

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-05 \_\_\_\_\_

DOCKET NO. UG-05 \_\_\_\_\_

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

MALYN K. MALQUIST

REPRESENTING AVISTA CORPORATION

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

	<b>Standard &amp; Poor's</b>	<b>Moody's</b>	<b>Fitch</b>
<b>Last Reviewed</b>	December 2002	March 2004	December 2001
<b>Credit Outlook</b>	Stable	Stable	Stable
<b>Business Profile</b>	5	N/A	N/A
<b>AAA</b>		<b>Aaa</b>	<b>AAA</b>
<b>AA+</b>		<b>Aa1</b>	<b>AA+</b>
<b>AA</b>		<b>Aa2</b>	<b>AA</b>
<b>AA-</b>		<b>Aa3</b>	<b>AA-</b>
<b>A+</b>		<b>A1</b>	<b>A+</b>
<b>A</b>		<b>A2</b>	<b>A</b>
<b>A-</b>		<b>A3</b>	<b>A-</b>
<b>BBB+</b>		<b>Baa1</b>	<b>BBB+</b>
<b>BBB</b>		<b>Baa2</b>	<b>BBB</b>
<b>BBB-</b> First Mortgage Bonds Secured Medium-Term Notes		<b>baa3</b> First Mortgage Bonds Secured Medium-Term Notes	<b>BBB-</b> First Mortgage Bonds Secured Medium-Term Notes
<b>INVESTMENT GRADE</b>			
<b>BB+</b> Avista Corp./Corporate rating Unsecured Medium-Term Notes Senior Corporate Notes 9.75%	<b>Ba1</b>	Avista Corp./Issuer rating Unsecured Medium-Term Notes Senior Corporate Notes 9.75%	<b>BB+</b> Unsecured Medium-Term Notes Senior Corporate Notes 9.75%
<b>BB</b>	<b>Ba2</b>	Trust-Originated Preferred Securities	<b>BB</b> Preferred Stock Trust-Originated Preferred Securities
<b>BB-</b> Preferred Stock Trust-Originated Preferred Securities	<b>Ba3</b>	Preferred Stock	<b>BB-</b>

**AVISTA CORPORATION**  
**Capital Structure and Overall Rate of Return**

**PROFORMA**

Cost of Capital as of December 31, 2006	<u>Amount</u>	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Component</u>
Total Debt (1)	\$953,122,557	49.40%	8.44	4.17%
Trust Preferred Securities	100,000,000	5.18%	6.60	0.34%
Preferred Stock	27,300,000	1.42%	7.39	0.10%
Common Equity	<u>848,797,691</u>	<u>44.00%</u>	<b>11.50</b> (2)	<u>5.06%</u>
TOTAL	<u><u>\$1,929,220,248</u></u>	<u><u>100.00%</u></u>		<b>9.67%</b>

**EMBEDDED**

Cost of Capital as of December 31, 2004	<u>Amount</u>	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Component</u>
Total Debt (1)	\$991,859,927	52.41%	8.27	4.33%
Trust Preferred Securities	100,000,000	5.28%	5.91	0.31%
Preferred Stock	29,750,000	1.57%	7.39	0.12%
Common Equity	<u>770,846,094</u>	<u>40.73%</u>	<b>11.16</b>	<u>4.55%</u>
TOTAL	<u><u>\$1,892,456,021</u></u>	<u><u>100.00%</u></u>		<b>9.31%</b>

(1) Includes short-term debt

(2) Proposed Return on Common Equity - See Avera testimony

See supporting documentation

All costs are shown before tax