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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-12-08
OF AVISTA CORPORATION FOR THE	)	CASE NO. AVU-G-12-07
AUTHORITY TO INCREASE ITS RATES	)	
AND CHARGES FOR ELECTRIC AND	)	
NATURAL GAS SERVICE TO ELECTRIC AND	)	DIRECT TESTIMONY
NATURAL GAS CUSTOMERS IN THE STATE	)	OF
OF IDAHO	)	MARK THIES
	)	

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

I. INTRODUCTION

Q. Please state your name, business address, and present position with Avista Corp.

A. My name is Mark Thies. My business address is 1411 East Mission Avenue, Spokane, Washington. I am employed by Avista Corporation as Senior Vice President and Chief Financial Officer.

Q. Would you please describe your education and business experience?

A. I received a Bachelor of Arts degree in 1986, with majors in Accounting and Business Administration from Saint Ambrose College in Davenport, Iowa, and became a Certified Public Accountant in 1987. I have extensive experience in finance, risk management, accounting and administration within the utility sector.

I joined Avista in September of 2008 as Senior Vice President and Chief Financial Officer (CFO). Prior to joining Avista, I was Executive Vice President and CFO for Black Hills Corporation, a diversified energy company, providing regulated electric and natural gas service to areas of South Dakota, Wyoming and Montana. I joined Black Hills Corporation in 1997 upon leaving InterCoast Energy Company in Des Moines, Iowa, where I was the manager of accounting. Previous to that I was a senior auditor for Arthur Andersen & Co. in Chicago, Illinois.

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

A. I will provide a financial overview of the Company and will explain the overall rate of return proposed by the Company in this filing for its electric and natural gas operations. The proposed rate of return is derived from Avista's total cost of long-term debt and common equity, weighted in proportion to the proposed capital structure.

I will address the proposed capital structure, as well as the proposed cost of total debt and equity in this filing. Dr. Avera, on behalf of the Company, will provide additional testimony related to the appropriate return on equity for Avista, based on the specific circumstances of the Company, together with the current state of the financial markets.

In brief, I will provide information that shows:

- Avista's plans call for significant capital expenditure requirements for the utility over the next two years to assure reliability in serving our customers and meeting customer growth. Capital expenditures of approximately $500 million are planned for 2012 and 2013 to fund customer growth, investment in generation upgrades and transmission and distribution facilities, as well as necessary maintenance and replacements of our natural gas utility systems. Capital expenditures of approximately $1.2 billion are planned for the five-year period ending December 31, 2016. Avista needs adequate cash flow from operations to fund these requirements, together with access to capital from external sources under reasonable terms.

- Avista's corporate credit rating from Standard & Poor's (S&P) is currently BBB and from Moody's Investors Service (Moody's) it is Baa2. Avista must operate at a level that will support a solid investment grade corporate credit rating in order to access capital markets at reasonable rates, which will result in lower long-term borrowing costs to customers. A supportive regulatory environment is an important consideration by the rating agencies when reviewing Avista. Maintaining solid credit metrics and credit ratings will also help support a stock price necessary to issue equity under reasonable terms to fund capital requirements.

- The Company is proposing an overall rate of return of 8.46%, including a 50.0% equity ratio and a 10.90% return on equity. Our proforma cost of debt is 6.02%.

The Company's ongoing efforts to carefully manage its operating costs and capital expenditures are an important part of our performance, but are not sufficient without revenues from the general rate request for our electric and natural gas businesses in these cases. Sufficient cash flows from operations can only be achieved with the support of regulators in allowing the timely recovery of costs and the ability to earn a reasonable return on investment.

A table of contents for my testimony is as follows:

Q. Are you sponsoring any exhibits with your direct testimony?

A. Yes. I am sponsoring Exhibit 2, Schedule 1, pages 1 through 5, and confidential Exhibit 2, Schedule 2, which were prepared under my direction. Avista’s credit ratings by S&P and Moody’s are summarized on page 1 of Exhibit 2, Schedule 1, and Avista’s actual capital structure at June 30, 2012, and pro forma capital structure at December 31, 2013 are included in Exhibit 2, Schedule 1, page 2. Supporting information is included on pages 2, 3 and 4, of Exhibit 2, Schedule 1 and confidential Exhibit 2, Schedule 2.

II. FINANCIAL OVERVIEW

Q. Please provide an overview of Avista's financial situation.

A. Avista's goal is to operate at a level that will support a solid corporate credit rating of at least the current rating of BBB with a long-term goal of operating at a Corporate Credit rating of BBB+. Operating at a BBB+ rating level will result in lower long-term borrowing costs to customers. We expect that a continued focus on the regulated utility, conservative financing strategies (including the issuance of common stock) and a supportive regulatory environment will contribute toward an upgrade to a BBB+ credit rating.

We are operating the business efficiently to keep costs as low as practicable for our customers, while at the same time ensuring that our energy service is reliable, and customers are satisfied. An efficient, well-run business is not only important to our customers, but also to investors. Additionally, the Company is working through regulatory processes to recover our costs in a timely manner so that earned returns are closer to those allowed by regulators in each of the states we serve. This is one of the key determinants from the rating agencies' standpoint when they are reviewing our overall credit ratings.

Q. What steps has the Company taken to improve its financial health?

A. We are working to assure there are adequate funds for operations, capital expenditures and debt maturities. We have extended the weighted average maturity of long-term debt while maintaining the overall cost of long-term debt. During 2010, 2011 and 2012, the Company priced and issued long-term debt at historically low rates.

We obtain a portion of our capital requirements through issuing common equity. In 2011, we issued $26.5 million of equity and in 2010, we issued $46.2 million. We are planning to issue up to $45 million of common stock in 2012, in order to maintain our capital structure at an appropriate level for our business.

We are anticipating the cost of debt to rise slightly to 6.02% by December 31, 2013, from 5.94% as of June 30, 2012. This increase is primarily due to the forecasted 2013, thirty year issuance of $90 million secured bonds, of which a portion of the proceeds will be used to refinance the three year, 1.68%, $50 million secured bonds maturing in 2013 (originally issued in 2010).

The Company entered into forward-starting interest rate swaps for a total of $160 million as a hedge on a portion of the interest payments on forecasted issuances of long-term debt in 2013, 2014 and 2015. The Company continues to analyze the possibility of entering into additional transactions in order to lock in the interest rate on forecasted debt issuances to mitigate interest rate risk.

Additionally, the Company filed a finance application with the Commission to support the issuance of future debt issuances. The Commission approved this application in Order No. 32338. This order provides support for the $90 million debt securities forecasted to be issued in 2013.

Q. In addition to having credit ratings that will allow Avista to attract debt capital under reasonable terms, is it also necessary to attract capital from equity investors?

A. It is absolutely essential. Avista has two primary sources of external capital: debt and equity investors. As of June 30, 2012, Avista had approximately $2.4 billion of debt and equity. Approximately half of that investment is funded by debt holders, and the other half is funded by equity investors and retained earnings. There tends to be significant emphasis on maintaining credit metrics and credit ratings that will provide access to debt capital under reasonable terms, however, access to equity capital is equally important. In fact, equity investors also focus on cash flows, capital structure and liquidity, as do debt investors. The level of common equity in the Company's capital structure can have a direct impact on its credit rating.

Additional equity capital generally comes in two forms: retained earnings and new stock issuances. Retained earnings represent the annual earnings (return on equity) of the Company that is not paid out to investors in dividends. The retained earnings are reinvested by the Company in utility capital expenditures to serve customers and other capital/investments, which avoids the need to issue new debt or new stock. Occasionally, it's necessary to issue common equity in order to maintain a balanced debt and equity capital structure. A balanced capital structure allows Avista access to both debt and equity markets under reasonable terms, on a sustainable basis. As previously noted, our capital requirements for the next five years are sizable at approximately $1.2 billion, which will need to be funded with both debt and equity.

Q. Are the debt and equity capital markets a competitive market?

A. Yes. Our ability to attract new capital, especially equity capital, under reasonable terms is dependent on our ability to offer a risk/reward opportunity that is better than the equity investors' other alternatives. We are competing with not only other utilities, but businesses in other sectors of the economy. Demand for the stock supports the stock price, which provides the opportunity to issue additional stock under reasonable terms to fund capital investment requirements.

To the extent that the equity investor holds a diversified portfolio of companies that includes utilities and other energy companies, we would be competing with those companies to attract those equity dollars.

Q. What is Avista doing to attract equity investment?

A. Avista is carrying a capital structure that provides the opportunity to have financial metrics that offer a risk/reward proposition that is competitive and/or attractive for equity holders.

We have steadily increased our dividend for common shareholders over the past several years, to work toward a dividend payout ratio that is comparable to other utilities in the industry. This is an essential element in providing a competitive risk/reward opportunity for equity investors.

We are employing tracking mechanisms such as the Power Cost Adjustment (PCA) and Purchased Gas Adjustment (PGA), approved by the Idaho Public Utilities Commission (the Commission), to balance the risk of owning and operating the business in a manner that places us in a position to offer a risk/reward opportunity that is competitive with not only other utilities, but with businesses in other sectors of the economy.

Dr. Avera provides additional testimony related to the appropriate return on equity for Avista that would allow the Company access to equity capital under reasonable terms, and on a sustainable basis.

III. CREDIT RATINGS

Q. How important are credit ratings for Avista?

A. Utilities require ready access to capital markets in all types of economic environments. The nature of our business with long-term capital projects, our obligation to serve, and the potential for significant volatility in fuel and purchased power markets, necessitates the need to have the ability to go to the financial markets under reasonable terms on a regular basis. In order to have this ability, investors need to understand the risks related to any of their investments. To help investors assess the creditworthiness of a company, Nationally Recognized Statistical Rating Organizations (rating agencies) developed their own standardized ratings scale, otherwise known as credit ratings. These credit ratings indicate the creditworthiness of a company and assist investors in determining if they want to invest in a Company.

Q. Please summarize the credit ratings for Avista's debt securities.

A. Two of the most widely recognized rating agencies are S&P and Moody's. Avista has credit ratings assigned by both S&P and Moody's. Avista's credit ratings are summarized on page 1 of Exhibit 2, Schedule 1.

Q. Please explain the implications of the credit ratings in terms of the Company's ability to access capital markets.

A. Credit ratings impact investor demand and expected returns. More specifically, when the Company issues debt, the credit rating can affect the determination of the interest rate at which the debt will be issued. The credit rating can affect the type of investor who will be interested in purchasing the debt. For each type of investment a potential investor could make, the investor looks at the quality of that investment in terms of the risk they are taking and the priority they would have for payment of principal and interest in the event that the organization experiences severe financial stress. Investment risks include, but are not limited to, liquidity risk, market risk, operational risk, and credit risk. These risks are considered by the rating agencies and investors in assessing our creditworthiness.

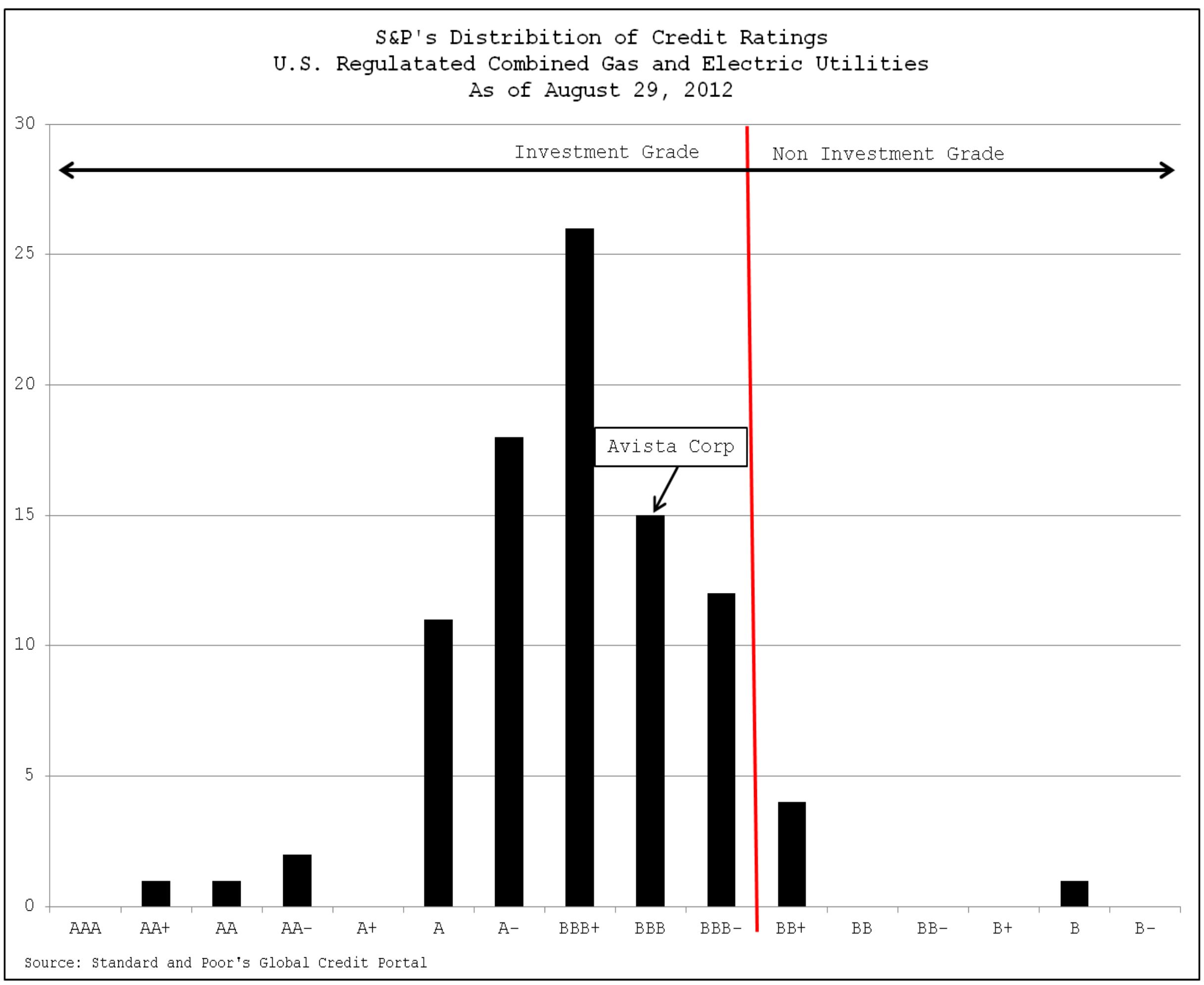
In challenging credit markets, where investors are less likely to buy corporate bonds (as opposed to U.S. Government bonds), a higher credit rating will attract more investors, and a lower credit rating could reduce or eliminate the number of potential investors. Thus, lower credit ratings may result in a company having more difficulty accessing financial markets and/or incur significantly higher costs when accessing capital.

Q. What credit rating does Avista Corporation believe is appropriate?

A. The move to investment grade for Avista was a significant step in improving the Company's ability to access capital at a reasonable cost. It took approximately six years for the Company to regain its investment grade rating from S&P and Moody's after it was downgraded during the Energy Crisis. The difference between investment grade and non-investment grade is not only a matter of debt pricing, but also the ability to access markets.

As shown in Illustration No. 1, Avista's current S&P corporate credit rating of BBB, is below the average credit rating for U.S. Regulated Combined Gas and Electric Utilities. The Company's long-term goal is to operate at a credit rating of at least the utility average (BBB+). Operating at a BBB+ would likely attract additional investors, lower the Company's debt pricing, and makes us more competitive with other utilities.

Illustration No. 1:



Financially healthy utilities have lower financing costs which, in turn, benefit customers. In addition, financially healthy utilities are better able to invest in the required infrastructure over time to serve their customers, and to withstand the challenges facing the industry.

Q. What are the key credit factors S&P uses to establish credit ratings?

A. Credit factors utilized by S&P to establish credit ratings typically include an assessment of a company's Business Risk and Financial Risk. The Business Risk includes such items as country risk, industry risk, competitive position, and profitability. The Business Risk analysis is supported by statistics; however, it also involves subjective judgment. S&P assigns a Business Risk profile to each company that may range from the lowest of "Vulnerable" to the highest of "Excellent". Avista's Business risk profile is currently Excellent.

Financial risk is assessed primarily through quantitative means. S&P's financial ratio benchmarks used to rate companies such as Avista are set forth in Illustration No. 2 below.

Illustration No. 2:

Standard & Poor's Financial Risk Indicative Ratios (Corporate)		
Financial Risk	**FFO/Debt (%)**	**Debt/Capital (%)**
Minimal	Greater than 60	Less than 25
Modest	45 - 60	25 - 35
Intermediate	30 - 45	35 - 45
Significant	20 - 30	45 - 50
Aggressive	12 - 20	50 - 60
Highly leveraged	Less than 12	Greater than 60
Company's Ratios:		
Avista Adjusted (a)	18.60%	54.70%

(a) Calculated as of 06/30/12 based on last known S&P methodology

The ratios above are utilized to determine the financial risk profile. Currently, Avista is in the Aggressive category. The financial risk category along with the business risk profile is then utilized in Illustration No. 3 below to determine a company's rating. S&P currently has Avista's corporate credit rating as BBB, based upon an Aggressive financial risk profile and Excellent business risk profile.

Illustration No. 3:

Standard & Poor's Business and Financial Risk Profile Matrix						
Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	CCC+

Moody's uses a similar methodology to analyze and determine utility credit ratings.

Q. Please describe how S&P's Financial Risk ratios are calculated and what they mean?

A. The first ratio, Funds from operations/total debt (%), calculates the amount of cash flow from operations as a percent of total debt. The ratio indicates the company's ability to fund debt obligations. The second ratio, Total debt/total capital (%), is the amount of debt in our total capital structure. The ratio is an indication of the extent to which the company is using debt to finance its operations. S&P looks at many other financial ratios; however, these are the two most important ratios they use when analyzing our financial profile.

Q. Do rating agencies make adjustments to the financial ratios that are calculated directly from the financial statements of the Company?

A. Yes. Rating agencies make adjustments to debt to factor in off-balance sheet commitments (e.g., purchased power agreements and the unfunded status of pension and other post-retirement benefits) that negatively impact the ratios. For example, in 2011 S&P made adjustments to Avista's debt totaling approximately $148 million primarily related to purchased power contracts, post-retirement benefits, and non-recourse debt. The adjusted financial ratios for Avista are included in Illustration No. 2 above.

Q. What other risks are Avista and the utility sector facing that may impact credit ratings?

A. Avista's credit ratings are impacted by risks that could negatively affect the Company's cash flows. These risks include, but are not limited to, weather conditions, the effect of state and federal regulatory decisions on the ability to recover costs and earn a reasonable return, changes in wholesale energy prices, local and global economic conditions, access to capital markets at a reasonable cost, potential effects of legislation or administrative rulemaking, volatility and illiquidity in the wholesale energy market, and delays or changes in construction costs.

Credit ratings for the utility sector are also adversely impacted by large capital expenditures for new generation, transmission and distribution facilities, and environmental compliance. The utility sector is in a cycle of significant capital spending, which will likely be funded by significant issuances of debt and equity. This will likely affect the competition for financial capital.

The increased capital spending needs and resulting increased debt and equity issuances make regulatory support for full and timely recovery of prudently incurred costs critical to the utility sector.

Q. How important is the regulatory environment in which a Company operates?

A. The regulatory environment in which a company operates is a major qualitative factor in determining a company's creditworthiness.

S&P stated the following:

> Regulation is the most critical aspect that underlies regulated integrated utilities'

> creditworthiness. Regulatory decisions can profoundly affect financial performance. Our assessment of the regulatory environments in which a utility operates is guided by certain principles, most prominently consistency and predictability, as well as efficiency and timeliness. For a regulatory process to be considered supportive of credit quality, it must limit uncertainty in the recovery of a utility's investment. They must also eliminate, or at least greatly reduce, the issue of rate-case lag, especially when a utility engages in a sizable capital expenditure program.[1]

Due to the major capital expenditures planned by Avista, a supportive regulatory environment is essential.

IV. CASH FLOW

Q. What are the Company's sources to fund capital requirements?

A. The Company utilizes cash flow from operations, long-term debt and common stock issuances to fund its capital expenditures. Additionally, on an interim basis, the Company utilizes its credit facility to fund capital needs until longer-term financing can be obtained.

Q. What are the Company's near-term capital requirements?

A. As a combined electric and natural gas utility, capital will be required for investment in generation

[1] Standard and Poor's, Key Credit Factors: Business and Financial Risks in the Investor-owned Utilities Industry, March 2010.

upgrades, expansion and replacement of transmission and distribution facilities, customer growth as well as necessary upgrades and replacements of our natural gas systems.

We have been making significant capital investments in generation, transmission and distribution systems to preserve and enhance service reliability for our customers and replace aging infrastructure. Utility capital expenditures were $247.0 million for 2011.

The amount of capital expenditures planned for 2012-2013 is approximately $500 million, and over a five year period ending December 31, 2016 approximately $1.2 billion. Total average monthly rate base as of June 30, 2012, was $2.2 billion; therefore, these planned capital additions represent substantial new investments given the relative size of the Company.

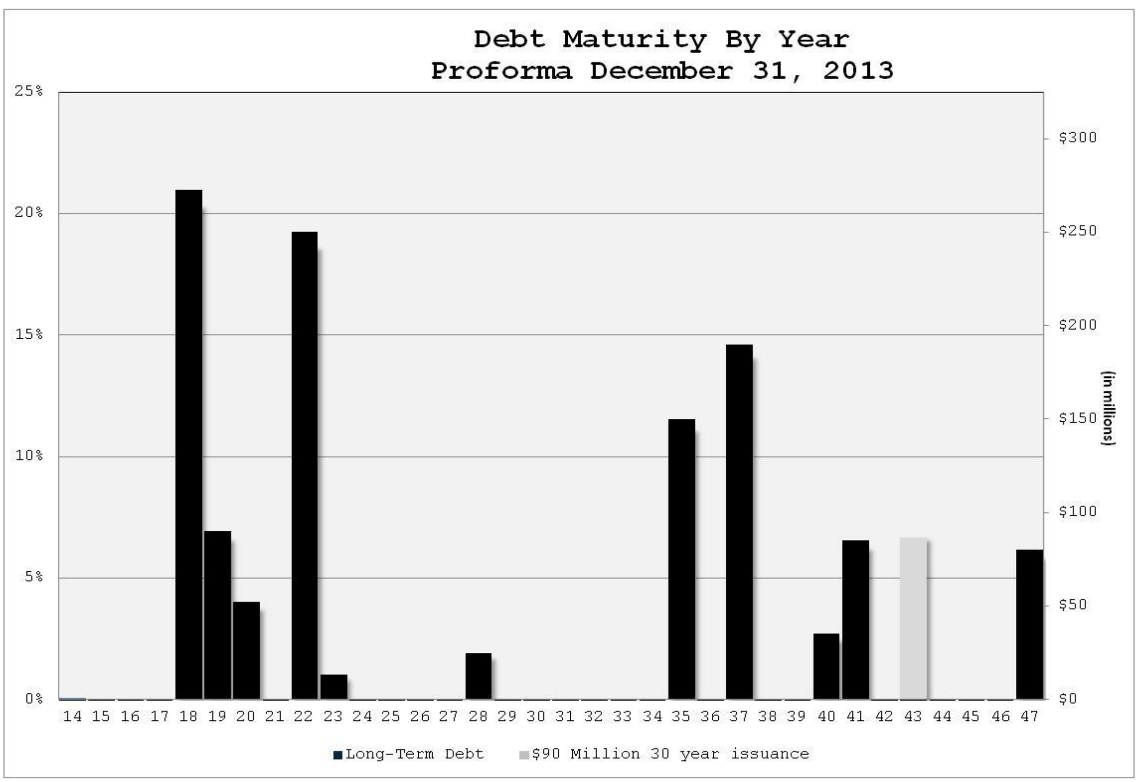
Q. What are the Company's near-term plans related to its debt?

A. The Company finances its rate base assets with long term debt and equity. As such, from time to time, we need to access long-term capital markets in order to finance these long-term assets as well as fund maturing debt.

In November 2012, the Company will issue $80.0 million of First Mortgage Bonds due in 2047. Additionally, the Company is forecasting the issuance of $90 million of First Mortgage bonds in June 2013.

The Company has $50.0 million of 1.68 percent First Mortgage Bonds that mature in 2013. Illustration No. 4 below shows the amount of debt maturities by year including the maturity date of the forecasted long-term debt issuance:

Illustration No. 4:



Q. Is there pending legislation that may impact the Company’s collateral requirements?

A. Yes. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was enacted into law in July 2010. The Dodd-Frank Act establishes regulatory jurisdiction by the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC) for certain swaps (which include a variety of derivative instruments) and the users of such swaps, that previously had been largely exempted from regulation. The Dodd-Frank Act includes mandatory clearing requirements for swaps, with certain expectations. Avista uses derivative instruments to hedge risks related to electric and natural gas commodities, interest rates and foreign currency.

A variety of rules must be adopted by federal agencies (including the CFTC, SEC and the FERC) to implement the Dodd-Frank Act. These rules being developed and implemented will clarify the impact of the Dodd-Frank Act on the Company, which may be significant.

Under the Dodd-Frank Act, "Swap Dealers" and "Major Swap Participants" generally will be required to collect minimum initial and variation margin (cash collateral) from their counterparties for non-cleared swaps, similar to the margin required for swaps that are cleared on exchanges. However, the requirement varies with the type of counterparty and the regulator of the "Major Swap Participant" or "Swap Dealer." The Company should be categorized as a counterparty that is a non-financial end user for the purposes of the Dodd-Frank Act, i.e., as a non-financial entity that engages in derivatives to hedge commercial risk.

On August 13, 2012, the CFTC and SEC issued final rules regarding the definition of "swap" and various exemptions from mandatory clearing. The final rules indicate including how our use of derivatives to hedge commercial risk could be exempt under the de minimis threshold and/or the end-user criteria. These rules could affect counterparties classified as Swap Dealers or Major Swap Participants. Some of these parties have been active in providing hedging instruments and may be forced out of the market or elect to drop out because of the restrictions on proprietary trading by financial institutions. These final rules have effective dates relevant to Avista starting in April 2013.

We will continue to monitor developments including proposals to implementation of various aspects related to the Act. We cannot predict the impact the Dodd-Frank Act may ultimately have on our operations.

V. CAPITAL STRUCTURE

Q. What are Avista's plans regarding common equity and why is this important?

A. Avista continuously monitors the common equity ratio of its capital structure, and assesses the need to issue additional common equity in order to maintain a capital structure that is appropriate for our business. In 2011, we issued $26.5 million, and in 2010, we issued $46.2 million of common stock. In 2012, we plan to issue up to $45 million of common stock. It is important to the rating agencies and investors for Avista to maintain a balanced debt/equity ratio in order to minimize the risk of default on required debt interest payments. Dr. Avera notes that:

> Utilities are facing energy market volatility, rising cost structures, the need to finance significant capital investment plans, uncertainties over accommodating economic and financial market uncertainties, and ongoing regulatory risks. Taken together, these considerations warrant a stronger balance sheet to deal with an increasingly uncertain environment. A more conservative financial profile, in the form of a higher common equity ratio, is consistent with increasing uncertainties and the need to maintain the continuous access to capital under reasonable terms that is required to fund operations and necessary system investment, including times of adverse capital market conditions. (Avera Testimony, P. 27, ll. 12-22. P. 28, ll. 1-2).

In his testimony Dr. Avera concludes that the 50.0 percent common equity ratio is reasonable based on the following:

- Avista's requested capitalization is consistent with the Company's need to maintain its credit standing and financial flexibility as it seeks to raise additional capital to fund significant system investments and meet the requirements of its service territory;
- Avista's proposed common equity ratio is entirely consistent with the 49.0 percent and 50.1 percent average common equity ratios for the proxy utilities, based on year-end 2011 data and near-term expectations, respectively; and,
- The requested capitalization reflects the importance of an adequate equity layer to accommodate Avista's operating risks and the pressures of funding significant capital investments. This is reinforced by the need to consider the impact of uncertain capital market conditions, as well as off-balance sheet commitments such as purchased power agreements, which carry with them some level of imputed debt. (Avera Testimony, P. 7, ll. 28 through P. 8, ll. 2).

Q. Please explain the capital structure proposed by Avista in this case.

A. The proportionate shares of Avista Corp.'s pro forma capital structure are 50.0 percent common equity, and 50.0 percent long-term debt as shown on page 2 of Exhibit 2, Schedule 1. Additional details related to adjustments are located in page 1 of confidential Exhibit 2, Schedule 2.

VI. COST OF DEBT

Q. How have you determined the cost of debt?

A. Cost of total long-term debt in the Company's proposed capital structure includes forecasted and actual weighted average long-term debt. As shown in Exhibit 2, Schedule 1 page 2, the actual weighted average cost of long-term debt outstanding on June 30, 2012 was 5.94%. The size and mix of debt changes over time based upon the actual financing completed. We have made certain pro forma adjustments to update the debt cost through December 31, 2013. Pro forma adjustments to total long-term debt reflect the issuance of new debt for the pro forma period.

We are anticipating the cost of debt to rise to 6.02% as of December 31, 2013, from 5.94% as of June 30, 2012. This increase is primarily due to the forecasted 2013, thirty-year issuance of $90 million secured bonds, of which a portion of the proceeds will be used to refinance the three-year, 1.68%, $50 million first mortgage bonds maturing in 2013 (originally issued in 2010).

VII. COST OF COMMON EQUITY

Q. What rate of return on common equity is the Company proposing in this proceeding?

A. The Company is proposing a 10.90% return on common equity (ROE), which falls essentially at the midpoint of Dr. Avera's recommended range of required return on equity. Dr. Avera testifies to analyses related to the cost of common equity with an ROE range of 10.0% to 11.4% and 10.2% to 11.4% (after incorporating an adjustment to account for the impact of common equity flotation costs). In his testimony Dr. Avera states that:

> My conclusion that a 10.9 percent ROE for Avista is a reasonable estimate of investors' required return is also reinforced by the greater uncertainties associated with Avista's relatively small size and the fact that current cost of capital estimates are likely to understate investors' requirements at the time the outcome of this proceeding becomes effective and beyond. (Avera Testimony, at P.6, ll. 20-28)

If Avista can earn a 10.9% ROE, it would further strengthen the Company's credit ratings ratios. Stronger credit ratings ratios could lead to the Company's goal of obtaining an upgrade to our corporate credit rating to BBB+ from BBB.

Q. Please summarize the proposed capital structure and the cost components for debt and common equity.

A. Illustration No. 5 below shows the capital structure and cost components proposed by the Company.

Illustration No. 5:

AVISTA CORPORATION Forecasted Cost of Capital December 31, 2013				
	Amount	Percent of Total Capital	Cost	Component
Total Debt	$ 1,333,000,000	50.00%	6.02%	3.01%
Total Equity	1,305,826,000	50.00%	10.90%	5.45%
Total	$ 2,638,826,000	100.00%		8.46%

Q. Does that conclude your pre-filed direct testimony?

A. Yes.

DAVID J. MEYER
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE TO ELECTRIC AND NATURAL GAS CUSTOMERS IN THE STATE OF IDAHO	CASE NO. AVU-E-12-08 CASE NO. AVU-G-12-07 Exhibit No. 2 MARK T. THIES

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

AVISTA CORPORATION
Long-term Securities Credit Ratings

	Standard & Poor's		Moody's	
Last Upgraded	March/August 2011[(1)]		March 2011	
Credit Outlook	Stable		Stable	
	A+		**A1**	
	A		**A2**	
	A-	First Mortgage Bonds Secured Medium-Term Notes	**A3**	First Mortgage Bonds Secured Medium-Term Notes
	BBB+		**Baa1**	
	BBB	Avista Corp./Corporate rating	**Baa2**	Avista Corp./Issuer rating
	BBB-		**Baa3**	
	INVESTMENT GRADE			
	BB+	Trust-Originated Preferred Securities	**Ba1**	Trust-Originated Preferred Securities
	BB		**Ba2**	
	BB-		**Ba3**	

(1) The Company received an upgrade to its Corporate credit rating in March 2011 and to its First Mortgage Bonds in August 2011

AVISTA CORPORATION
Forecasted Cost of Capital [A]
December 31, 2013

	Amount	Percent of Total Capital		Cost	Component
Total Debt	$ 1,333,000,000	50.00%	B	6.02%	3.01%
Total Equity	1,305,826,000	50.00%	B	10.90%	5.45%
Total	$ 2,638,826,000	100.00%			**8.46%**

AVISTA CORPORATION
Embedded Cost of Capital
June 30, 2012

	Amount	Percent of Total Capital	Cost		Component
Total Debt	$ 1,213,000,000	50.77%	5.94%		3.01%
Total Equity	1,176,206,894	49.23%	10.50%	C	5.17%
TOTAL	$ 2,389,206,894	100.00%			**8.18%**

Assumptions:

A The Company's cost of capital was forecasted through 12-31-2013, based on the Company's internal forecast.

B The Company's actual percentage of debt and equity is 50.5% and 49.5%, respectively. Consistent with prior regulatory filings the Company is filing a capital structure of 50% equity and 50% total debt.

C The cost of equity used for the embedded cost of capital is based on the last known allowed return on equity approved by the Commission.

AVISTA CORPORATION
Forecasted Cost of Long-Term Debt Detail - Idaho
December 31, 2013

Line No.	Description	Coupon Rate	Maturity Date	Settlement Date	Principal Amount	Issuance Costs	SWAP Loss/(Gain)	Discount (Premium)	Loss/Reacq Expenses	Net Proceeds	Yield to Maturity	Outstanding 12/31/2013	Effective Cost	Line No.
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(g)	(h)	(i)	(j)	(k)	(l)	
1	FMBS - SERIES A	7.530%	5/5/2023	5/6/1993	$ 5,500,000	$ 42,712	$ -	$ -	$ 963,011	$ 4,494,277	9.359%	$ 5,500,000	$ 514,744	1
2	FMBS - SERIES A	7.540%	5/5/2023	5/7/1993	$ 1,000,000	$ 7,766	$ -	$ -	$ 175,412	$ 816,822	9.375%	1,000,000	93,747	2
3	FMBS - SERIES A	7.390%	5/11/2018	5/11/1993	$ 7,000,000	$ 54,364	$ -	$ -	$ 1,227,883	$ 5,717,753	9.287%	7,000,000	650,114	3
4	FMBS - SERIES A	7.450%	6/11/2018	6/9/1993	$ 15,500,000	$ 120,377	$ -	$ 50,220	$ 2,140,440	$ 13,188,963	8.953%	15,500,000	1,387,715	4
5	FMBS - SERIES A	7.180%	8/11/2023	8/12/1993	$ 7,000,000	$ 54,364	$ -	$ -	$ -	$ 6,945,636	7.244%	7,000,000	507,064	5
6	Trust Preferred Securities	1.580% [1]	6/1/2037	6/3/1997	$ 40,000,000	$ 1,296,086	$ -	$ -	$ (1,769,125)	$ 40,473,039	1.540%	40,000,000	616,011	6
7	FMBS - SERIES B	6.370%	6/19/2028	6/19/1998	$ 25,000,000	$ 158,304	$ -	$ -	$ 188,649	$ 24,653,047	6.475%	25,000,000	1,618,863	7
8	FMBS SERIES 5.45%	5.450%	12/1/2019	11/18/2004	$ 90,000,000	$ 1,192,681	$ -	$ 239,400	$ -	$ 88,567,919	5.608%	90,000,000	5,047,001	8
9	FMBS SERIES - 6.25%	6.250%	12/1/2035	11/17/2005	$ 150,000,000	$ 1,812,935	$ (4,445,000)	$ 367,500	$ -	$ 152,264,565	6.139%	150,000,000	9,208,605	9
10	FMBS SERIES - 5.70%	5.700%	7/1/2037	12/15/2006	$ 150,000,000	$ 4,702,304	$ 3,738,000	$ 222,000	$ -	$ 141,337,696	6.120%	150,000,000	9,179,674	10
11	FMBS SERIES - 5.95%	5.950%	6/1/2018	4/2/2008	$ 250,000,000	$ 2,246,419	$ 16,395,000	$ 835,000	$ -	$ 230,523,581	7.034%	250,000,000	17,585,352	11
12	FMBS SERIES - 5.125%	5.125%	4/1/2022	9/22/2009	$ 250,000,000	$ 2,284,788	$ (10,776,222)	$ 575,000	$ 2,875,817	$ 255,040,618	4.907%	250,000,000	12,268,615	12
13	FMBS SERIES - 3.89%	3.890%	12/20/2020	12/20/2010	$ 52,000,000	$ 383,338	$ -	$ -	$ 6,273,664	$ 45,342,997	5.578%	52,000,000	2,900,325	13
14	FMBS SERIES - 5.55%	5.550%	12/20/2040	12/20/2010	$ 35,000,000	$ 258,834	$ -	$ -	$ 5,263,822	$ 29,477,345	6.788%	35,000,000	2,375,887	14
15	FMBS SERIES - 4.45%	4.450%	12/14/2041	12/14/2011	$ 85,000,000	$ 692,722	$ 10,557,000	$ -	$ -	$ 73,750,278	5.340%	85,000,000	4,538,863	15
16	FMBS SERIES - 4.23%	4.230%	11/29/2047	11/30/2012	$ 80,000,000	$ 600,000 [2]	$ 18,546,870	$ -	$ 104,292	$ 60,748,838	5.854%	80,000,000	4,683,510	16
17	Forecasted FMBS Issuance	5.500%	6/15/2043	6/15/2013	$ 90,000,000	$ 675,000 [2]	$ -	$ -	$ -	$ 89,325,000	5.552%	90,000,000	4,996,461	17
18												1,333,000,000	78,172,554	18
19														19
20	Repurchase	[3] 7.74%	12/31/2017	6/30/2006	$ 6,875,000				$ 483,582	$ 6,391,418	8.721%	[4]	70,127	20
21	Repurchase	[3] 8.17%	6/30/2015	6/30/2005	$ 26,000,000				$ 1,700,371	$ 24,299,629	9.184%	[4]	267,096	21
22	Repurchase	[3] 8.41%	6/30/2014	6/30/2004	$ 36,590,000				$ 7,244,895	$ 29,345,105	11.840%	[4]	1,273,854	22
23	Repurchase	[3] 5.72%	3/1/2034	12/30/2009	$ 17,000,000				$ 1,957,496	$ 15,042,504	6.683%	[4]	163,206	23
24	Repurchase	[3] 6.55%	10/1/2032	12/31/2008	$ 66,700,000				$ 3,709,755	$ 62,990,245	7.034%	[4]	324,413	24
25	**IDAHO TOTAL DEBT OUTSTANDING AND COST OF DEBT AT December 31, 2013**											$ 1,333,000,000	$ 80,271,250	25
26														26
27								**Adjusted Weighted Average Cost of Debt**			**6.02%**			27
28														28
29														29
30 [1]	Average monthly average rate over a twelve month period													30
31 [2]	Estimated issuance costs													31
32 [3]	Coupon Rate at the time of repurchase													32
33 [4]	Calculated using the internal rate of return method													33
34														34

AVISTA CORPORATION
Cost of Long-Term Variable Rate
December 31, 2013

Line		Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Avg of
2	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)
3	Long-Term Debt Variable Rate	$40,000,000	$40,000,000	$40,000,000	$40,000,000	$40,000,000	$40,000,000	$40,000,000	$40,000,000	$40,000,000	$40,000,000	$40,000,000	$40,000,000	$40,000,000	**$ 40,000,000**
4															
5	Number of Days in Month		31	28	31	30	31	30	31	31	30	31	30	31	
6	Forecasted Rates*		1.53%	1.53%	1.53%	1.55%	1.55%	1.55%	1.56%	1.56%	1.56%	1.60%	1.60%	1.60%	**1.58%**
7	Long-Term Debt Variable Rate - Interest Expense		$ 52,576	$ 47,488	$ 52,576	$ 51,506	$ 53,223	$ 51,506	$ 53,733	$ 53,733	$ 52,000	$ 55,111	$ 53,333	$ 55,111	**$ 631,897**

11 *Forecasted Rates are based on the Compnay's internal forecast

Exhibit No. 2
Case Nos. AVU-E-12-08 AVU-G-12-07
M. Thies, Avista
Schedule 1, p. 4 of 5

AVISTA CORPORATION
Capital Structure Reconciliation
(dollars in thousands)

	10-Q 06/30/2012	Adjustments		Regulatory Balance 6/30/2012	Forecasted activity		Regulatory Balance 12/31/2013
Long-term Debt							
Long-term debt	$ 1,147,765	$ 25,235	A	$ 1,173,000	$ 120,000	E	$ 1,293,000
Current Portion of long-term debt	423	(423)	B	-	-		-
Debt to Affiliated Trust	51,547	(11,547)	C	40,000	-		40,000
Total long-term debt	$ 1,199,735	$ 13,265		$ 1,213,000	$ 120,000		$ 1,333,000
Equity							
Total Avista Corporation stockholders' equity	$ 1,216,842	$ (40,635)	D	$ 1,176,207	$ 129,619	F	$ 1,305,826

A These adjustments are made to reflect the Company's actual principal amount outstanding. The Company excludes amounts related to settled interest rate swaps and unamortized debt discount. These items are included as a cost of debt. Additionally, amounts related to capital leases are excluded from long-term debt.

B Current portion of long-term debt excludes $423,000, which primarily relates to capital leases and debt at the subsidiaries.

C This adjustment reflects the $11.547 million of these securities the Company currently holds. The $40 million adjusted balance reflects the current outstanding balance to third party investors.

D The Company excludes the following from equity: Capital Stock Expense - in order to recover the costs incurred for issuing equity, an amount equivalent to the actual debt outstanding at the Company's subsidiary Ecova, and accumulated other comprehensive loss - in order to reflect the Company's equity balance.

2012 Equity Adjustments (dollars in thousands):

Capital Stock Expense	$ 14,278
Accumulated other comprehensive loss	5,158
Debt outstanding at Ecova	(60,071)
	$ (40,635)

E This represents the issuance of $80 million of long-term debt in 2013, $90 million of long-term debt in 2014, less $50 million of long-term debt maturing in December 2013.

F The following is forecasted equity activity from June, 30 2012, through December 31, 2013 included in our internal forecast (dollars in thousands):

Capital Stock Expense	XXX	Confidential
Change in debt outstanding at Ecova	XXX	Confidential
Dividends	XXX	Confidential
Net Income	XXX	Confidential
Net Common Stock Issuance	XXX	Confidential
Adjustment to retained earnings due to forecasted subsidary activity	XXX	Confidential
	$ -	

CONFIDENTIAL subject to Attorney's Certificate of Confidentiality

Capital Structure Reconciliation

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