & Poor's lowered its ratings on Cleco Corp. ('BBB+'/'A-2') and its utility subsidiary Cleco Utility Group Inc. ('BBB+'/'A-2'). At the same time, Standard & Poor's assigned a 'BBB'/'BBB-' rating to Cleco's $200 million Rule 415 shelf registration of senior unsecured securities and subordinated debt. Proceeds of the debt are to be used to fund the company's equity investment in two nonregulated generation projects under construction in Louisiana. The outlook for both companies remains negative.

Cleco is a holding company for the regulated Cleco Utility and various nonregulated businesses including Cleco Midstream Resources LLC, the holding company for Cleco's nonregulated generating projects and energy trading and marketing activities.

The rating actions reflect Cleco's aggressive movement into the nonregulated power generation business that is expected to pressure credit protection measures over the intermediate term. The corporate credit rating on Cleco was determined using a consolidated credit assessment methodology and, thus, incorporates the operating and financial strength of the company's primary subsidiary, Cleco Utility. Furthermore, the ratings on Cleco Utility are constrained by the financing requirements of Cleco's nonregulated activities, which have a business risk higher than that of the regulated utility.

The debt issued at Cleco is considered structurally subordinate to the utility operation and notched down accordingly. Cleco Utility, a relatively low-cost, midsize regulated electric utility that serves parts of Louisiana, provides stable cash flows to the parent company. Although the utility currently accounts for 99% of Cleco's consolidated earnings, within five years Cleco expects its nonregulated businesses to contribute more than 25% of earnings. These nonregulated businesses include generating projects, cogeneration, energy trading and marketing, and engineering services.

Cleco's initial nonregulated generation project, Evangeline, a 750MW repowering undertaking, is expected to enter commercial service in mid-2000 under a 20-year tolling agreement designed to off-load price and commodity risk to the Williams Cos. Although Cleco will guarantee a predetermined capacity level and unit availability under this agreement, the company's solid utility operating record mitigates Standard & Poor's concern over the assumption of the Evangeline operating risk. Cleco has financed the unit with project debt and plans to pursue other, similar endeavors over the near term, including the 1,000MW Acadia project, a 50/50 joint venture with Calpine Corp., which is expected to enter commercial operation in mid-2002.

Cleco's corporate credit rating incorporates the recognition that the company will face increased operating and financial risk as it implements its strategy for competing in a deregulated energy industry. This strategy will require capital spending in business sectors having risks that exceed those of the regulated utility business, and material investments could affect financing flexibility. In addition, capital-intensive investments in nonregulated generation may expose the company to lagging financial results during construction. The rating also reflects an awareness that Cleco plans to pursue a relatively conservative approach to nonregulated generation, seeking investment partners and underpinning each project with a long-term tolling agreement, rather than entering the higher-risk merchant power arena.

The negative outlook reflects the company's aggressive movement into the nonregulated power generation business, as Cleco's regional midstream energy services strategy is implemented over the next several years. This strategy exposes the company to increased operating risk, as it pursues new business ventures in which it has no previous track record. The additional financial requirements of an expanding nonregulated power generation strategy are expected to pressure credit-protection measures over the intermediate term, with adjusted funds from operations interest coverage at less than 4 times, and adjusted debt exceeding 50% of total capitalization, for the next several years. Achieving a stable outlook, at the current rating, is contingent upon demonstration that cash flows from projected nonregulated activities can be achieved and sustained and that financial performance of any incremental, material diversified investments is commensurate with the added operating risk. ■

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Telephone & Data Systems Ratings Raised, Off Watch

On May 10, Standard & Poor's raised its ratings on Telephone & Data Systems Inc. (TDS, to 'A-' from 'BBB') and United States Cellular Corp. Standard & Poor's rates United States Cellular on a consolidated basis with TDS, its 81% owner.

All ratings are removed from CreditWatch with positive implications, following the May 5, 2000, announcement of

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Rating Action
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MOODY'S REVIEWS SECURITY RATINGS OF AVISTA CORP. FOR POSSIBLE DOWNGRADE (SR. SEC. CURRENTLY AT A3)

Approximately $1.2 Billion of Debt Securities Affected

Moody's Investors Service placed the credit ratings of Avista Corp. on review for possible downgrade. The rating review is prompted by a confluence of events, including concerns about an adverse staff recommendation in the company's pending rate case, as well as trading losses tied to a wholesale short position exceeding management guidelines, and unprecedented spikes in power supply prices in the Northwest and California. Indeed, Avista announced yesterday that it would experience significant losses in the second quarter at its utility operation and that, based on its current expectations, the company would post breakeven consolidated results for the second quarter and full year, before preferred dividends. The utility operations' second-quarter 2000 results are being negatively impacted by the substantially higher than anticipated power supply prices in the Northwest and California during May and June, as well as the aforementioned wholesale short position exceeding management guidelines. Although management has cited significant steps that it will take to confine the negative financial effects from these issues on its utility operations to just the year 2000, Moody's is concerned that the steps may not be entirely successful in helping restore bondholder protection measurements to levels commensurate with the company's current ratings.

Ratings placed under review for possible downgrade include Avista Corp.'s A3 senior secured debt rating; its Baa1 senior unsecured debt, revolving bank credit facility, and issuer ratings; its Baa2 junior subordinated debt rating; its "baa2" preferred stock rating; and its (P)Baa1/(P)Baa2/(P)"baa1" shelf registration ratings for prospective issuance of unsecured debt, junior subordinated debt, or preferred capital securities, respectively. Also placed under review for possible downgrade were the "baa1" ratings of preferred capital securities of Avista Corp. Capital I and Avista Corp. Capital II, as well as the (P)"baa1"/(P)Baa2 shelf registration rating for prospective issuance of preferred capital securities or junior subordinated debt of Avista Corp. Capital III.

Moody's will closely monitor the ongoing Washington State regulatory proceeding, in which Avista seeks approval for higher base electric rates and a power cost adjustment mechanism, as well as an impending request for an accounting order to allow Avista to recover the ongoing extraordinary power costs associated with its utility retail operations. It is worth noting at this point that a staff recommendation in the currently pending rate case in Washington falls well short of what management requested and, in fact calls for a $16 million rate reduction. A final order upholding the staff's recommendation would limit financial performance at the utility and put downward pressure on the company's credit ratings. In reviewing Avista's credit ratings, Moody's will also explore with the company in more detail its plans for administrative and utility capital expense reductions, more conservative strategies with respect to wholesale energy sales in the utility sector, plans to add generation, and strategies to strengthen the company's balance sheet. The additional details associated with these plans will help determine the extent to which these steps can address Avista's power cost issues and enable the company to generate more favorable and consistent consolidated financial results.

Finally, Moody's will consider the ability for Avista's more risky non-regulated businesses, including Avista Energy, Avista Advantage, Avista Power, Avista Labs, and Avista Communications, to be self funding as they aggressively pursue their respective growth objectives in an effort to contribute materially to the company's prospective consolidated financial results. Importantly, Avista Energy's changed focus on regional wholesale energy marketing in the Northwest is currently paying off as evidenced by improved margins, which are expected to help offset the lost margins at the utility level during 2000. Nonetheless, Moody's is still concerned about the extenet to which Avista expects to rely on earnings from its more risky non-regulated businesses going forward.

Avista Corp. is an energy, information, and technology company, with utility and subsidiary operations throughout North America. Its headquarters are located in Spokane, Washington.

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DCR Avista Ratings Downgraded by Fitch
Jun 23 2000 9:29

Avista Ratings Downgraded By Fitch

Fitch-NY-June 23, 2000: Fitch has lowered the credit ratings of Avista Corp by one notch reflecting weakening financial ratios and increasing business risk at the regulated utility. Securities affected by the action are: first mortgage bonds and secured medium-term notes (MTNs) to 'BBB+' from 'A-'; debentures and unsecured MTNs to 'BBB' from 'BBB+'; preferred stock, trust originated preferred securities and capital securities from 'BBB' to 'BBB-'. The short-term commercial paper rating was affirmed at 'F2'. The Rating Outlook is Stable.

Due to losses related to energy purchases and sales over the past two years, significant reductions in consolidated financial performance have occurred. In 2000, Avista is forecasting breakeven results for the full year 2000, before preferred dividends. In 1999, Avista recorded a $98 million pretax loss from energy trading at its unregulated energy marketing subsidiary. EBITDA/Interest expense has steadily declined since 1997, as higher margin wholesale contracts have rolled off, and losses have occurred at trading-related businesses.

In August 1999, Avista's ratings were lowered one notch due to the higher business risk associated with increasing investments in unregulated businesses. Since then, weakening financial ratios are combined with now higher risk at the regulated utility. The regulated utility is suffering from a short power position in an environment of significantly higher regional power prices. What has previously been a stable source of cash flow, the regulated utility, now has potential cash flow volatility. The utility is spending approximately 25 percent more for purchased power this year, and if current pricing levels are sustained through year end, an additional $50 million gross loss could occur. The difficulty managing power procurement at the regulated utility is exacerbated by the recent sale of the Centralia plant and regulatory obstacles.

In May 2000, the staff of the Washington Utilities and Transportation Commission recommended a net $15 million electric and gas rate reduction, against Avista's $31 million requested increase. The utility also lacks a power cost adjustment clause to recoup the impact of higher power costs for the retail load. While a contract exists to purchase power from Centralia beginning in July 2000, Avista remains exposed to some purchased power requirements at market prices.

Avista Corp. (the regulated utility) has been infusing funds into its unregulated subsidiaries. While these monies are booked as loans,

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they are significant amounts that decrease Avista Corp.'s financial flexibility. Last year's sale of the Pentzer businesses has removed a notable source of subsidiary income.

A May 22, 2000 report on Avista is available at www.dcrco.com. Avista is a regulated electric and gas utility operating principally in Washington and Idaho. Through its subsidiary Avista Capital, Avista owns an Internet electricity bill-paying service (Advantage), a fuel cell development business (Avista Labs) and a small competitive local exchange carrier.

Fitch is an international rating agency that provides global capital market investors with the highest quality ratings and research. Dual headquartered in New York and London with a major office in Chicago, Fitch rates entities in 75 countries and has some 1,100 employees in more than 40 local offices worldwide. The agency, which is a combination of Fitch IBCA and Duff & Phelps Credit Rating Co., provides ratings for Financial Institutions, Insurance, Corporates, Structured Finance, Sovereigns and Public Finance Markets worldwide.

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Moody's Investors Service
Global Credit Research

Fundamental Credit Research
Rating Action
Published 27 Jul 2000

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MOODY'S DOWNGRADES CREDIT RATINGS OF AVISTA CORP. (SR. SEC. TO Baa1); ALSO CONTINUES TO REVIEW RATINGS FOR POSSIBLE FURTHER DOWNGRADE

Approximately $1.2 billion of Debt Securities Affected.

Moody's Investors Service downgraded the senior secured debt ratings of Avista Corp. to Baa1 from A3. The rating action reflects expectations that even a satisfactory resolution of the company's pending electric and gas base rate cases is likely to result in prospective debt protection measurements that would be considered more in line with the lower rating level. The ratings had been placed under review for possible downgrade on June 22, 2000.

Moody's is also continuing to review Avista Corp.'s security ratings for possible further downgrade, reflecting lingering concerns about the adverse staff recommendation in the pending rate cases, as well as the adverse financial effects from unprecedented spikes in power supply prices in the West and Northwest, which were magnified by a wholesale short position exceeding management guidelines, and the aggressive growth strategy that management continues to pursue. The outcome of the review for possible further downgrade will also be influenced by Avista's ability to add to its liquidity position, which would provide additional flexibility to respond to increased collateral calls. Such calls for collateral could increase, depending on the extent of volatility in the power supply market over the next several months, among other factors.

Ratings downgraded include Avista Corp.'s senior secured debt rating to Baa1 from A3; its senior unsecured debt, revolving bank credit facility, and issuer ratings to Baa2 from Baa1; its junior subordinated debt rating to Baa3 from Baa2; its preferred stock rating to "baa3" from "baa2"; and its shelf registration ratings for prospective issuance of unsecured debt, junior subordinated debt, or preferred capital securities to (P)Baa2/(P)Baa3/(P) "baa2" from (P)Baa1/(P)Baa2/(P) "baa1", respectively. Ratings also downgraded include the preferred capital securities of Avista Corp. Capital I and Avista Corp. Capital II to "baa2" from "baa1", as well as the shelf registration rating for prospective issuance of preferred capital securities or junior subordinated debt of Avista Corp. Capital III to (P) "baa2"/(P)Baa3 from (P) "baa1"/(P)Baa2.

Moody's will continue to closely monitor the ongoing Washington State regulatory proceedings, which include Avista's request for approval to increase base electric rates by 10.7% and implement a power cost adjustment mechanism, as well as a request to raise gas rates by 6.4%. The staff of the Washington commission has recommended a combined $16 million rate reduction in these proceedings which, if upheld in the final order, would limit the utility's financial performance and put further pressure on its credit ratings. Moody's will also focus on the outcome of an emergency filing for deferred accounting treatment of extraordinary power supply costs, which is expected by early- to mid-August. A favorable outcome would allow Avista to defer such costs for future recovery. Furthermore, Moody's notes that management is taking other steps to add to its liquidity position and restore more acceptable financial results. These currently include: ongoing negotiations to renew expiring credit facilities, to obtain an additional short-term credit line, and to issue medium-term notes; the recent hiring of Williams Energy Marketing & Trading Company to advise Avista Utilities on risk management, risk analysis, and resource optimization issues for all system requirements; operating expense and capital spending reductions; more conservative strategies with respect to wholesale energy sales in the utility sector; plans to add generation; and strategies to strengthen the company's balance sheet. Moody's remains concerned that these steps, against the backdrop of a possible adverse outcome in its regulatory proceedings, may not be enough to permit the company to achieve more favorable and consistent consolidated financial results.

Finally, Moody's will continue to assess the ability for Avista's more risky non-regulated businesses, including Avista Energy, Avista Advantage, Avista Labs, Avista Power, and Avista Communications, to be self funding as they aggressively pursue their respective growth objectives. Moody's remains concerned about the extent to which Avista expects to rely on earnings from its more risky non-regulated businesses going forward.

Avista Corp. is an energy, information, and technology company, with utility and subsidiary operations throughout North America. Its headquarters are located in Spokane, Washington.

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S&P Lowers Avista Corporate Credit Rating, Off Watch

NEW YORK (Standard & Poor's CreditWire) July 31, 2000--Standard & Poor's today lowered its corporate credit rating on Avista Corp. to triple-'B' from triple-'B'-plus. At the same time, Standard & Poor's affirmed its triple-'B'-plus senior secured debt rating and its triple-'B' senior unsecured debt rating (see list below). In addition, Standard & Poor's lowered its preferred stock rating to double-'B'-plus from triple-'B'-minus (see list). The ratings were removed from CreditWatch with negative implications where they were placed on June 23, 2000.

The outlook is negative.

The rating for the senior secured debt is one notch above the corporate credit rating because the debt is collateralized by utility property whose value is projected to substantially exceed the maximum amount of mortgage bonds that could be outstanding under the terms of the indenture. The rating for the senior unsecured debt is the same as the corporate credit rating because Standard & Poor's does not consider the existence of secured debt as materially disadvantaging unsecured debt holders.

The rating actions reflect a weakened financial profile resulting from substantial power trading losses, accompanied by increased business risk by the company's regulated utility operations. In addition, continued funding needs related to Avista's nonregulated ventures and a change in the company's nonregulated nationwide trading strategy during 1999 have contributed to increased risk in the company's business profile.

The substantial power losses in May and June 2000 were related to multiple events and resulted in a reduction of gross margin of about $126 million for second quarter 2000. Avista expects that gross margin will be reduced by a total of $160 million for the full year. Subsequent to the sale of the Centralia plant in May 2000, Avista's system capacity was reduced by 175 MW. Management did not seek to cover these commitments, anticipating sustained market prices for power that would remain at levels typical for the time of year. In doing so, the company exposed itself to unexpected volatility in market prices and significant increases in purchased power expenses during May and June.

In order to avoid additional purchased power exposure, Avista has contracted to receive 175 MW of power from Centralia starting in July 2000. In addition, the company is pursuing two generation projects in the Northwest; however, such generation is not expected to come on-line until at least the latter part of 2001, forcing Avista to rely on alternate sources of energy to meet a portion of its retail load needs until then.

In addition, the company's financial performance was adversely impacted by a wholesale short trading position that significantly exceeded management's guidelines, indicating questionable risk management practices, procedures, and decision making. Avista has now eliminated short-term wholesale commodity activities at the utility's trading operations and has hired Williams Energy Trading & Marketing to advise the company in the areas of risk management, analysis, and resource optimization.

In order to reduce the strain of funding the nonregulated ventures, Avista is pursuing various alternative financing arrangements, the timing of which is uncertain. Avista is also relying on favorable regulatory action to help stabilize its financial profile by filing for an accounting order to recover, on a deferred basis, excess purchased power costs starting with July 2000. A ruling is expected in early August.

As part of the company's rate filing in Washington, Avista is seeking to institute a power cost adjustment mechanism that would enable it to pass through a portion of cost increases or decreases to ratepayers, without having to file a full rate case. In its rate filing, Avista also requested increases for electric and natural gas rates of 10.4% and 6.4%, respectively. In response, however, the commission staff has recommended a reduction of 6.5% in electric rates and an increase of 1.0% in gas rates. Standard & Poor's is concerned that in light of Avista's recent power supply decisions, the commission may be less responsive to the company's filing.

OUTLOOK: NEGATIVE

The negative outlook reflects concerns that transcend substantial trading losses that might have been avoided with appropriate risk oversight of power marketing operations. Concerns are also tied to a forecast of continuing weak financial margins reflective of management's pursuit of investments in unregulated ventures in an effort to enhance shareholder value. To preserve Avista's rating, management needs to demonstrate the implementation of a long-term strategy for sound financial performance that is consistent with bondholders' interests, Standard & Poor's said. -- CreditWire

RATINGS LOWERED AND REMOVED FROM CREDITWATCH NEGATIVE

	TO	FROM
Avista Corp.		
Corporate credit rating	BBB	BBB+
Preferred stock	BB+	BBB-
Shelf preferred stock (prelim.)	BB+	BBB-
Avista Capital I		
Preferred stock*	BB+	BBB-
*Guaranteed by Avista Corp.		
Avista Capital II		
Preferred stock*	BB+	BBB-
*Guaranteed by Avista Corp.		

RATINGS AFFIRMED AND REMOVED FROM CREDITWATCH NEGATIVE

	RATING
Avista Corp.	
Senior secured debt	BBB+
Senior unsecured debt	BBB

Shelf senior secured/unsecured (prelim.) BBB+/BBB

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Press Release

Fitch Lowers Avista Ratings

Rates New Senior Notes

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^IXIC	1977.61	+59.12
^SPC	1176.45	+23.76
^IIX	188.92	+7.14
^PSE	718.08	+17.77

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NEW YORK--(BUSINESS WIRE)--March 27, 2001--Fitch has assigned a 'BBB-' rating to Avista Corp.' proposed new $300 million issue of senior unsecured notes due 2008 and lowered the ratings of Avista Corp.'s outstanding securities one notch to these levels:

-0-

	From	To
--Senior secured debt	'BBB+'	'BBB';
--Senior unsecured debt	'BBB'	'BBB-';
--Preferred stock	'BBB-'	'BB+';

--Commercial paper is affirmed at 'F2'.

The Rating Outlook is Negative.

The rating action reflects Avista Corp.'s rising deferred fuel and purchased power balances resulting from electricity and natural gas costs that exceed the amounts currently included in retail rates. The Negative Outlook reflects the potential for hydro conditions to worsen beyond expectations, and create a greater amount of deferred costs than anticipated.

The utility is not currently planning to request a rate increase to reduce the electric deferrals, based on expectations that after peaking later this year the deferrals will gradually reduce as some wholesale contracts roll off and additional generation is added by the end of 2002.

However, if hydro conditions worsen, or thermal outages occur, the company has notified the Washington Utilities and Transportation Commission (WUTC) in a filing made March 20 that addresses the recovery method for the electric deferral balance that it would need to file for a price increase. Avista will need WUTC approval to continue the deferral mechanism through the end of 2002. Ultimate recovery of these costs is uncertain and the deferred amounts are a notable percentage of utility equity.

Funding the deferrals is pressuring liquidity. Further liquidity stress comes from Avista Corp. providing support to unregulated subsidiaries in the telecommunications, internet-based energy management and alternative generation businesses. These businesses remain in a start-up mode, and are not yet profitable.

Consolidated financial results benefited in 2000 from trading gains at the unregulated energy trading subsidiary, Avista Energy. However, Avista has not received upstream cash distributions from its subsidiary since substantially all of Avista Energy's assets are pledged as security under the terms of its bank credit agreement. Avista has drastically reduced the scope of its trading book, yet retains several healthy in-the-money positions in the western United States. Some unpaid receivables net of reserves exist, however, from the California Independent Systems Operator and Power Exchange.

Financial ratios at the utility have weakened over the past year. While some improvement is expected during 2001-2002, EBITDA/Debt is expected to remain at or below 20%, with EBITDA/Interest expense in the low 2 times (x) range.

Fitch views Avista's business risk profile as improving relative to recent years. Senior management changes have resulted in a return to a more conservative strategy. AVA is now focused on managing its retail load, and only selling power from owned generation in the Pacific Northwest to the extent excess is available.

Avista Corp. is a vertically integrated utility headquartered in Spokane, Wash.

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In New York
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Questions or Comments?

Thoren, Diane

From: SandPUtil@StandardAndPoors.Com
Sent: Thursday, August 02, 2001 8:26 AM
To: dthoren@avistacorp.com
Subject: CORRECT: Ratings on Avista Corp. Are Lowered and Placed on CreditWatch Negative

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CORRECT: Ratings on Avista Corp. Are Lowered and Placed on CreditWatch Negative

Dimitri Nikas, New York (1) 212-438-7807

(Editor's note: The prior versions of this press release contained an error in the list of ratings changes at the end.)

NEW YORK (Standard & Poor's CreditWire) Aug. 2, 2001--Standard & Poor's today lowered its ratings on Avista Corp. (see list below). The ratings have been placed on CreditWatch with negative implications.

The ratings downgrade reflects the increasing business risk at subsidiary Avista Utilities, stemming from the continuation of significantly deteriorated hydrogeneration conditions, increasing financial risk resulting from mounting power-cost deferrals, and uncertainty regarding the outcome of the company's recent filing for a rate surcharge with the Washington Utilities and Transportation Commission (WUTC) and the Idaho Public Utilities Commission (IPUC). The CreditWatch listing addresses the potential for the assignment of speculative-grade ratings, unless the company receives adequate relief in the form of a rate surcharge within the next few months, completes a proposed equity offering, and closes financing for the Coyote Springs 2 plant. Without these events, Avista's liquidity may be compromised and ratings will be further lowered.

Substantially worse-than-anticipated stream-flow conditions have reduced Avista's total hydroelectric generation capacity by 194 average megawatts (aMW) compared with the expected decline of 135 aMW, necessitating additional power purchases in the open market to meet expected load. Because Avista's rates are currently insufficient to cover the cost of expensive purchased power, the company has continued to fund the difference internally and to accumulate power cost deferrals. These deferrals exceeded $140 million as of June 30, 2001. Without any rate relief, Avista forecasts electric deferrals in Washington and Idaho to approach $265 million by year-end 2001. This is because of additional purchases that were made when power prices were still very high, to meet energy requirements for the remainder of 2001. Furthermore, forward-market wholesale prices have fallen precipitously in the Pacific Northwest in the past few months, jeopardizing the company's plan to use excess generating capacity from the Coyote Springs 2 plant to recover the power-cost deferrals beginning in 2002.

These factors combined have placed Avista in a precarious situation. At of the end of July 2001, Avista had used all the proceeds of its April 2001 $400 million note offering, and has commenced borrowing on its credit facility. In an effort to maintain liquidity, Avista filed an emergency request on July 18, 2001 with the WUTC and the IPUC for energy surcharges of 36.9% and 14.7%, respectively (totaling approximately $104 million on an annual basis to recover power-cost deferrals. The company requested to implement these surcharges, if approved, starting Sept. 15, 2001. The proposed rate surcharge is subject to a prudency review during Avista's general rate case to be filed in November 2001. In a further effort to maintain liquidity, Avista is also planning a common stock offering and is pursuing external financing for its Coyote Springs 2 combustion turbine plant.

The ratings on Avista are based on the company's average business position, characterized by low-cost, hydroelectric generation, competitive rates, operating and regulatory diversity in the states of Washington and Idaho, and an above-average service area. However, these strengths are offset by current hydro-generation conditions, which are significantly worse than average; a challenging, albeit improving, regulatory environment in Washington; and continuing involvement in riskier, nonregulated ventures. Nonregulated activities remain a focus for Avista, although at a reduced level, eventually leading to lower business risk. The information and technology group continues to require additional funding over the intermediate term, but Avista is pursuing various financing options to ease that burden. To the extent that Avista can fund these activities with internally generated cash, credit quality is not materially affected. During 2000 and 2001, the energy trading and marketing group provided significant support to the company's consolidated financial profile. However, the size of these operations is expected to decrease as the strategy shifts towards marketing activities around its physical assets.

Avista's financial profile has weakened over the past 18 months, as internally generated funds have been inadequate to fund capital spending and purchased-power costs, leading to credit protection measures that remain very weak for the rating category, Standard & Poor's said. --CreditWire

RATINGS LOWERED AND PLACED ON CREDITWATCH

	TO	FROM
Avista Corp.		
Corporate Credit Rating	BBB-	BBB
Senior secured	BBB	BBB+
Senior unsecured	BBB-	BBB
Senior unsecured (preliminary)	BBB-	BBB
Preferred stock	BB	BB+
Preferred stock (preliminary)	BB	BB+

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Direct Testimony of John S. Thornton, Jr. on behalf of the Industrial Customers of Northwest Utilities and the Office of the Attorney General of Washington, Public Counsel Section, and the Direct Testimony of Donald W. Schoenbeck on behalf of the Industrial Customers of Northwest Utilities upon each party on the official service list by causing the same to be mailed, postage-prepaid, through the U.S. Mail. Dated at Portland, Oregon, this 24th day of August, 2001.

J Meier

Julia Meier