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BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-01_____

DIRECT TESTIMONY OF

JON E. ELIASSEN

REPRESENTING AVISTA CORPORATION

1 Q. Please state your name, employer, and business address.

2 A. My name is Jon E. Eliassen. I am employed as Senior Vice President and Chief
3 Financial Officer by Avista Corporation at 1411 East Mission Avenue, Spokane, Washington.

4 Q. Would you briefly describe your educational and professional background?

5 A. I joined Avista Corporation in 1970 as a General Accountant after graduating
6 from Washington State University with a business degree. I then served in a number of
7 positions, including Financial Analyst, Financial Supervisor and Treasurer, before being named
8 Assistant Vice President of Finance and Treasurer in August 1985. I was appointed Vice
9 President of Finance and Chief Financial Officer in 1986 and was named to my current position
10 in August 1996.

11 I am a board member and Chair of the Western Energy Institute and am past president
12 and member of the Board of Directors of the Financial Executives Institute, Inland Northwest
13 Chapter, past member of Pacific Coast Gas Association, Edison Electric Institute and Western
14 Electric Power Institute.

15 Q. What is the scope of your testimony in this proceeding?

16 A. Avista continues to face significant financial challenges. I will address the
17 problems that need to be resolved to improve the Company's financial condition, and how the
18 Company's present financial situation affects our customers. I will explain the actions the
19 Company has taken to supply needed capital and mitigate the mounting financial concerns. I will
20 summarize what the Company is asking of the Commission in this proceeding, and the probable
21 consequences with and without the requested relief.

22 Q. Please summarize the main points you will be making in your testimony.

1 A. Avista must continue to improve its financial condition. Our credit rating is nearly
2 the lowest of any rated utility listed by Standard & Poor's, barely better than the bankrupt or
3 defaulted utilities in California. Our ability to continue to provide customers adequate service
4 could be impacted if we do not improve Avista's financial condition through the rate relief and
5 accounting relief requested in this filing. As a utility company, we must have access to short-
6 term and long-term financing at reasonable rates to continue to provide the necessary level of
7 service to our customers. Utility service providers are by definition very capital intensive
8 businesses, with a significant investment per customer and per revenue dollar.

9 Adequate rates are necessary to provide current cash flow to cover operating costs, as
10 well as cash earnings to support payment of interest and dividends on the capital invested in the
11 business. At current rate levels, we do not demonstrate adequate earnings or cash generation to
12 justify investment grade credit ratings, except on our most senior debt that is secured by property.

13 Avista is currently financed with a significant amount of debt. The Company's financial
14 condition must be improved to cover not only the immediate interest costs associated with this
15 debt, including repayment of principal, but also to lay the groundwork for the opportunity to
16 issue additional equity capital.

17 Q. Please explain how your testimony is organized.

18 A. My testimony is organized as follows:

19 I. Financial Issues that Need to be Addressed

20 A. Credit Ratings and Access to Capital

21 B. Company's Need to Access Capital

22 C. Opportunity for Issuance of Equity Securities

23 II. Steps the Company has Taken to Resolve Financial Issues

24 A. Cash Conservation and Earnings Improvement

1 B. Regulatory Initiatives

2 III. Additional Regulatory Relief is Needed

3 A. Expedited Decisions to Address Immediate Concerns

4 B. Commission Decisions on Remaining General Rate Case Issues

5 IV. Capital Structure and Cost of Capital

6 V. Conclusion

7
8 Q. Are you sponsoring any exhibits with your direct testimony in this proceeding?

9 A. Yes. I am submitting the following seven exhibits:

- 10 ■ Avista's Credit Ratings (JEE-1)
- 11 ■ Business Risks (JEE-2)
- 12 ■ Financial Indicators (JEE-3)
- 13 ■ Additional Borrowing Costs Related to Lowered Credit Ratings (JEE-4)
- 14 ■ Cash Flow Requirements (JEE-5)
- 15 ■ Maturing Debt and Credit Facilities (JEE-6)
- 16 ■ Capital Structure and Cost of Capital (JEE-7)

17 **I. Financial Issues that Need to be Addressed**

18 Q. What are the key financial concerns that need to be addressed right now?

19 A. Avista's credit ratings are extremely low and the outlook is basically negative. As
20 shown in Standard & Poor's November 12, 2001 listing of "U.S. Electric/Gas/Water
21 Companies", Exhibit __ (JEE-1), pages 1 through 3, Avista is ranked 310th out of 318 utilities
22 rated by S&P, at the end of the BB+ companies and just barely ahead of the eight BB, B+ and
23 defaulted companies. Avista's present credit ratings, which are below investment grade, are
24 making debt more expensive and restricting our access to capital. It is essential that Avista

1 improve its financial performance – and this need is continuing and immediate – so that
2 investment grade credit ratings can be restored.

3 The Company needs access to capital to continue operations, to refund maturing debt, and
4 to pay for facilities to serve customers. Without adequate access to capital, at reasonable cost
5 and terms, it is not possible to assure the level of service our customers should expect.

6 The Company has been required to borrow extensively in the last two years to fund
7 operations during adverse operating conditions that are unprecedented in our history, while our
8 equity capital base has not kept up because of low earnings. In order to be in position to issue
9 additional equity, Avista needs to improve its immediate and ongoing financial performance.

10 The Company's financial condition needs to be improved as soon as possible because of
11 the immediate requirement to renew bank lines and other financing in early 2002. In addition,
12 the Company has debt maturing later in 2002 and in 2003, including \$175 million of medium
13 term notes that come due in August 2003. It is important for the Company to regain an
14 investment grade credit rating as soon as possible so that this debt can be refinanced on
15 reasonable terms, benefiting customers with lower debt-related costs. Credit ratings can come
16 down quickly but take time to be restored upwards; therefore the Company needs the requested
17 rate relief and accounting relief as soon as possible. We cannot wait until the fourth quarter of
18 2002 for the general case to be processed before some tangible action is taken to improve the
19 Company's financial condition. Certain actions must be taken by mid-March: 1) prudency
20 determination (see Docket No. UE-011514), 2) approval of interim relief, and 3) approval of a
21 temporary deferral mechanism. I will discuss these later in my testimony.

22 The degree of temporary improvement that is possible from cost cutting has been
23 exhausted, and we cannot rely on market conditions to help the Company restore financial

1 strength with future surplus energy sales. It is imperative that the Company's electric revenues
2 be increased to the level that recovers all costs and provides a fair return to investors.

3 Q. Is Avista experiencing risks that are different from the past?

4 A. Yes, there are very definite changes in business risk for this Company, in this
5 industry, and in this geographic area. Exhibit __ (JEE-2) is an excerpt entitled "Risk Factors"
6 that we included as a required disclosure in our most recent registration statement for issuing
7 marketable securities, filed with the U.S. Securities Exchange Commission on September 24,
8 2001. All of these risks are heightened by the cash outflows required to support utility
9 operations. We are addressing the problems through deliberate internal strategies, by working
10 with the financial community and through our regulatory initiatives, including the present general
11 rate filing. My testimony will describe these efforts in greater detail. The risk factors described
12 in our September 24 prospectus are the factors that have continued to be of concern to credit
13 rating agencies and the financial community at large.

14 **Credit Ratings and Access to Capital**

15 Q. Please explain the ratings for Avista's unsecured debt, secured debt, and other
16 securities and what the implications of these ratings are in terms of the Company's ability to
17 access financial markets and the Company's financial health.

18 A. Avista's credit ratings by the three principal rating agencies are summarized in
19 Exhibit __ (JEE-1), page 4. For each type of investment a potential investor could make, the
20 investor looks at the quality of that investment in terms of the risk they are taking and the legal
21 priority that they would be repaid in the event that the organization is unable to meet all its
22 obligations. Investment risks include the likelihood that a company will not meet all its

1 obligations related to that obligation or security, both in terms of timeliness and amounts owed
2 for principal and interest. Secured debts receive the highest ratings and legal priority for
3 repayment and, hence, have the lowest relative risk. The highest risk securities are generally
4 common equity shares since they have no priority for payment over other creditors.

5 The Company's key financial indicators, which form part of the basis for credit ratings,
6 are shown in Exhibit __ (JEE-3). As this exhibit indicates, the forward-looking projections for
7 these indicators assume that the Company's present filing with this Commission is approved as
8 requested. Even with approval of the relief that we are requesting, Avista's financial indicators
9 remain somewhat below a desirable level into 2003, as I will discuss in greater detail and as Mr.
10 Peterson will discuss in his testimony.

11 Q. What actions have rating agencies taken since the Commission issued its Sixth
12 Supplemental Order in Docket UE-010395 on September 24, 2001 in Avista's surcharge case?

13 A. Avista's unsecured debt is now rated below investment grade by Moody's Investor
14 Services and Standard & Poor's. Exhibit __ (JEE-1) includes their most recent published rating
15 reports regarding Avista.

16 On October 8, 2001, Moody's announced a downgrade of Avista's credit ratings, as
17 shown in Exhibit __ (JEE-1), pages 5 and 6, including setting the unsecured debt rating at Ba1,
18 which is below investment grade. Moody's stated, in part:

19 "The downgrade of Avista's ratings is in response to concerns
20 about an expected longer period for financial recovery than had
21 originally been anticipated, as well as lingering regulatory
22 uncertainties in the state of Washington. The outlook for Avista's
23 ratings is negative, reflecting the still considerable challenges that
24 the company must overcome to restore earnings, cash flow, and
25 liquidity to healthier levels."

1 Moody's acknowledged positive aspects of the Commission's surcharge order but also
2 described their reservations:

3 "Moody's has downgraded these ratings despite the Washington
4 Utilities and Transportation Commission's (WUTC) recent
5 approval of a 25% temporary electric rate surcharge for Avista,
6 covering the period from October 1, 2001 to December 31, 2002.
7 The surcharge is less than the 36.9% requested, is in effect for 15
8 months versus the 27 months requested, and is subject to refund,
9 pending a prudence determination expected to be part of the
10 general rate case that Avista is mandated to file by December 1,
11 2001. Also, of particular concern to Moody's is the fact that the
12 existing energy cost deferral mechanism is being eliminated
13 effective December 31, 2001."

14 Standard & Poor's announced downgrades to Avista's credit ratings on October 10, 2001,
15 as shown in Exhibit __ (JEE-1), pages 7 through 9. S&P set Avista's unsecured debt rating at
16 BB+, which is also below investment grade. S&P emphasized the remaining uncertainties
17 related to deferred power costs by stating:

18 "Avista plans to address the unrecovered deferred balances, the
19 ability to defer additional power costs, and the ability to share
20 power costs with ratepayers in the upcoming general rate case
21 filing, which is to be submitted by Dec. 1, 2001. However, the
22 WUTC may take up to 11 months to respond, thereby creating
23 considerable uncertainty as to the final outcome. The company's
24 precarious position is further emphasized by the fact that as part of
25 the rate filing, the WUTC will examine the prudence of the
26 deferred power costs and retain the authority to order a refund of
27 the amounts recovered, if necessary."

28 The October 2001 Moody's and S&P downgrades placed the Company's unsecured debt
29 in the high yield or "junk bond" classification. The Company's debt that is secured by first
30 mortgage bonds retained investment grade ratings, although it is now at Moody's and S&P's
31 lowest investment grade levels with a negative outlook.

1 The third principal rating agency, Fitch, announced on September 28, 2001, that they
2 were affirming Avista's unsecured rating of BBB- with a Negative Rating Outlook. In its
3 comments, Fitch noted that the Commission's September 24 surcharge order:

4 "... together with cost reduction measures undertaken by
5 management and available credit lines, should provide ample
6 liquidity over the near-to-intermediate term. However, the rate
7 order allowed only about 65% of AVA's deferred fuel balance as of
8 Sept. 30, 2001 and makes no provision for recovery of the
9 remaining balance. Of particular concern is the WUTC decision to
10 end the company's deferral mechanism as of Dec. 31, 2001."

11 Q. What is the impact of Avista's credit ratings downgrade?

12 A. The immediate impact of the downgrade is to increase the cost of both existing and
13 future borrowing. As shown on Exhibit __ (JEE-4), the Company is now incurring
14 approximately \$2.2 million of incremental annual costs to borrow under its existing line of bank
15 credit as a result of the most recent credit ratings downgrades. The credit line has provisions that
16 require increased interest rates for amounts borrowed and higher commitment fees based on
17 lower credit ratings. In addition, the Company had to obtain waivers from the banks to be
18 permitted to continue borrowing. The waivers involved fees of \$550,000 and the addition of a
19 secured interest in the Company's property.

20 The downgrade also increased costs associated with the unsecured medium term notes
21 issued in August 2000. The cost of these notes increased \$875,000 on an annual basis, as shown
22 on Exhibit __ (JEE-4). These notes have an interest rate adjustment mechanism that is triggered
23 by the below-investment-grade credit ratings that are now assigned to the Company. In addition,
24 the annual cost of the Company's Colstrip pollution controls bonds will increase by
25 approximately \$2.4 million because of the ratings downgrade. The annual cost of the Company's

1 accounts receivable financing program increased by \$765,000 because of credit ratings
2 downgrades, and we incurred a \$100,000 amendment fee to maintain the facility.

3 In total, the downgrades have caused an immediate cost increase on an annualized basis
4 of at least \$6.3 million. In addition, the increased interest cost on \$400 million of debt issued
5 earlier in 2001 was approximately \$8.0 million annually. It is in the best interest of customers
6 for the Commission to act quickly so that financial health of the Company is restored as soon as
7 possible.

8 Q. How do the lower credit ratings affect Avista's access to capital?

9 A. In addition to significantly increasing the cost of financing that is available, the
10 downgrades also limit the Company's access to the credit market. During times of credit stress,
11 which is now the case across the U.S. capital markets, the available capital is allocated first to the
12 highest quality borrowers. Companies with lower credit ratings have more restricted choices for
13 credit, if any, besides being at higher cost commensurate with the perceived risk.

14 In recent discussions with banks in the Company's credit line, at least one bank has
15 indicated that they will most likely not renew their commitment. At this point, there is some
16 uncertainty about how many banks will renew and if they do, at what cost and with what
17 additional conditions and covenants. It is not currently possible for the Company to meet its cash
18 needs in 2002 without the line of credit. And even if we could, it would not be prudent to
19 operate the business without ready access to required funds via a line of credit. The best way to
20 get the banks to commit to a renewal and get reasonable terms is to resolve some of the
21 uncertainties related to recovery of costs and to increase cash flow available for paying interest
22 and repaying debt. This should be done before the banks have to commit to renewing the line of
23 credit and accounts receivable financing.

1 A key step to resolving uncertainty of cost recovery will be resolution of the prudence
2 issue related to deferred power costs, which is the subject of a separate filing in Docket No. UE-
3 011514. However, resolution of this issue does nothing to address the immediate cash flow
4 needs of the Company. An interim increase associated with the Company's general filing will
5 provide additional cash flows and be a positive step in helping to improve coverage ratios and the
6 likelihood of renewing these credit facilities.

7 Q. Would you further explain the other impacts on bank-related financing?

8 A. Yes. The Company's accounts receivable funding and the lease for our customer
9 information system both contain clauses that allow the lenders to declare an event of default if
10 the Company's credit rating falls below investment grade. We have had meetings with
11 Wachovia, our current provider of accounts receivable funding. The accounts receivable funding
12 has been in place with them for over three years and is one of our lowest cost sources of
13 financing. Even before the most recent ratings downgrade, Wachovia required a number of
14 changes in the accounts receivable facility to permit continued access to this very cost-effective
15 source of cash. Even though the funding is secured by the Company's accounts receivable
16 balance, Wachovia is raising the costs of the financing along with implementing other steps to
17 place additional control on the Company having access to the cash. Wachovia reduced the
18 maximum amount of accounts receivable financing from \$125 million to \$90 million after the
19 most recent credit ratings downgrades. Wachovia also insisted that the expiration date for the
20 current accounts receivable financing be accelerated from September 2002 to May 2002, to
21 coincide with the bank credit facility renewal.

22 Although we have not started a specific dialogue with Wachovia about renewing this
23 financing facility, it is already clear that the downgrade, coupled with the remaining uncertainty

1 related to the recovery of electric deferral balances, will make it difficult to renew this very cost-
2 effective financing mechanism. In fact, if we do not see improvements in our financial and
3 regulatory situation in early 2002, it is highly unlikely that Wachovia will be willing to renew the
4 facility. If that is the case and we are unsuccessful in finding a new provider, we will have to
5 repay the \$40 million that is projected to be outstanding at the end of May 2002, placing an
6 additional burden on the Company's liquidity. Wachovia, or any bank for that matter, has limits
7 on the amount of below-investment-grade exposure they can have in their loan portfolio. So
8 even if they like the Company's prospects and even though the financing has excellent collateral,
9 they may still be unable to offer the facility to Avista until our credit ratings are investment
10 grade.

11 A quick decision on the Company's prudence filing in Docket No. UE-011514 relating to
12 the deferral balances and approval of a temporary deferral mechanism effective January 1, 2002,
13 as well as the approval of interim rate relief in this filing are critical to Avista's success in
14 renewing our accounts receivable financing and line of credit on reasonable terms. These are
15 crucial steps in laying the foundation on which to rebuild the financial strength of the Company.

16 Additionally, the Avista Energy credit facility includes a provision of default that is
17 triggered by Avista Corp.'s credit rating downgrade below investment grade. This default
18 provision allows the Avista Energy banks to prohibit dividend payments from Avista Energy to
19 the parent company.

20 Q. Have concerns been expressed recently from members of the financial community
21 other than rating agencies and commercial banks?

1 A. Yes. Wall Street research analysts have expressed ongoing concern regarding the
2 uncertainty of recovery of costs in the State of Washington. Recent analyst reports include the
3 following observations:

4 A.G. Edwards & Sons, Inc., October 31, 2001: "We remain
5 concerned about the company's increased debt level and the
6 uncertainty of deferred power cost recovery in Washington
7 inherent in the WUTC's September order."

8 Merrill Lynch, November 2, 2001: "Avista's \$270M in
9 unrecovered energy purchase costs is a serious overhang that has
10 already hurt the company's credit quality."

11
12 Q. What credit rating does Avista believe is appropriate?

13 A. Avista should operate at a level that will support an investment grade credit rating,
14 meaning at least a strong BBB or weak A, using S&P's rating scale.

15 Q. Why is it important to be investment grade?

16 A. A utility is a capital-intensive business and as such needs to have ready access to
17 capital markets. Access is more difficult and expensive for non-investment grade companies.
18 Many times, law, regulation or policy precludes investors that are normally tapped by utility
19 securities issuers from investing in non-investment grade securities. And, even if you can access
20 the market as a non-investment grade issuer, the cost will be substantially higher as we have
21 experienced first hand this year. The higher costs of financing for being below investment grade
22 ultimately result in higher rates for our customers. The cost increases for Avista as a result of the
23 uncertainty about our credit situation earlier this year and the recent downgrade already total over
24 \$14 million. As stated earlier, as debt matures and new financing is required in the future to
25 finance utility plant additions and new customers additions, the cost of new and replacement debt
26 will be higher. Non-investment grade companies are also subject to more restrictive credit

1 requirements from vendors and other counterparties. Avista has already been required to post
2 collateral in excess of \$5 million as a result of being below investment grade.

3 Q. What events or conditions are necessary for Avista to regain an investment grade
4 credit rating?

5 A. Improved credit ratings are only likely if the Company's financial strength and its
6 outlook improve for a sustained period of time. To restore satisfactory credit ratings, the
7 Company will need:

- 8 ▪ Improved cash flow from operations (higher general revenues).
- 9 ▪ Regulatory mechanisms in place that will provide more certainty of positive cash
10 flows from operations (deferred accounting immediately, and a power cost adjustment
11 mechanism going forward).
- 12 ▪ Reduction in the heavy debt load that is being carried.
- 13 ▪ Improved interest coverage.
- 14 ▪ Cash earnings coverage of fixed charges.
- 15 ▪ A higher degree of confidence that the Company will recover the cost of existing
16 assets (in particular, the deferred power costs that are being carried and are beyond the
17 amount that the existing temporary surcharge will cover).

18 The effort and sustained performance required to restore Avista's credit ratings to
19 investment grade levels will be quite difficult, and will take time. The Company's initiatives to
20 maintain a low cost structure are an important part of improving performance, but are not
21 sufficient without revenues that cover costs and provide a fair return on investment.

22 Q. How has the credit rating downgrade impacted Avista's ability to attract investors?

1 A. There are significant negative impacts. First, it has become even more difficult to
2 access unsecured debt, including bank lines, on a reasonable basis. We have been required to put
3 first mortgage bonds in place to support the bank credit line and to allow us to continue to
4 borrow under that line of credit. Our commercial banks will no longer lend to us without specific
5 security and more restrictive covenants.

6 Second, many institutions in the country are now precluded from buying Avista's debt.
7 Many institutions have strict guidelines against investing in debt that is below investment grade.
8 Usually they are not required to sell any holdings they have at the time of a downgrade, but most
9 will not be able to invest in Avista's unsecured debt instruments until ratings again return to
10 investment grade.

11 We can issue a limited amount of first mortgage bonds, but even those now require a
12 premium interest rate compared to other utility companies given the marginal credit rating
13 assigned to even our secured debt.

14 Our commercial banks have asked for additional information and assurances as we move
15 forward. While we have begun conversations with them about renewal of the line of credit next
16 year, as I stated earlier, I believe that some of our current banks will not continue to be a part of
17 the line, even with the backing of first mortgage bonds. Their reluctance is due in part to the
18 level of our credit ratings, as well as the continued negative forward outlook by the rating
19 agencies. Like the rating agencies, the banks have also expressed concerns about the opportunity
20 for Avista to recover the expenses necessary in providing utility service and to maintain adequate
21 credit support and financial flexibility.

1 **The Company's Need for Access to Capital Markets**

2 Q. What are the Company's capital requirements in the current operating cycle and
3 over the next three years?

4 A. Over the next few years, capital will be required for customer growth, necessary
5 maintenance and replacements of our gas and electric utility systems and other new plant
6 construction. The amount of capital expenditures planned for 2002 (\$55.9 million, excluding
7 demand side management costs), as shown on Exhibit __ (JEE-5), line 3, column (h), was set
8 below a normal or sustainable level because of the Company's present weak financial situation.
9 The 2002 capital budget level may be too low to provide service and reliability levels our
10 customers demand in the longer run. Utility capital expenditures for 2003 are expected to be
11 \$102 million, as shown on Exhibit __ (JEE-5), line 3, column (i).

12 In addition, as shown in Exhibit __ (JEE-6), the Company has obligations to redeem
13 certain existing securities in the next three years. Avista is obligated to repay debt securities of
14 \$349 million that mature from December of this year through 2004. The Company is required to
15 make annual redemptions on preferred stock in that period, totaling \$5.3 million. Further, if we
16 were prevented from completing renewals of the short-term bank credit line and the accounts
17 receivable financing facility, the Company would need incremental alternative financing. The
18 bank facility provides up to \$220 million of liquidity in whatever increments are needed, and the
19 accounts receivable facility is now sized at up to \$90 million (recently reduced from \$125 million
20 because of Avista's credit ratings downgrade).

21 Q. How has the Company financed the Coyote Springs 2 project and does it affect the
22 capital structure of the utility during construction and upon commercial operation of the plant?

1 A. The Company has financed the construction of the Coyote Springs project with a
2 combination of internally generated cash, bank loans and the proceeds from the issuance of notes
3 in April of 2001.

4 Q. Does the Company still need to access financial markets if it is not going to own the
5 entire Coyote Springs 2 project and, if so, for what purposes?

6 A. Yes. The Company must have adequate cash flows to fund operations, capital
7 expenditures, and maturing debt. As noted above and in Exhibit __ (JEE-5), the Company will
8 have to incur over \$157 million in capital expenditures during 2002 to 2003, and fund \$354
9 million in maturing securities through 2004, as shown in Exhibit __ (JEE-6). We need a
10 combination of adequate cash flow from operations (earnings before interest taxes depreciation
11 and amortization, known as "EBITDA" or "internally generated cash") plus the ability to access
12 capital markets to fund these requirements.

13 In addition, the Company needs access to bank financing for seasonal working capital and
14 to occasionally fund capital projects between normal "permanent" financing, such as the way we
15 have funded the construction of Coyote Springs. Even in normal years, the utility's annual
16 operating cycle requires more funds during certain quarters because electricity and natural gas is
17 obtained and delivered well before collections are received from customers. We have been
18 impacted even more in recent years as the need for liquidity has increased for energy purchases to
19 meet daily, next day and short-term load requirements.

20 In addition, we now must buy more natural gas for combustion turbine generator
21 operations than ever before. Any purchase of power or natural gas, or fuel for generating power,
22 or any contract for pipeline capacity to provide natural gas transportation may require collateral,
23 or prepayments, given the Company's credit rating. The line of credit is our only source of

1 immediate cash for borrowing to meet these needs and for supporting the use of letters of credit.
2 We need a line of credit just to manage daily cash flow since the timing of cash receipts versus
3 cash disbursements is never totally balanced.

4 Capital expenditures are a normal part of utility operations, even without adding to
5 generating capacity. Customers are added to the service area, roads are relocated and require
6 existing facilities to be moved, and facilities continue to wear out and need replacement. These
7 and other requirements create the need for significant capital expenditures each year. Many of
8 the commitments made in the past to provide quality customer service and to respond to license
9 requirements at the Company's hydroelectric facilities cannot be dropped. Issuance of long term
10 debt depends upon the Company maintaining an adequate capital structure, sufficient interest
11 coverage, and investment grade credit ratings to be able to access capital. And, most debt issues
12 today need to be sized to meet investor demands for liquidity of the security. Investors want to
13 be able to 'trade' the notes in the debt markets, and usually the size of the debt issue must be at
14 least \$150 million to enable it to trade easily. The Company must have adequate financial
15 strength to be able to access markets in this manner.

16 Maintaining access to short-term credit facilities is a growing concern. As I discussed in
17 Avista's prudence filing in Docket UE-011514, and as is still the case, previous borrowings are
18 coming due, and ongoing credit facilities expire and need to be renewed. A summary of
19 maturing debt and credit facility renewals is shown in Exhibit __ (JEE-6). From now through the
20 end of 2002, \$116 million is required just to refund maturing obligations, assuming that the
21 maturing bank credit line and accounts receivable financing are renewed without interruption. If
22 the bank line or accounts receivable financing cannot be renewed, the capital required for
23 "maturities" would increase by the balance outstanding under those facilities. The current

1 balance outstanding is \$193 million and, without the interim relief requested in this filing, is
2 expected to reach approximately \$142 million as of June 30, 2002. As stated earlier, the
3 Company must repay \$175 million of medium term notes that mature in August of 2003, with the
4 likely need to issue new securities on or before that time to fund the maturities.

5 Q. How does Avista use short-term financing, and how much short-term financing
6 does the Company need?

7 A. The need for a working line of credit depends on a number of factors, including the
8 timing and availability of long-term financing, the seasonal nature of operating cash flow
9 requirements in our utility, the extent of capital projects, uncertainties of energy market prices
10 and the amounts of energy purchased or sold to balance load and resources, and other factors.
11 Because cash requirements cannot generally be matched precisely to the size or timing of
12 efficient and economical long-term financing instruments, it is necessary to either pre-fund
13 requirements and hold excess cash, or to obtain short-term financing which can then be rolled
14 over into longer-term instruments when the amount needed is large enough and market
15 conditions are favorable.

16 The overall size of the short-term facility must be large enough that the Company will not
17 experience a cash shortage at any time, or result in being in default of any obligations. Our plan
18 is to maintain a bank line in the \$200 million to \$250 million range. The facility needs to be
19 large enough to allow the Company to fund one to two years of capital expenditures, plus
20 required working capital to assure flexibility given volatile financial markets and volatility of
21 energy commodity costs.

1 **Opportunity for Issuance of Equity Securities**

2 Q. How does equity capital fit into a sound financial plan for Avista?

3 A. Avista needs to improve the equity ratio of its capital structure. We need to be in
4 position to issue equity on reasonable terms, that provide a fair return for new investors without
5 unduly diluting existing equity investors. In addition, we need to earn a reasonable return on
6 existing equity, so that retained earnings can build the equity ratio as well. Longer term, utilities
7 and energy companies need to have access to capital markets to raise equity. We need additional
8 equity in the near term to reduce our debt ratio, which will improve interest coverage, and
9 provide capital to continue to maintain and build new projects to meet our customers' demands
10 for service. If we cannot access the equity markets, in some reasonable period of time, we are
11 again relying on higher cost debt, and may be precluded from cost effectively financing the
12 Company long term. Finally, there are very real limits on the amount of additional debt the
13 Company could issue without bolstering its equity ratio.

14 Q. How receptive are investors to Avista issuing equity securities?

15 A. We have continued to discuss with our investment bankers the possible timing of
16 issuing common stock. The message from investment bankers, however, has been very
17 consistent: Avista cannot access the common equity market at this time, given the uncertainties
18 it faces. Despite the surcharge recently ordered by the Commission, Avista has the uncertainty
19 surrounding the prudence and recoverability of approximately \$200 million of deferred power
20 costs in the Washington jurisdiction. In addition, since deferrals of power supply costs in
21 Washington will cease on December 31, 2001, Avista faces uncertainty about our ability to
22 absorb or recover costs associated with the continued volatility in the electric commodity market.
23 Investors do not like uncertainty and they consistently penalize those companies that have any

1 significant uncertainties surrounding them, especially if it is uncertainty related to their operating
2 cash flows.

3 At December 29, 2000, Avista's stock price stood at \$20.50 and just eleven months later
4 it stands at \$11.90, down 41.9 percent as of November 28, 2001. Notably, Avista has
5 underperformed the Dow Jones Industrial Average, which has dropped 9.9 percent year-to-date,
6 and the Dow Jones Utility Index, which has dropped 32 percent year-to-date. Investors continue
7 to express discomfort with Avista, citing uncertainty surrounding the regulatory treatment of the
8 deferrals and the risks associated therein, all of which continue to overhang the stock price.

9 As we explained in the recent deferred cost prudence filing, Docket No. UE-011514,
10 Avista needs a positive and clear decision from the Commission with respect to the prudence and
11 recoverability of approximately \$200 million of deferred costs we have incurred to provide
12 service to customers through September 30, 2001, and we need a clear recovery mechanism for
13 the remaining costs deferred after the third quarter of 2001.

14 **II. Steps the Company has Taken to Resolve Financial Issues**

15 Q. What has the Company done to address its financial situation?

16 A. The Company is addressing the weak financial condition in three arenas. First, as
17 discussed earlier, we are working with the financial community and investors to obtain funds for
18 operations, for capital expenditures and for debt maturities. This effort includes working with
19 the rating agencies to determine what is necessary to mitigate even lower ratings and to improve
20 the current unacceptable ratings level.

1 Second, the Company has implemented internal cash conservation measures to preserve
2 available funds, to reduce expenses, and to prevent future spending. Mr. Morris discusses cost
3 controls in his testimony and I will comment on that part of our financial strategy as well.

4 Finally, the Company is working through the regulatory processes that are necessary to
5 mitigate unrecovered costs, provide certainty about recovery of additional expenditures that have
6 been required to provide utility service to our customers, improve revenues and cash in-flows,
7 and proactively address the financial risks of the business through appropriate regulatory
8 mechanisms. I will address our regulatory initiatives later in my testimony.

9 **Cash Conservation and Earnings Improvement**

10 Q. What internal measures has the Company taken to conserve cash and improve
11 earnings?

12 A. The Company is attacking its weak financial situation through several initiatives
13 and strategic steps. We recognized the need to conserve available cash immediately, as liquidity
14 grew into a significant concern. We also recognized the need for improved earnings,
15 acknowledging that deferring excess costs is merely a short-term patch to the bigger problem of
16 under-recovering our costs of serving customers and of investments in new plant for the utility.

17 Specific actions that Avista has taken include:

- 18 ▪ Sale of 50% of the Coyote Springs II project.
- 19 ▪ Sale of LM6000 generating units owned by Avista Power.
- 20 ▪ Cutting capital expenditures sharply in 2001 and 2002.
- 21 ▪ Reductions in operating and maintenance expenses and implementation of strict
22 approval procedures to control expenditures.

- 1 ▪ Implementing a hiring freeze.
- 2 ▪ Reducing the capital commitments otherwise required to fund subsidiaries, including
- 3 the decisions to terminate the Company's involvement in Avista Communications and
- 4 discontinue operations of Avista Power.

5 Q. What is the relationship between the cash problems being faced by the Company,
6 the utility, and the cash needs of Avista's subsidiaries?

7 A. The problems relating to cash flow faced by the Company at this time are driven
8 predominantly by the utility operation, particularly the electric retail business.

9 The Company's cash needs have been driven almost entirely by the utility and utility-
10 related projects since mid-year 2000. Avista Corp incurred costs for deferred energy charges of
11 \$199.7 million from July 1, 2000 through September 30, 2001, all of which has been financed by
12 various debt and security sales. The Company has incurred \$165.8 million for capital
13 expenditures in the first nine months of 2001, including \$74.7 million for the construction of the
14 Coyote Springs II generation facilities.

15 From the start of 1999 through the third quarter of 2001, Avista Corporation's
16 subsidiaries have been a net contributor of cash to Avista's consolidated balance sheet. As with
17 most portfolios of companies, some subsidiaries have exceeded expectations and some have not
18 met financial goals. As a group, however, Avista's subsidiaries have provided a positive cash
19 contribution to the Corporation. The Company recently announced a write-off resulting from the
20 divestiture of Avista Communications, our telecommunications subsidiary. This write-off
21 impacted earnings, but did not impact cash flow.

22 The 2001 subsidiary company cash requirements through September 30 have totaled
23 \$129.3 million, including funding for Coyote Springs construction. Coyote Springs was

1 originally acquired and permitted by a special purpose company. With the sale of one half of the
2 project, and with the reimbursement for investments in other power projects within Avista
3 Power, the net cash required for subsidiary company operations for 2001 is expected to be \$52.5
4 million, and in 2002 subsidiaries are expected to provide \$5.7 million, as shown on line 7 of
5 Exhibit __ (JEE-5).

6 Q. What effect have the Company's subsidiaries had on Avista's overall financial
7 situation?

8 A. The Company would have been in a worse financial situation but for the net
9 contributions from its subsidiaries. Avista has recently divested a subsidiary that was requiring
10 more capital infusion than the Company was willing to continue to provide. On the other hand,
11 Avista Energy generated \$153 million in cash flow during 2000 and the first three quarters of
12 2001, and at the end of 2001 is projected to have \$137 million in cash on its balance sheet.
13 During the third quarter of 2001, Avista Energy paid a \$30 million dividend to augment Avista
14 Corp.'s cash position. We are currently in the process of working with Avista Energy's banks to
15 allow an additional dividend of \$50 million to be made to Avista Corp. in the first quarter of
16 2002. With the above mentioned dividends and a \$21.6 million intercompany debt repayment
17 from Avista Energy in September 2001, total cash transferred from Avista Energy to the parent,
18 Avista Corp., from Sept 2001 to March 2002, will be \$101.6 million.

19 Q. What activities have taken place with regard to the Company's subsidiaries in the
20 last few months?

21 A. In the third quarter of 2001, the Company received \$51.6 million from Avista
22 Capital for repayment of intercompany debt. This was a combination of a dividend payment and
23 debt repayment from Avista Energy. In the fourth quarter of 2001, the sale of half interest in the

1 Coyote Springs II project will cause an additional reduction in intercompany debt used for
2 construction of the project of approximately \$58 million. With the planned \$50 million first
3 quarter 2002 Avista Energy dividend I discussed earlier, Avista Energy and Avista Power will
4 return cash of \$160 million to the parent company by early 2002.

5 In exactly the same manner as our construction of the Kettle Falls project in the early
6 1980s, we have used a special purpose company to construct the Coyote Springs project.

7 Q. Have the Company's internal cash conservation and earnings improvement
8 initiatives been effective in improving the Company's financial condition?

9 A. The steps we have taken have been painful, but have been helpful. The difference
10 in cash outlays is difficult to measure precisely, but the budget reductions – particularly for
11 capital expenditures – are real savings in the near term. Unfortunately, many of the costs cannot
12 be avoided altogether and will only be delayed until a later date. Worn out facilities must be
13 replaced, and the risk of maintenance deferrals can only be absorbed for a short period within the
14 bounds of prudent operations. Savings in expenses cannot be replicated in many cases, so one-
15 time reductions have now been taken.

16 However, the amount of cash conserved through cost cutting is still not sufficient to
17 restore the Company's financial health. Because of the magnitude and expected recurring nature
18 of the increased costs of normal utility operations, and the extraordinary unrecovered costs of
19 power supply caused by conditions in 2000 and 2001, cost reductions alone will not cover the
20 amount needed to continue providing reliable utility service and a return to investors.

21 The most critical issue is the recovery of actual expenditures for energy sold to retail
22 customers. Cost reductions and sales of assets aren't recovering the actual costs we've incurred
23 to provide service, they only reduce the need for additional financing in the near term.

1 **Regulatory Initiatives**

2 Q. Besides Avista's efforts to work with the investment community and the internal
3 steps taken within the Company to conserve cash, what else is the Company doing to improve its
4 financial situation?

5 A. The Company has initiated several regulatory requests that address the financial
6 condition. These requests, and the status of each, include:

- 7 ▪ On July 18, 2001, the Company filed with this Commission a request for a temporary
8 power costs surcharge for a period of 27 months in an amount of 36.9% (Docket No.
9 UE-010395). On September 24, the Commission ordered a 25% surcharge, covering
10 a portion of the deferred costs, for a period of 15 months.
- 11 ▪ On July 18, 2001, the Company filed with the Idaho Public Utilities Commission for a
12 power cost adjustment increase of 14.7% to be effective for 27 months. On October
13 12, the Idaho Commission ordered a 14.7% PCA surcharge to be effective for 12
14 months, and an extension of an existing 4.7% PCA surcharge that was set to expire in
15 January 2002.
- 16 ▪ On November 13, 2001, the Company filed with this Commission for a determination
17 of the prudence of deferred costs for power supply incurred through September 30,
18 2001, in an amount of approximately \$200 million. That request is pending.
- 19 ▪ The Company is submitting this filing which seeks the following decisions from this
20 Commission:

21 Immediate Relief

- 22 ▪ An interim rate increase of 12.4% to be effective by mid-March
23 of 2002 until the conclusion of this general rate case.

- 1 ▪ A temporary power cost deferral mechanism to be effective
2 from January 1, 2002 until the conclusion of the general rate
3 case.

4 Relief Effective at the Conclusion of the General Rate Case

- 5 ▪ Reset base retail rates to reflect a 22.5% increase, effective at
6 the end of this general rate case
- 7 ▪ Reset the surcharge rate to reflect a 14.9% rate increase to
8 recover deferred power costs over a five-year period, effective
9 at the end of this general rate case.
- 10 ▪ Adoption of a power cost adjustment mechanism, effective at
11 the end of this general rate case.

12 **III. Additional Regulatory Relief is Needed**

13 Q. The Company has recently filed several regulatory requests. How does the present
14 filing and its multiple requests fit with the Company's other filings?

15 A. The previous surcharge request (Docket UE-010395) and the prudence filing
16 (Docket UE-011514) deal with the effect of power costs that were incurred in excess of the
17 amounts recovered in base rates. Those costs were eligible for deferral under the deferred
18 accounting mechanism that is presently in place but scheduled to expire on December 31, 2001.
19 It is crucial that the Company is permitted cash recovery of the cash expenditures that are over
20 and above base rate levels, so the Company filed for a surcharge to begin that recovery. The
21 Company, however, needs a higher degree of certainty with respect to its ability to ultimately
22 recover deferred costs, which necessitated our request for an expedited prudence determination in
23 our subsequent prudence filing.

24 The present filing deals with recurring costs of operating the utility and the recovery of
25 additional generating plant that is being placed into service for utility customers, as well as the
26 residual deferred costs. In addition, the present filing addresses the recurring nature of power
27 cost volatility by requesting a temporary deferral mechanism to succeed the present deferred

1 power cost mechanism that is scheduled to expire December 31, 2001. Further, the present filing
2 addresses the need for a more proactive power cost adjustment mechanism that would provide
3 more enduring certainty of cost recovery as desired by investors and which will lead to a lower
4 cost of service for customers in the long run.

5 **Expedited Decisions to Address Immediate Concerns**

6 Q. What decisions are needed from the Commission in the near term?

7 A. Timeliness of Commission action for several steps in this filing is very important.
8 Commission action prior to mid-March 2002 on several matters is a prerequisite to success by
9 the Company in critical financing activities. The Company is in the midst of seeking renewals of
10 the short-term bank credit facility and the accounts receivable financing facility, both of which
11 expire on May 29, 2002. The final process of renegotiating those commitments will begin before
12 March of 2002 – indeed the process is already underway. Without the Commission’s approval of
13 the prudence filing request (Docket No. UE-011514), and without interim rate relief as we have
14 requested, both by mid-March 2002, it will be very difficult or perhaps not possible to renew
15 these necessary credit facilities. In addition, without a temporary power cost deferral mechanism
16 to succeed the expiring deferral mechanism, lenders concerns will be heightened because of
17 further lack of assurance that additional costs of power supply will not be recoverable by the
18 Company. Any increased concerns by lenders at this point could jeopardize much needed
19 liquidity for Company operations and continuation of our capital investments necessary to serve
20 customers.

21 The requested interim decisions from the Commission improve our position in obtaining
22 financing. As I mentioned earlier, we need to complete the renegotiations of key terms,

1 including covenants, prior to the expiration of both the bank credit line and the accounts
2 receivable financing facility in the first part of 2002. The Company has already been notified by
3 one bank that they will no longer commit to lend money to the Company, even with the
4 continuation of using first mortgage bonds to provide collateral support for the line. It is critical
5 that we take as much uncertainty off the table as soon as practicable to allow the banks, their
6 officers and their credit committees to assess the risk in continuing to lend money to Avista
7 Corp. That process usually takes three months in good times. However, when there are
8 significant issues or concerns the banks have two choices: take longer to determine covenants
9 and credit support, or, drop out of the line. If we do not have banks willing to lend to the
10 Company on a reasonable basis to provide day to day liquidity, we will have to resort to even
11 more expensive sources of capital. If any additional banks drop out of the line, we will need to
12 try to find new banks to replace them and that would be even more difficult than retaining the
13 present banks with the extent of uncertainties.

14 Expedited decisions on these immediate issues (prudency, interim rate relief, and a
15 temporary deferral mechanism) will allow time to address all other issues in the general rate
16 filing, including the revenue shortfall and the implementation of the proposed PCA, in due
17 course over the period extending into the fourth quarter of 2002. Meanwhile, Avista simply must
18 see improved cash flows, greater certainty of recovery of already incurred and deferred excess
19 power costs, and improved earnings. The Company simply cannot wait for the full case to be
20 adjudicated before any of the requested issues are decided without the Company possibly
21 suffering irreparable harm.

1 **Commission Decisions on Remaining General Rate Case Issues**

2 Q. After the items requested for expedited decisions, what other decisions is the
3 Company seeking from the Commission in this filing?

4 A. The Company is requesting that the Commission reset base rates for the Company's
5 electric customers in the State of Washington. Base rates should reflect current cost of service,
6 return on investment needed for current plant investments to serve customers, and a fair and
7 reasonable return that is commensurate with investor requirements for the risk they are taking by
8 placing their funds into use by this utility.

9 Q. What are some of the key elements that have changed, prompting the Company to
10 request that its base rates be "re-set"?

11 A. Base rates should reflect ongoing costs of service, including a fair return on rate
12 base. The Company's cost of capital has changed since base rates were set last. Dr. Avera
13 discusses the cost of capital for various elements of Avista's present financing package. In many
14 cases, the cost of debt is higher, which can be attributed to the extent that the Company has had
15 to rely on borrowing to cover operating costs that have not yet been recovered from customers.

16 In the ordinary course of business, the Company's rate base has changed in various ways
17 because of recurring items added to plant, items retired from plant, and normal depreciation. The
18 Company has also added new generating resources, namely the Boulder Park internal combustion
19 generators that are expected to be in service in January 2002, and the Coyote Springs II combined
20 cycle gas turbine generator that is expected to be in service in the middle of 2002. These
21 investments should be reflected in base rates.

22 Q. What else is the Company seeking in this filing?

1 A. The Company has requested an order that allows for recovery of deferred power
2 costs deemed prudent in Docket No. UE-011514 over a five year period. This request is intended
3 to balance the dual goals of minimizing rate increases borne by customers with the need to
4 recover costs in a reasonable period of time. The Company has also requested a power cost
5 adjustment mechanism that provides an opportunity, on a more predictable basis, for volatility in
6 power costs to be shared with customers in a timely manner, both in terms of cost increases and
7 cost decreases as defined by the parameters of the PCA mechanism.

8 Q. How will the Commission's approval of a PCA mechanism affect the Company's
9 credit rating?

10 A. Implementation of a well-designed PCA mechanism would be viewed as a
11 significant positive step. Price volatility and the inherent power generation output risks of being
12 a utility that relies on hydroelectric generation make it imperative that a PCA be adopted for
13 Avista. It is not reasonable to offer customers the benefit of low-cost hydro when it is available
14 and the same benefit even when it is not available. Mr. Peterson will further explain the financial
15 benefits of a PCA and Mr. Norwood will describe the proposed PCA in greater detail. The
16 investment community has repeatedly expressed concern about the lack of a PCA or similar
17 mechanism for Avista's increasing exposure to earnings volatility from electric operations in the
18 State of Washington. A PCA is more important today than it ever has been in the past.

19 Q. What benefits to customers are there from recovery of past deferred power costs and
20 from an ongoing PCA?

21 A. Investors are more attracted to a company where cost recovery has greater certainty.
22 They will make more funds available on better terms and at a lower cost, as compared to higher
23 risk investing in a company that has uncertain cost recovery, or outright disallowance of the costs

1 of operating its business. Investors will be satisfied with greater certainty and lower returns in
2 the long run if Avista's requests are approved. Conversely, disallowances and continued
3 uncertainty are viewed negatively and result in higher required returns and less available funds.

4 Customers will, of course, reap the rewards of lower costs of capital that must be
5 reflected in rates. As compared to a worst case scenario where investors simply refuse to make
6 funds available to the Company, customers also benefit by having adequate capital to support
7 continuity of service and improvements that they demand and that are necessary to provide
8 reliability.

9 **IV. Cost of Capital and Capital Structure**

10 Q. Please review the Company's current cost of capital and capital structure.

11 A. The Company's capital structure consists of debt, preferred stock, and common
12 equity. The capital structure as of September 30, 2001, is shown in Exhibit ___ (JEE-7). The
13 Company has continued to borrow heavily to finance ongoing operations, the power costs that
14 have been deferred, and capital projects. Although we anticipate the receipt of funds from the
15 sale of 50% of Coyote Springs 2 and from the incremental electric surcharge rates, the level of
16 debt in the capital structure continues to be well above an appropriate level for Avista to achieve
17 and maintain an investment grade credit rating. We have seen common equity shrink, relative to
18 the overall capital structure, because of substandard returns and weak markets for issuing new
19 equity on reasonable terms.

20 Avista will need to reduce debt and increase equity, over time. The ratio of debt to equity
21 needs to be reduced, to allow adequate cash flows, and cash coverage of fixed charges.
22 Assuming approval of the rate relief and accounting relief requested in this filing, Exhibit ___

1 (JEE-3) shows Avista's financial condition improving for two key measures in 2002 and 2003, as
2 compared to the weak position in 2001: free funds to total debt and free funds to fixed charges.
3 The guideline indicators for various credit rating categories are also shown in Exhibit _ (JEE-3),
4 demonstrating that even with the requested relief, Avista has continued challenges before
5 restoring its financial strength. The Commission's decisions in this filing will establish a basis
6 for Avista to proportionately rebalance debt and equity levels.

7 Q. Are Avista's revenues covering its current cost of capital?

8 A. No. Our cost of debt has increased in the last two years, both because of the
9 amounts borrowed and because of the higher risk premium that lenders are requiring to provide
10 funds to Avista.

11 Q. Would you comment on the amount of leverage in the Company's capital structure?

12 A. Avista has been required to obtain additional capital for operating costs, therefore
13 Avista's leverage (the proportion of total capital provided by debt) has increased beyond normal
14 parameters for our industry. The rating agencies' views cited earlier in my testimony reflect that
15 the risk perceived by Avista's debt holders has increased markedly or, stated another way,
16 Avista's degree of leverage is creating increased uncertainty for investors. Avista also needs to
17 be in a financially stronger position so that equity can be added at reasonable terms.

18 Q. Dr. Avera has prepared testimony in the Company's filing regarding cost of capital.
19 Do you concur with his assessment of what is a fair and reasonable rate of return for Avista?

20 A. Yes. His method of deriving cost of capital and the appropriate capital structure are
21 sound and reasonable approaches. Avista must take steps to aggressively rebuild equity, but not
22 by simply issuing shares that will dilute returns for existing shareholders. Avista's pathway to a
23 stronger equity base must include improved earnings, and a consistent building of retained

1 earnings, along with selling new equity. To achieve that result, and to offset the higher relative
2 risks of doing business today as a hydroelectric-based utility in this region, Avista needs a higher
3 rate of return. Also, the recommended return on equity is interdependent with the existence of
4 cost recovery mechanisms that reduce the risk of expense volatility. Given the volatility of
5 energy prices, and variability of hydro generation, a much higher return on equity figure is
6 warranted, but with some further adjustment if a power cost adjustment mechanism is adopted.
7 Further, Avista may continue to be more highly levered in the near term than our capital structure
8 plan indicates because it will take time to restore the equity base through consistent earnings in
9 the utility.

10 In addition, Dr. Avera has appropriately included pro forma adjustments for known
11 changes in interest costs based on our current credit ratings and outstanding debt and preferred
12 stock.

13 Q. What was the cost of the Company's long-term debt as of September 30, 2001?

14 A. 8.52 %.

15 Q. What cost of long-term debt are you proposing in this filing and why is it different
16 from the cost at September 30, 2001?

17 A. The cost of long-term debt that the Company is proposing in this filing is 8.77%.
18 We have included pro forma adjustments relating to upcoming maturities of long-term debt and
19 cost increases that have occurred as a result of our credit rating downgrades.

20 The Company has \$64 million of long-term debt maturing in December 2001. We
21 assumed that we would refinance that debt at an all-in cost of 7.95%. In addition, as previously
22 mentioned, the Company has suffered additional cost increases since September 30, 2001 due to
23 the credit rating downgrades. We have \$175 million of 8.625% Medium-term Notes that require

1 the interest rate to be increased by 50 basis points, or .50%, due to the downgrade. That raises
2 the all-in cost of that debt from 8.76% to 9.27%. Finally, the Company has \$83.7 million of
3 Colstrip Pollution Control Revenue Bonds in two series (\$66.7 million and \$17 million) with a
4 current all-in cost of approximately 3.36%. The interest rate on these bonds currently resets
5 monthly via an auction process but due to our downgrade we must "fix" the rate to avoid a
6 "failed auction". If a "failed auction" were to occur, the interest rate would automatically
7 increase to 18%. We will complete the process to "fix" the rate by the first week of January
8 2002. We have estimated that the new all-in costs of these bonds will be 5.88% on the \$66.7
9 million series and 6.19% on the \$17 million series, based on current market conditions, and have
10 been included in the pro forma cost of debt.

11 Q. Does the Company have any current plans to issue any long-term debt in the near
12 future?

13 A. Yes. The Company is currently finalizing plans to issue between \$120 million and
14 \$150 million of First Mortgage Bonds by the end of December 2001. These bonds would not
15 only refinance the \$64 million of maturities in December 2001 but also cover the \$50 million of
16 maturities in 2002.

17 Q. Do you expect that the cost of these new bonds will be higher since the Company's
18 credit rating has been downgraded?

19 A. Yes. Our senior secured credit rating was BBB+ in July and is now BBB-. Based
20 on current market conditions, we have been informed by our bankers that the spread differential
21 between BBB+ and BBB- bonds is approximately 100-125 basis points. On a \$120 million
22 offering this equates to \$1.2-\$1.5 million in additional interest costs on an annual basis the
23 Company will bear as a result of the credit rating downgrades.

1 Q. What was the cost of the Company's short-term debt as of September 30, 2001?

2 A. 6.92 %.

3 Q. What cost of short-term debt are you proposing in this filing and why is it different
4 from the cost at September 30, 2001?

5 A. The cost of short-term debt that the Company is proposing in this filing is 8.45%.
6 As discussed earlier in my testimony, the costs to borrow on the Company's corporate credit
7 facility have increased significantly as a result of the credit rating downgrades. Some of those
8 were already reflected in our costs as of September 30 but additional cost increases have occurred
9 since September 30. These cost increases relate to our actual borrowing rate spread and related
10 fees.

11 Q. What was the cost of the Company's Trust Preferred Securities as of September 30,
12 2001?

13 A. 7.84 %

14 Q. What is the cost of Trust Preferred Securities you are proposing in this filing and
15 why is it different from the cost at September 30, 2001?

16 A. The cost of Trust Preferred Securities that the Company is proposing in this filing is
17 8.35%. As discussed earlier in my testimony, the Company intends to get into a position where
18 we can issue either common stock or convertible preferred stock in 2002 as a way to decrease the
19 amount of leverage the Company currently has in its capital structure. We assumed we would
20 issue \$100 million of tax-deductible Trust Preferred Stock at a rate of 8.50%. This rate is based
21 on current market conditions and our current credit rating.

1 **V. Conclusion**

2 Q. Can Avista work its way out of the financial problems you have outlined?

3 A. Yes, but we need to begin removing the obstacles and uncertainties, and soon. We
4 need support from the Commission through expedited decisions on interim rate relief, a
5 determination of prudence on previously incurred and deferred power costs, and implementation
6 of a temporary deferral mechanism. We also need to reset base rates to recover prudently
7 incurred costs and to address volatility of power costs via a PCA mechanism. The Company is
8 aggressively managing its cash flows and seeking access to funds to sustain us through this
9 difficult period.

10 Q. What are the key issues the Commission must address to afford the Company the
11 opportunity to return to investment grade in a reasonable period of time, and, at the same time,
12 continue to provide reliable service at reasonable prices?

13 A. The Company needs to have the prudence decision in Docket No UE-011514 made
14 by this Commission in a timely manner and allowing for recoverability of those costs. Second,
15 the Company needs a rate increase of \$88.5 million on an annual basis, split between a \$35.3
16 million surcharge to recover deferrals, and a \$53.2 million general increase is required.

17 Third, it is extremely important for the Company to continue to defer power costs and to
18 have a portion of the rate request recovered in an expedited basis through interim rate relief as
19 Mr. Peterson and other witnesses discuss in detail.

20 Finally, a power cost adjustment mechanism is critical to the long-term health of this
21 Company and it is critical for long term price stability for customers.

22 In my opinion, the Commission actions in this proceeding will establish the financial
23 foundation for the Company for many years to come. Removal of uncertainty, commitment to

1 adequate rates to allow recovery of the cost of operations, and a commitment to allowing the
2 opportunity to regain and maintain investment grade credit ratings will allow us to continue to
3 maintain our historic position of being one of the lowest cost producers and sellers of reliable
4 retail energy of any investor owned utility in the United States.

5 Q. Does this conclude your testimony?

6 A. Yes.

7

BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

DOCKET NO. UE-01_____

EXHIBIT NO. ____ (JEE-1)

WITNESS: JON E. ELIASSEN, AVISTA CORP.

Utility Credit Rankings

The following list contains Standard & Poor's Ratings, Outlooks, and Business Profiles for utilities. This list, dated November 8, 2001, reflects the most current ratings, rankings, and outlooks. It is arranged by corporate credit rating categories. Within corporate credit rating categories, issuers are grouped by Outlooks; and within Outlook categories, issuers are listed by RELATIVE STRENGTH, with the first being the strongest, and the last being the weakest.

A Standard & Poor's rating Outlook assesses the potential direction of an issuer's long-term debt rating over the intermediate to longer term. In determining a rating Outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An Outlook is not necessarily a precursor of a rating change or future CreditWatch action. "Positive" indicates that a rating may be raised; "Negative" means a rating may be lowered;

"Stable" indicates that ratings are not likely to change; and "Developing" means ratings may be raised or lowered. N.M. means not meaningful.

Utility business profiles are categorized from 1 (strong) to 10 (weak). In order to determine a utility's business profile, Standard & Poor's analyzes the following qualitative business or operating characteristics typical of a utility: markets and service area economy; competitive position; fuel and power supply; operations; asset concentration; regulation; and management. Telecommunications companies have not been assigned business profiles. Issuer credit ratings, shown as long-term rating/outlook or CreditWatch/short-term rating, are local and foreign currency unless otherwise noted. A dash '-' indicates not rated. An asterisk '*' indicates that the utility was reviewed this week and its ranking position was updated.

U.S. Electric/Gas/Water Companies

Company	Corporate Credit Rating	Bus. Prof.	Company	Corporate Credit Rating	Bus. Prof.
Nicor Gas Co.	AA/Stable/A-1+	2	New Jersey-American Water Co.	A/CW-Pos/—	3
Nicor Inc.	AA/Stable/A-1+	3	New Jersey Natural Gas Co.	A/Positive/A-1	2
Baton Rouge Water Works Co. (The)	AA/Stable/—	2	Aquarion Co.	A/Stable/—	3
Madison Gas & Electric Co.	AA/Negative/A-1+	5	BHC Co.	A/Stable/—	2
Washington Gas Light Co.	AA-/Stable/A-1+	2	Middlesex Water Co.	A/Stable/—	3
WGL Holdings Inc.	AA-/Stable/A-1+	3	Colonial Pipeline Co.	A/Stable/A-1	3
California Water Service Co.	AA-/Stable/—	3	Montana-Dakota Utilities Co.	A/Stable/—	4
Wisconsin Public Service Corp.	AA-/Stable/A-1	4	MDU Resources Group Inc.	A/Stable/A-1	5
Southern California Gas Co.	AA-/Negative/A-1+	2	Piedmont Natural Gas Co. Inc.	A/Stable/—	3
San Diego Gas & Electric Co.	AA-/Negative/A-1+	5	ONEOK Inc.	A/Stable/A-1	5
Otter Tail Power Co.	AA-/Negative/A-1+	5	Boston Gas Co.	A/Stable/—	3
Laclede Gas Co.	AA-/Negative/A-1+	3	Colonial Gas Co.	A/Stable/—	3
Peoples Gas Light & Coke Co.	AA-/Negative/A-1+	3	NSTAR	A/Stable/A-1	3
North Shore Gas Co.	AA-/Negative/A-1+	3	Boston Edison Co.	A/Stable/A-1	3
Elizabethtown Water Co.	A+/CW-Pos/—	3	Commonwealth Electric Co.	A/Stable/—	3
ETown Corp.	A+/CW-Pos/—	4	NSTAR Gas Co.	A/Stable/—	3
Southern California Water Co.	A+/Stable/—	3	Cambridge Electric Light Co.	A/Stable/—	3
American States Water Co.	A+/Stable/—	3	KeySpan Generation LLC	A/Stable/—	4
Philadelphia Suburban Water Co.	A+/Stable/—	2	KeySpan Corp.	A/Stable/A-1	3
KeySpan Energy Delivery New York	A+/Stable/—	2	Wisconsin Gas Co.	A/Stable/A-1	3
KeySpan Energy Delivery Long Island	A+/Stable/—	2	Wisconsin Electric Power Co.	A/Stable/A-1	4
West Penn Power Co.	A+/Stable/A-1	2	Wisconsin Power & Light Co.	A/Stable/A-1	4
Potomac Edison Co.	A+/Stable/A-1	2	Virginia Electric & Power Co.	A/Stable/A-1	4
Monongahela Power Co.	A+/Stable/A-1	2	MidAmerican Energy Co.	A/Stable/A-1	4
Duke Energy Corp.	A+/Stable/A-1	5	Mississippi Power Co.	A/Stable/A-1	4
Duke Capital Corp.	A+/Stable/A-1	6	Alabama Power Co.	A/Stable/A-1	4
WPS Resources Corp.	A+/Stable/A-1	5	Gulf Power Co.	A/Stable/—	4
Texas Eastern Transmission L.P.	A+/Stable/—	4	Georgia Power Co.	A/Stable/A-1	4
PanEnergy Corp.	A+/Stable/—	4	Savannah Electric & Power Co.	A/Stable/—	4
Idaho Power Co.	A+/Negative/A-1	4	Southern Co.	A/Stable/A-1	4
IDACORP Inc.	A+/Negative/A-1	5	Equitable Resources Inc.	A/Stable/A-1	5
Union Electric Co.	A+/Negative/A-1	4	Allegheny Energy Inc.	A/Stable/A-1	5
Central Illinois Public Service Co.	A+/Negative/A-1	3	Black Hills Corp.	A/Stable/—	6
Ameren Corp.	A+/Negative/A-1	5	Atlantic City Sewerage Co.	A/Stable/—	3
Questar Gas Co.	A+/Negative/—	2	Beckley Water Co.	A/Stable/—	4
Questar Pipeline Co.	A+/Negative/—	3	Northern States Power Wisconsin	A/Stable/—	4
Peoples Energy Corp.	A+/Negative/A-1	4	Sempra Energy	A/Negative/A-1	4
Consolidated Edison Co. of New York Inc.	A+/CW-Neg/A-1	4	Public Service Co. of North Carolina Inc.	A/Negative/A-1	3
Orange and Rockland Utilities Inc.	A+/CW-Neg/A-1	4	South Carolina Electric & Gas Co.	A/Negative/A-1	4
Rockland Electric Co.	A+/CW-Neg/—	4	SCANA Corp.	A/Negative/—	4
NorthWestern Corp.	A+/CW-Neg/—	6	Florida Power & Light Co.	A/Negative/A-1	4
Massachusetts Electric Co.	A+/CW-Neg/A-1	3	FPL Group Inc.	A/Negative/—	6
Narragansett Electric Co.	A+/CW-Neg/A-1	3	FPL Group Capital	A/Negative/A-1	8
New England Power Co.	A+/CW-Neg/A-1	3	Tampa Electric Co.	A/Negative/A-1	4
National Grid USA	A+/CW-Neg/A-1	3	TECO Energy Inc.	A/Negative/A-1	5
Baltimore Gas & Electric Co.	A+/CW-Neg/A-1	4	Teco Finance Inc.	A/Negative/—	8
			Portland General Electric Co.	A/CW-Neg/A-1	4
			Potomac Electric Power Co.	A/CW-Neg/A-1	5
			PacifiCorp	A/CW-Neg/A-1	4
			Utah Power & Light Co.	A/CW-Neg/—	4

U.S. Electric/Gas/Water Companies continued

Company	Corporate Credit Rating	Bus. Prof.	Company	Corporate Credit Rating	Bus. Prof.
Delmarva Power & Light Co.	A-/CW-Neg/A-1	5	RGS Energy Group Inc.	A-/CW-Neg/—	5
Constellation Energy Group Inc.	A-/CW-Neg/A-1	5	Duke Energy Trading and Marketing LLC	A-/CW-Neg/—	8
Consolidated Edison Inc.	A-/CW-Neg/A-1	5	Cincinnati Gas & Electric Co.	A-/CW-Neg/—	4
Northwest Natural Gas Co.	A-/CW-Neg/A-1	3	PSI Energy Inc.	A-/CW-Neg/—	4
			Union Light Heat & Power Co.	A-/CW-Neg/—	4
United Water New Jersey	A-/Stable/—	3			
United Water Works	A-/Stable/—	3	Connecticut Light & Power Co.	BBB+/CW-Pos/—	5
NOVA Gas Transmission Ltd.	A-/Stable/—	2	Western Massachusetts Electric Co.	BBB+/CW-Pos/—	5
TransCanada Pipelines Ltd.	A-/Stable/—	2	Public Service Co. of New Hampshire	BBB+/CW-Pos/—	5
Atlanta Gas Light	A-/Stable/—	2	Northeast Utilities	BBB+/CW-Pos/—	5
Alabama Gas Corp.	A-/Stable/—	2	Louisville Gas & Electric Co.	BBB+/CW-Pos/A-2	4
Energen Corp.	A-/Stable/—	6	Kentucky Utilities Co.	BBB+/CW-Pos/A-2	4
AGL Resources Inc.	A-/Stable/—	3	LG&E Energy Corp.	BBB+/CW-Pos/—	6
Buckeye Partners L.P.	A-/Stable/—	4	LG&E Capital Corp.	BBB+/CW-Pos/A-2	8
American Transmission Co.	A-/Stable/A-2	2	South Jersey Gas Co.	BBB+/Stable/—	3
IES Utilities Inc.	A-/Stable/A-2	5	Florida Power Corp.	BBB+/Stable/A-2	4
Interstate Power Co.	A-/Stable/A-2	5	Carolina Power & Light Co.	BBB+/Stable/A-2	5
Alliant Energy Corp.	A-/Stable/A-2	5	Florida Progress Corp.	BBB+/Stable/A-2	5
Alliant Energy Resources Inc.	A-/Stable/A-2	8	Progress Energy Inc.	BBB+/Stable/A-2	5
PG&E Gas Transmission-Northwest	A-/Stable/A-2	2	Reliant Energy Inc.	BBB+/Stable/A-2	3
PPL Electric Utilities Corp.	A-/Stable/A-2	5	Reliant Energy Resources Corp.	BBB+/Stable/A-2	3
Public Service Electric & Gas Co.	A-/Stable/A-2	3	El Paso Natural Gas Co.	BBB+/Stable/A-2	4
UGI Utilities Inc.	A-/Stable/—	4	Tennessee Gas Pipeline Co.	BBB+/Stable/A-2	4
Atmos Energy Corp.	A-/Stable/A-2	4	ANR Pipeline Co.	BBB+/Stable/—	4
Kinder Morgan Energy Partners L.P.	A-/Stable/A-2	4	Colorado Interstate Gas Co.	BBB+/Stable/—	3
Central Power & Light Co.	A-/Stable/—	4	Coastal Corp.	BBB+/Stable/—	6
Appalachian Power Co.	A-/Stable/—	4	Southern Natural Gas Co.	BBB+/Stable/—	4
Columbus Southern Power Co.	A-/Stable/—	4	El Paso Corp.	BBB+/Stable/A-2	6
Indiana Michigan Power Co.	A-/Stable/—	4	El Paso Tennessee Pipeline Co.	BBB+/Stable/—	4
Kentucky Power Co.	A-/Stable/—	4	Consolidated Natural Gas Co.	BBB+/Stable/A-2	5
Ohio Power Co.	A-/Stable/—	4	Dominion Resources Inc.	BBB+/Stable/A-2	5
Public Service Co. of Oklahoma	A-/Stable/—	4	Arizona Public Service Co.	BBB+/Stable/A-2	3
Southwestern Electric Power Co.	A-/Stable/—	4	Michigan Consolidated Gas Co.	BBB+/Stable/A-2	3
West Texas Utilities Co.	A-/Stable/—	4	Detroit Edison Co.	BBB+/Stable/A-2	6
AEP Resources Inc.	A-/Stable/—	6	MCN Energy Enterprises Inc.	BBB+/Stable/A-2	8
American Electric Power Co. Inc.	A-/Stable/A-2	4	DTE Enterprises	BBB+/Stable/—	6
Northern States Power Co.	A-/Stable/A-2	5	DTE Energy Co.	BBB+/Stable/A-2	6
Southwestern Public Service Co.	A-/Stable/A-2	4	Dayton Power & Light Co.	BBB+/Stable/A-2	4
Public Service Co. of Colorado	A-/Stable/A-2	5	DPL Inc.	BBB+/Stable/A-2	6
Indiana Gas Co. Inc.	A-/Stable/A-2	2	Cleco Utility Group Inc.	BBB+/Stable/A-2	5
Southern Indiana Gas & Electric Co.	A-/Stable/—	5	Cleco Corp.	BBB+/Stable/A-2	6
Vectren Energy Delivery of Ohio	A-/Stable/—	4	Allethe Inc.	BBB+/Stable/A-2	7
Vectren Utility Holdings	A-/Stable/A-2	4	PPL Corp.	BBB+/Stable/A-2	7
Vectren Corp.	A-/Stable/—	4	Allegheny Generating Co.	BBB+/Stable/A-2	7
Xcel Energy Inc.	A-/Stable/A-2	5	Allegheny Energy Supply Co. LLC	BBB+/Stable/A-2	7
PECO Energy Co.	A-/Stable/A-2	4	Illinois Power Co.	BBB+/Stable/A-2	6
Commonwealth Edison Co.	A-/Stable/A-2	4	Dynegy Holdings Inc.	BBB+/Stable/A-2	6
Exelon Generation Co.	A-/Stable/—	8	Illinova Corp.	BBB+/Stable/—	7
Exelon Corp.	A-/Stable/A-2	6	Dynegy Inc.	BBB+/Stable/A-2	7
Wisconsin Energy Corp.	A-/Stable/A-2	5	Midwest Independent Transmission System Operator Inc.	BBB+/Stable/—	3
Kern River Gas Transmission Co.	A-/Stable/—	4	System Operator Inc.	BBB+/Stable/—	3
Atlantic City Electric Co.	A-/CW-Dev/A-2	6	Southern Union Co.	BBB+/Stable/—	3
Oklahoma Gas & Electric Co.	A-/Negative/—	4	Providence Gas Co.	BBB+/Stable/—	3
OGE Energy Corp.	A-/Negative/A-2	5	Valley Gas Co.	BBB+/Stable/—	4
Enogex Inc.	A-/Negative/—	6	Valley Resources Inc.	BBB+/Stable/—	5
Northern Border Pipeline Co.	A-/Negative/—	3	PG&E Energy Trading Holdings Co.	BBB+/Stable/—	8
Northern Border Partners L.P.	A-/Negative/—	3	Northwest Pipeline Co.	BBB+/Stable/A-2	3
National Fuel Gas Co.	A-/Negative/A-2	5	Williams Gas Pipe Line Central	BBB+/Stable/A-2	3
Empire District Electric Co.	A-/Negative/A-2	5	Transcontinental Gas Pipe Line Corp.	BBB+/Stable/A-2	3
Kansas City Power & Light Co.	A-/Negative/A-2	6	Texas Gas Transmission Corp.	BBB+/Stable/A-2	4
Connecticut Natural Gas Corp.	A-/CW-Neg/—	3	The Williams Cos. Inc.	BBB+/Stable/A-2	6
Southern Connecticut Gas Co.	A-/CW-Neg/—	3	TXU Electric Co.	BBB+/Stable/—	5
Central Maine Power Co.	A-/CW-Neg/A-2	3	TXU Gas Co.	BBB+/Stable/—	5
New York State Electric & Gas Corp.	A-/CW-Neg/A-2	4	TXU Corp.	BBB+/Stable/A-2	5
Energy East Corp.	A-/CW-Neg/—	3	Conectiv	BBB+/CW-Dev/A-2	7
Rochester Gas & Electric Corp.	A-/CW-Neg/—	5			

U.S. Electric/Gas/Water Companies continued

Company	Corporate Credit Rating	Bus. Prof.	Company	Corporate Credit Rating	Bus. Prof.
Montana Power Co.	BBB+/CW-Dev/A-2	6	Southwestern Energy Co.	BBB/Negative/—	8
Duquesne Light Co.	BBB+/CW-Dev/A-2	6	Sierra Pacific Power Co.	BBB/Negative/A-2	5
DQE Inc.	BBB+/CW-Dev/A-2	6	Nevada Power Co.	BBB/Negative/A-2	6
Hawaiian Electric Co. Inc.	BBB+/Negative/A-2	6	Sierra Pacific Resources	BBB/Negative/—	5
Maui Electric Co. Ltd.	BBB+/Negative/—	6	Enron Corp.	BBB/CW-Neg/A-3	6
Hawaii Electric Light Co. Inc.	BBB+/Negative/—	6	Northern Natural Gas Co.	BBB/CW-Neg/—	3
AmerenEnergy Generating Co.	BBB+/Negative/—	7	Transwestern Pipeline Co.	BBB/CW-Neg/—	5
Cascade Natural Gas Corp.	BBB+/Negative/—	3			
Potomac Capital Investment Corp.	BBB+/CW-Neg/A-2	7	Bangor Hydro-Electric Co.	BBB-/CW-Pos/—	5
PacificCorp Group Holdings Co.	BBB+/CW-Neg/A-2	4	Green Mountain Power Corp.	BBB-/Positive/—	7
Cinergy Corp.	BBB+/CW-Neg/A-2	5	CMS Panhandle Pipeline Cos.	BBB-/Stable/—	5
Reliant Resources Inc.	BBB+/CW-Neg/—	7	Consumers Energy Co.	BBB-/Stable/—	6
Reliant Mid-Atlantic Holding LLC	BBB+/CW-Neg/—	7	El Paso Electric Co.	BBB-/Stable/—	6
			Mirant Americas Generating Inc.	BBB-/Stable/—	7
Indianapolis Water Co.	BBB/CW-Pos/—	3	Mirant Corp.	BBB-/Stable/A-3	7
Niagara Mohawk Power Corp.	BBB/CW-Pos/—	5	Mirant Americas Energy Marketing	BBB-/Stable/—	8
Jersey Central Power & Light Co.	BBB/Stable/A-2	4	PSEG Energy Holdings Inc.	BBB-/Stable/—	8
Pennsylvania Electric Co.	BBB/Stable/A-2	5	Entergy Gulf States Inc.	BBB-/Stable/—	6
Metropolitan Edison Co.	BBB/Stable/A-2	5	System Energy Resources Inc.	BBB-/Stable/—	7
Ohio Edison Co.	BBB/Stable/—	6	Central Vermont Public Service Corp.	BBB-/Stable/—	6
Cleveland Electric Illuminating Co.	BBB/Stable/—	6	Texas-New Mexico Power Co.	BBB-/Stable/—	5
Toledo Edison Co.	BBB/Stable/—	6	Public Service Co. of New Mexico	BBB-/Stable/—	6
FirstEnergy Corp.	BBB/Stable/—	6	Central Illinois Light Co.	BBB-/CW-Dev/—	4
GPU Inc.	BBB/Stable/A-2	5	CILCORP	BBB-CW-Dev/—	4
TEPPCO Partners L.P.	BBB/Stable/—	4	Puget Sound Energy Inc.	BBB-/Negative/A-3	5
TE Products Pipeline Co. L.P.	BBB/Stable/—	4	Washington Natural Gas Co.	BBB-/Negative/A-3	5
Florida Gas Transmission Co.	BBB/Stable/—	2	Puget Sound Power & Light Co.	BBB/Negative/A-3	5
NUI Corp.	BBB/Stable/—	3	Puget Energy Inc.	BBB-/Negative/A-3	5
NiSource Inc.	BBB/Stable/A-2	4	Southwest Gas Corp.	BBB-/Negative/—	4
Columbia Energy Group	BBB/Stable/—	4			
Bay State Gas Co.	BBB/Stable/—	3	El Paso Energy Partners L.P.	BB+/Positive/—	6
Northern Indiana Public Service Co.	BBB/Stable/—	5	Azurix Corp.	BB+/Stable/—	4
Kinder Morgan Inc.	BBB/Stable/A-2	5	Market Hub Partners Storage L.P.	BB+/Stable/—	7
PPL Energy Supply LLC	BBB/Stable/—	7	Sonat Energy Services Co.	BB+/Stable/—	9
PSEG Power LLC	BBB/Stable/—	7	AmeriGas Partners L.P.	BB+/Stable/—	5
Public Service Enterprise Group Inc.	BBB/Stable/A-2	7	Western Gas Resources Inc.	BB+/Stable/—	7
PSEG Capital Corp.	BBB/Stable/—	7	Western Resources Inc.	BB+/Negative/—	6
Entergy Arkansas Inc.	BBB/Stable/—	6	Avista Corp.	BB+/Negative/—	5
Entergy Louisiana Inc.	BBB/Stable/—	6			
Entergy Mississippi Inc.	BBB/Stable/—	7	Orion Power Holdings Inc.	BB/CW-Pos/—	7
Entergy New Orleans Inc.	BBB/Stable/—	7	Tucson Electric Power Co.	BB/Stable/—	6
Entergy Corp.	BBB/Stable/—	6	CMS Energy Corp.	BB/Stable/—	7
UtiliCorp United Inc.	BBB/Stable/A-2	6	EOTT Energy Partners L.P.	BB/Stable/—	8
Pinnacle West Capital Corp.	BBB/Stable/—	5			
Pinnacle West Energy Corp.	BBB/Stable/—	7	Heating Oil Partners L.P.	B+/Stable/—	3
Duke Energy Field Services LLC	BBB/Stable/A-2	6			
SEMCO Energy Inc.	BBB/Stable/—	3	Edison International	CC/CW-Neg/C	8
*Indianapolis Power & Light Co.	BBB/Stable/A-2	4			
*IPALCO Enterprises Inc.	BBB/Stable/A-2	4	Pacific Gas & Electric Co.	D/—/D	9
Hawaiian Electric Industries Inc.	BBB/Negative/A-2	6	Southern California Edison Co.	D/—/D	8

AVISTA CORPORATION
Long-term Securities Credit Ratings

10/10/2001

	Standard & Poor's	Moody's	Fitch
Last Reviewed	October 2001	October 2001	September 2001
Credit Outlook	Negative	Negative	Negative
Business Profile	5	N/A	N/A
AAA		Aaa	AAA
AA+		Aa1	AA+
AA		Aa2	AA
AA-		Aa3	AA-
A+		A1	A+
A		A2	A
A-		A3	A-
BBB+		Baa1	BBB+
BBB		Baa2	BBB
BBB-	First Mortgage Bonds Secured Medium-Term Notes	baa3	BBB- First Mortgage Bonds Secured Medium-Term Notes
INVESTMENT GRADE			
BB+	Avista Corp./Corporate rating Unsecured Medium-Term Notes Senior Corporate Notes 9.75%	Ba1	BB+ Avista Corp./Issuer rating Unsecured Medium-Term Notes Senior Corporate Notes 9.75%
BB		Ba2	BB Preferred Stock Trust-Originated Preferred Securities (TOPrS)
BB-	Preferred Stock Trust-Originated Preferred Securities (TOPrS)	Ba3	BB- Preferred Stock Trust-Originated Preferred Securities (TOPrS)



Rating Action: Avista Corp.

MOODY'S DOWNGRADES CREDIT RATINGS OF AVISTA CORPORATION (SR.SEC. TO Baa3)

Approximately \$1.3 Billion of Debt Securities Affected.

New York, October 08, 2001 -- Moody's Investors Service downgraded the ratings of Avista Corporation (Sr. Secured to Baa3). The downgrade of Avista's ratings is in response to concerns about an expected longer period for financial recovery than had originally been anticipated, as well as lingering regulatory uncertainties in the state of Washington. The outlook for Avista's ratings is negative, reflecting the still considerable challenges that the company must overcome to restore earnings, cash flow, and liquidity to healthier levels.

Ratings downgraded include Avista Corporation's senior secured debt to Baa3 from Baa1; its senior unsecured debt and issuer ratings to Ba1 from Baa2; its preferred stock rating to Ba3 from Ba1; and its shelf registration ratings for prospective issuance of unsecured debt to (P)Ba1 from (P)Baa2.

Ratings also downgraded include the preferred capital securities of Avista Corp. Capital I and Avista Corp. Capital II to Ba2 from Baa3, as well as the shelf registration rating for prospective issuance of preferred capital securities or subordinated debt of Avista Corp. Capital III to (P)Ba2/(P)Ba2 from (P)Baa3/(P)Baa3, respectively.

Moody's has downgraded these ratings despite the Washington Utilities and Transportation Commission's (WUTC) recent approval of a 25% temporary electric rate surcharge for Avista, covering the period from October 1, 2001 to December 31, 2002. The surcharge is less than the 36.9% requested, is in effect for 15 months versus the 27 months requested, and is subject to refund, pending a prudence determination expected to be part of the general rate case that Avista is mandated to file by December 1, 2001. Also, of particular concern to Moody's is the fact that the existing energy cost deferral mechanism is being eliminated effective December 31, 2001. In taking this action, Moody's has factored in the expectation that Avista will receive a ruling relating to its request for a 14.7% electric surcharge in its substantially smaller Idaho jurisdiction within the next several days. Moody's notes that Idaho regulators have been demonstrating solid support for utilities in recent decisions rendered and that Idaho regulation has in place a tested deferral mechanism, which serves to provide a high degree of certainty around the eventual recovery of the deferred power costs.

The recent WUTC order signals some support of Avista's need to address the sizable build up of energy cost deferrals due to a confluence of circumstances, including the worst drought conditions in over 70 years, volatile pricing for power in the wholesale market, and other changing market conditions (e.g.; price caps imposed by the Federal Energy Regulatory Commission). However, the order also creates a longer period for financial recovery than would have been the case if the WUTC order approved Avista's request for interim rate relief entirely as filed earlier this year. Moody's remains concerned that Avista is still left with ongoing challenges, following the recent WUTC order. Therefore, the downgrading of Avista's credit ratings anticipates that the utility will still need to cope with ongoing, albeit less severe, cash flow pressures because rates will still not completely cover power supply costs and the existing energy cost deferral mechanism is being eliminated.

Against the backdrop of the recent WUTC order, Moody's will continue to assess Avista's ability to finance construction of the Coyote Springs II generation plant, its ability to withstand the expected delay in a planned common equity offering due to the current market environment, and whether the utility's other strategies to reduce costs and rationalize nonregulated investments can be implemented successfully. Although Avista was able to add to its liquidity in the face of challenging circumstances, Moody's considers success in regard to the aforementioned matters as integral to improving earnings, cash flow, and liquidity to more healthy levels. In addition, a favorable outcome of the general rate filing to be made by December 1, 2001 would help stabilize the current negative rating outlook. This would be especially so if the outcome implements a power cost adjustment mechanism to create more certainty surrounding recovery of Avista's power supply costs incurred to serve its customers in the Washington jurisdiction.

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

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Avista Corp.'s Ratings Lowered, Off CreditWatch Dimitri Nikas, New York (1) 212-438-7807

NEW YORK (Standard & Poor's) Oct. 10, 2001--Standard & Poor's today lowered its corporate credit rating on Avista Corp. to double-'B'-plus from triple-'B'-minus and removed the ratings from CreditWatch, where they were placed with negative implications on Aug. 2, 2001. The outlook is negative. (See list below for all rating actions.)

The downgrade reflects Avista's substantially weakened financial profile, which is not expected to recover to levels commensurate with those of investment-grade companies over the near term, considerable uncertainty surrounding the regulatory environment in Washington despite the recently approved 25% rate surcharge, and management's ongoing challenges to ensure adequate liquidity until a final regulatory order is approved.

The financial profile for Avista has weakened significantly over the past 12 months, mainly as a result of increasing power cost deferrals, which have been internally funded and will continue to be so. The deferrals accrued because Avista paid substantially more for electricity than what it collected in rates. Therefore, Avista's cash-generation ability has been compromised, leading to credit-protection measures that are inadequate for the rating category.

The recently approved 25% rate surcharge in Washington state is expected to provide some relief to Avista in the form of much needed liquidity. However, the rate surcharge is much less than that requested by the company and will expire in 15 months (Dec. 31, 2002), a much shorter period than the 27 months requested by Avista. As a result, Avista will be unable to recover all accumulated deferrals. As part of the recent Washington Utilities

and Transportation Commission (WUTC) decision, Avista's ability to defer additional power costs in excess of rates will terminate on Dec. 31, 2001, creating further uncertainty as to the recovery of additional power cost deferrals. Avista plans to address the unrecovered deferred balances, the ability to defer additional power costs, and the ability to share power costs with ratepayers in the upcoming general rate case filing, which is to be submitted by Dec. 1, 2001. However, the WUTC may take up to 11 months to respond, thereby creating considerable uncertainty as to the final outcome. The company's precarious position is further emphasized by the fact that as part of the rate filing, the WUTC will examine the prudence of the deferred power costs and retain the authority to order a refund of the amounts recovered, if necessary.

At the same time, Avista management is pursuing various alternatives to ensure adequate liquidity until the WUTC responds to the company's general rate filing. These plans include alternative financing for the Coyote Springs 2 combined-cycle plant, which is expected to come on line in early summer 2002, a planned equity offering that the company may be challenged to complete due to adverse market conditions, reductions in operating costs and planned capital expenditures, and the disposition of certain noncore assets. Although these measures may provide the necessary relief during a transition period, clearly Avista needs a strong show of regulatory support in the form of a rate order that addresses the current cost under-recovery and provides a supportive regulatory framework that addresses the evolving and volatile nature of the electric utility industry. Without such a show of support, Standard & Poor's is concerned that Avista's financial profile may deteriorate further, leading to even weaker credit-protection measures.

OUTLOOK: NEGATIVE

The negative outlook reflects the challenges facing Avista in its effort to maintain adequate liquidity while ensuring the integrity of its electric utility operations and the regulatory uncertainty concerning the company's upcoming general rate filing. Without the necessary liquidity or a favorable rate order, the company's financial profile may deteriorate further, leading to even weaker credit-protection measures and lower ratings.

RATINGS LOWERED AND REMOVED FROM CREDITWATCH

	TO	FROM
Avista Corp.		
Corporate credit rating	BB+	BBB-
Senior secured debt	BBB-	BBB
Senior unsecured debt	BB+	BBB-
Preferred stock	BB-	BB
Shelf debt preferred stock (prelim)	BB-	BB
Shelf senior unsecured (prelim)	BB+	BBB-
Avista Capital I		
Preferred stock*	BB-	BB
Avista Capital II		

Preferred stock*
*Guaranteed by Avista Corp.

BB-

BB

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BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

DOCKET NO. UE-01_____

EXHIBIT NO. ____ (JEE-2)

WITNESS: JON E. ELIASSEN, AVISTA CORP.

The following is an excerpt from Avista Corp.'s Prospectus, dated September 24, 2001, with the following caption related to \$400 million of medium term notes:

**AVISTA CORPORATION
EXCHANGE OFFER**

**Avista Corp.is offering to issue its
9.75% Senior Notes Due June 1, 2008
(registered)**

in exchange for its

**9.75% Senior Notes Due June 1, 2008
(unregistered)**

Risk Factors

You should carefully consider the following risk factors in addition to the other information contained or incorporated by reference in this prospectus.

We have significant current and on-going cash requirements.

Our cash outlays for purchased power exceed the related amounts paid to us by our retail customers. This condition, which is due both to increased prices in the wholesale market and to increased volumes purchased to meet retail customer demand, has existed since the second quarter of 2000. In addition to operating expenses, we have continuing commitments for capital expenditures for construction, improvement and maintenance of facilities. We have incurred substantial levels of indebtedness, both short and long term, to finance these requirements and to otherwise maintain adequate levels of working capital, and debt service itself is another cash requirement. In addition, we have also been committed to financing the development of companies in the Information and Technology line of business.

If approved as requested, the proposed rate increases should provide a basis for our eventual return to adequate liquidity. However, in order to meet our cash needs in the near term, we may need to sell assets not required for our core businesses and maintain adequate levels of credit with our banks. In addition, we must be permitted to retain substantially all amounts collected from the proposed rate increases. It should be noted that cash held by Avista Energy is restricted by that company's credit agreement and only limited amounts are available to Avista Corp.

Avista Utilities has incurred significant energy costs, which we have not recovered from customers. If the regulatory commissions do not allow us to recover these costs, our financial position will be impaired.

As noted above, since the second quarter of 2000 Avista Utilities has incurred costs for purchased power far in excess of the levels recovered from retail customers. Recognition of these costs as expenses on the statements of income has been deferred pending determination as to whether or not they can be recovered from retail customers. See SUMMARY – "Recovery of Excess Energy Costs", DEVELOPMENTS IN WHOLESALE ENERGY MARKETS – "Avista Utilities – Regulatory Matters", and "Management's Discussion and Analysis of Financial Condition and Results of Operations" – "Results of Operations" and Note 1 of Notes to Audited Financial Statements in Avista Corp.'s Annual Report on Form 10-K for the year ended December 31, 2000.

It is expected that the WUTC increase will be subject to refund based on, among other things, whether or not the costs were "prudently" incurred and whether or not Avista Utilities' overall retail rates, as to be modified, are "just, fair, reasonable and sufficient".

If Avista Utilities is not permitted to retain substantially all amounts collected under the proposed rate increases, Avista Corp.'s financial condition will be seriously impaired.

The extent to which the proposed rate increases will offset our deferred energy cost balances will depend on a number of factors beyond our control.

Assuming the proposed rate increases are permitted to remain in effect as initially requested for the entire term requested, and without any refund obligation, these increases should produce \$105.3 million of additional cash, on an annual basis, which would be applied in the financial statements to offset the deferred energy cost balances. For reference, the total deferred energy cost balance at August 31, 2001 was \$241.7 million. The extent to which the amounts recovered will be sufficient to offset the deferred cost balances will depend on a number of factors beyond our control, including, but not limited to, the availability of hydroelectric resources and energy prices in wholesale markets.

Our ongoing cash requirements, combined with restricted access to cash have resulted in waivers of certain covenants under our bank credit agreement.

Our bank credit agreement and certain other financing agreements contain covenants to maintain specified financial ratios. Unless we are able to generate additional cash with the proceeds of asset sales and/or the sale of equity securities, we could be in default under one or more of such agreements. Any such default could result in cross-defaults to other agreements and could induce vendors and other counterparties to demand collateral. In order to avoid impending defaults, the banks under our credit agreement have recently waived compliance with certain covenants through the May 29, 2002 expiration date of the agreement. If an event of default occurred, it would be virtually impossible to obtain financing on any reasonable terms to pay creditors or fund operations, and, in this event, we would likely be prohibited from paying dividends on our capital stock.

Our cash flow and earnings could continue to be adversely affected, beyond the term of the proposed rate increases, due to continued high prices of purchased power, increased demand, continued low availability of our hydroelectric resources, outages of our generating facilities or any failure to deliver on the part of our vendors.

If Avista Utilities' purchased power costs continue to exceed the levels recovered from retail customers, its cash flow and earnings would continue to be negatively affected. Factors which could cause purchased power costs to continue at levels higher than planned include, but are not limited to, a return to high prices in Western wholesale markets and/or continued high volumes of energy purchased in wholesale markets due to:

- increases in demand due, for example, either to weather or customer growth,
- continued diminished availability of hydroelectric resources due to poor rainfall and streamflow conditions,
- outages of any of our thermal or other generating facilities, and
- failure to deliver on the part of any parties from which we purchase capacity or energy.

We are subject to the commodity price risk, credit risk and other risks associated with energy trading and marketing activities.

Our subsidiary, Avista Energy, trades electricity and natural gas, along with derivative commodity instruments, including futures, options, swaps and other contractual arrangements. As a result of these trading

activities, we are subject to various risks, including commodity price risk and credit risk, as well as possible new risks resulting from the recent imposition of market controls by federal and state agencies. The Federal Energy Regulatory Commission ("FERC") is conducting separate proceedings related to market controls within California and within the Pacific Northwest that include proposals by certain parties to retroactively impose price caps. The retroactive application of price caps could result in liabilities for refunding revenues recognized in prior periods. Avista Energy and other parties are vigorously opposing these proposals. If retroactive price caps were imposed, Avista Energy could develop offsetting claims.

In connection with matching loads and resources, Avista Utilities also engages in wholesale sales and purchases of electric capacity and energy, and, accordingly, is also subject to commodity price risk, credit risk and other risks associated with these activities. Avista Utilities may also be exposed to refunds for wholesale power sales depending on the outcome of the FERC's retroactive price cap proceeding for the Pacific Northwest but would also have the opportunity to establish offsetting claims.

BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

DOCKET NO. UE-01_____

EXHIBIT NO. ____ (JEE-3)

WITNESS: JON E. ELIASSEN, AVISTA CORP.

**Avista Corp
Financial Indicators
1999-2003
With Rate Increases**

Line No.	1999 (a)	2000 (b)	Year-end Projections - Includes Rate Increases in 2002 and New Financings			Investment Grade		Non-Investment Grade		
			2001 (c)	2002 (d)	2003 (e)	Criteria*				
						A (f)	BBB (g)	BB (h)	B (i)	
1	Internal Funds From Operations: Interest Coverage	2.5x	2.7x	0.7x	2.6x	2.5x	4.0 - 4.8	3.0 - 4.0x	2.1 - 3.0x	1.1 - 2.1x
2	Internal Funds from Operations: As a % of Debt	16.6%	19.6%	5.9%	27.7%	26.5%	27 - 33%	20.5 - 27%	15 - 20.5%	7.5 - 15%
3	Capitalization Ratios: Debt	54.0%	51.9%	59.4%	52.5%	48.4%	41.5 - 47%	47 - 55%	55 - 62.5%	62.5 - 71%
4	Preferred Stock	23.4	7.6	6.3	6.6	6.9				
5	Common Equity	22.6	40.5	34.3	40.9	44.7				
6	Pretax Interest Coverages: Including AFUDC and AFUCE	1.97x	2.29x	1.52x	1.81x	2.11x	3.5 - 4.3x	2.4 - 3.5x	1.5 - 2.4x	0.6 - 1.5x
7	Excluding AFUDC and AFUCE	1.93x	2.26x	1.48x	1.80x	2.09x				

*Benchmarks from Standard & Poor's for Business Position "5" (Avista's current Business Position).

Boxed area represents where Avista would be by the end of 2003

Bold underlined area represents where Avista would be by the end of 2002. Note that three of the financial indicators would be in the same category as 2003, even though the 2003 indicators are generally stronger.

Projections based on internal forecast prepared November 29, 2001.

BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

DOCKET NO. UE-01_____

EXHIBIT NO. ____ (JEE-4)

WITNESS: JON E. ELIASSEN, AVISTA CORP.

Avista Corp.

Increased Borrowing Costs
Related to Lowered Credit Ratings
Since July 1, 2001

Line No.	Obligation	Annual Amount	One-time Amount	Criteria
1	\$175 m 8.625% MTN's			New interest rate is effective on the next Interest Payment Date following downgrade (March 1, 2002) 25 basis points for first rating agency to downgrade to below Baa3/BBB- on unsecured debt
2		437,500		
3		437,500		
4	\$83.7 m Colstrip PCB's	83,700		Bond insurance premium increases by 10 basis points on first October 1 following downgrade by either S&P or Moody's of senior unsecured debt (based on rating on each October 1) Convert to fixed rate (5.50%) from floating rate (2.70%) to avoid potential of "failed auction"
5		2,343,600		
6	Accounts Receivable Sale		100,000	Amendment fee due to downgrade to below investment grade
7		765,000 *		Borrowing rate spread increased due to two downgrades (from .375% to 1.75%) plus fees increase (from .35% to .50%)
8	Corporate Credit Facility	2,062,500 **		Borrowing rate spread increased due to two downgrades and noncompliance with covenants (from 1.25% to 2.625%) Waiver fee for amendment due to noncompliance with covenants
9			550,000	
10		175,000 ***		Commitment fee increased due to two downgrades and noncompliance with covenants (from .25 to .50%)
11	Total	<u>6,304,800</u>	<u>650,000</u>	

* Assumes \$50 million outstanding
** Assumes \$150 million outstanding
*** Assumes \$70 million unused

Exhibit __ (JEE-4)
Docket No. _____
Eliassen, Avista
Page 1 of 1

BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

DOCKET NO. UE-01_____

EXHIBIT NO. ____ (JEE-5)

WITNESS: JON E. ELIASSEN, AVISTA CORP.

Avista Corp

**Cash Flow Requirements
2001-2003
(000's of Dollars)**

Line No.		2001				2002				2003
		YTD 9-30 (a)	4th Qtr (b)	Total (c)	1st Qtr (d)	2nd Qtr (e)	3rd Qtr (f)	4th Qtr (g)	Total (h)	Total (i)
	<u>Cash Flows</u>									
1	Utility Operations ⁽¹⁾	106,916	(13,959)	92,957	52,621	(21,788)	30,333	4,924	66,090	110,203
2	Electric and Gas Deferrals ⁽¹⁾	(254,269)	30,200	(224,069)	40,273	21,322	9,789	22,542	93,926	19,109
3	Utility Capital Expenditures	(91,895)	(26,420)	(118,315)	(13,151)	(15,167)	(15,208)	(12,344)	(55,870)	(102,019)
4	Coyote Springs 2 ⁽²⁾	(71,037)	48,233	(22,804)	-	-	-	-	-	-
5	Long-term Debt and Preferred Stock Maturities ⁽³⁾	(25,000)	(64,000)	(89,000)	(50,000)	(30,000)	(71,750)	-	(151,750)	(256,750)
6	Total Utility Cash Requirements	(335,285)	(25,946)	(361,231)	29,743	(45,633)	(46,836)	15,122	(47,604)	(229,457)
7	Subsidiary Requirements	(58,441)	5,963	(52,478)	6,120	19,701	216	(20,370)	5,667	11,558
8	Subsidiary Dividend	30,000	-	30,000	50,000	-	20,000	20,000	90,000	-
9	Total Company Cash Requirements	<u>(363,726)</u>	<u>(19,983)</u>	<u>(383,709)</u>	<u>85,863</u>	<u>(25,932)</u>	<u>(26,620)</u>	<u>14,752</u>	<u>48,063</u>	<u>(217,899)</u>
	<u>Period-Ending Balances</u>									
10	Accounts Receivable Sale Balance	36,000	65,000		58,000	39,000	37,000	41,000		54,000
11	Short-term Debt Balance	125,000	77,370		-	-	-	-		131,206
12	Short-term Investments	12,113	65,000		73,993	48,561	22,441	85,193		500

(1) Includes interim rate relief, a rate increase Oct 2002 - Dec 2003, and continued WA deferrals in 2002 and 2003

(2) Includes proceeds from 50% sale

(3) Does not include any repayments on short-term debt or the accounts receivable program but includes \$100 million of open market purchases of long-term debt in 2002 and \$50 million in 2003

Cash inflows are indicated by positive numbers (Outflows by negative numbers)

BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

DOCKET NO. UE-01_____

EXHIBIT NO. ____ (JEE-6)

WITNESS: JON E. ELIASSEN, AVISTA CORP.

Avista Corp.

**Maturing Debt and Credit Facilities
December 2001 through 2004**

Line No.	Security Type	Coupon Rate	Maturity Date	Principal Amount
1	MTN A	8.01%	12/17/2001	8,000,000
2	MTN B	8.01%	12/17/2001	2,000,000
3	MTN B	8.04%	12/17/2001	5,000,000
4	MTN D	8.000%	12/20/2001	45,000,000
5	MTN D	8.000%	12/20/2001	4,000,000
6	MTN B	8.15%	4/15/2002	10,000,000
7	SMTN A	6.28%	6/28/2002	5,000,000
8	SMTN B	6.61%	6/28/2002	15,000,000
9	SMTN A	6.32%	7/8/2002	15,000,000
10	SMTN A	6.28%	7/9/2002	5,000,000
11	MTN B	6.75%	4/15/2003	5,000,000
12	MTN A	8.99%	5/1/2003	10,000,000
13	MTN D	8.625%	9/1/2003	175,000,000
14	SMTN A	6.25%	11/19/2003	5,000,000
15	SMTN A	6.25%	11/24/2003	10,000,000
16	MTN B	7.42%	8/9/2004	30,000,000
17	Total Long-Term Debt Maturities			349,000,000
18	Preferred Stock, Series K (1)	\$6.950/Share	9/15/2002	1,750,000
19	Preferred Stock, Series K (1)	\$6.950/Share	9/15/2003	1,750,000
20	Preferred Stock, Series K (1)	\$6.950/Share	9/15/2004	1,750,000
21	Total Preferred Stock Mandatory Redemptions			5,250,000
22	Total Anticipated Mandatory Maturities			354,250,000
23	Revolving Bank Line of Credit (2)		5/29/2002	220,000,000
24	Accounts Receivable Financing (2)		5/29/2002	90,000,000
25	Total Short-Term Financing Facilities subject to Expiration			310,000,000

(1) Redemption Provisions - Series K (cumulative, without par value)

Subject to a mandatory sinking fund sufficient to retire a minimum of 17,500 shares on September 15 of each year in the five-year period commencing September 15, 2002 with the remaining shares mandatorily redeemed on September 15, 2007, in each case at a price of \$100 per share plus an amount equivalent to accumulated and unpaid dividends thereon to the date of redemption. In addition, the Company will have the noncumulative right to redeem through the sinking fund up to an additional 17,500 shares on the same terms on each such September 15. Issue is not otherwise redeemable at the option of the Company.

- (2) Short-term financing facilities are subject to expiration if not renewed at the "maturity" date shown. Short-term financing facilities are anticipated to be renewed, but renewal is not guaranteed. Amount available for renewal may be less than the existing limits. Balance of funds borrowed at date of expiration is expected to be less than limits of the facilities. Therefore, the short-term facilities are excluded from "mandatory maturities" total.

BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

DOCKET NO. UE-01_____

EXHIBIT NO. ____ (JEE-7)

WITNESS: JON E. ELIASSEN, AVISTA CORP.

AVISTA CORP.

Cost of Capital

Pro forma Cost of Capital	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Component</u>
Long Term Debt (2)	45.00%	8.77 *	3.95%
Short Term Debt (1)	4.00%	8.45 *	0.34%
Trust Preferred Securities	7.50%	8.35 *	0.63%
Preferred Stock	1.50%	7.39 *	0.11%
Common Equity	<u>42.00%</u>	12.75 (3)	<u>5.36%</u>
TOTAL	<u>100.00%</u>		10.39%

- (1) Commitment fees are reflected in yield to maturity calculations
- (2) Unamortized premium and discount are reflected in yield to maturity calculations
- (3) ROE assumption includes an adjustment mechanism

All costs are shown before tax