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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION) CASE NO. AVU-E-17-01
OF AVISTA CORPORATION FOR THE) CASE NO. AVU-G-17-01
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR ELECTRIC AND)
NATURAL GAS SERVICE TO ELECTRIC) EXHIBIT NO. 2
AND NATURAL GAS CUSTOMERS IN THE)
STATE OF IDAHO) 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⁾	January 2014 ⁽²⁾
Credit Outlook	Stable	Stable
	A+	A1
	A	A2 First Mortgage Bonds Secured Medium-Term Notes
	A- First Mortgage Bonds Secured Medium-Term Notes	A3
	BBB+	Baa1 Avista Corp./Issuer rating
	BBB Avista Corp./Corporate credit rating	Baa2 Trust-Originated Preferred Securities
	BBB-	Baa3
INVESTMENT GRADE		
	BB+ Trust-Originated Preferred Securities	Ba1
	BB	Ba2
	BB-	Ba3

(1) The Company received an upgrade from Standard & Poor's to its Corporate credit rating in March 2011 and to its First Mortgage Bonds in August 2011.

(2) The Company received upgrades from Moody's Investors Service in January 2014. The upgrades were one level for First Mortgage Bonds and the Issuer Rating and two levels for Trust-Originated Preferred Securities.

AVISTA CORPORATION			
Proposed Cost of Capital			
	<u>Proposed Structure</u>	<u>Cost</u>	<u>Component Cost</u>
Total Debt	50.0%	5.72%	2.86%
Common Equity	50.0%	9.90% ⁽¹⁾	4.95%
Total	<u>100.0%</u>		<u>7.81%</u>

AVISTA CORPORATION			
Embedded Cost of Capital			
December 31, 2016			
	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Component Cost</u>
Total Debt	50.1%	5.75%	2.88%
Common Equity	49.9%	9.50% ⁽²⁾	4.74%
TOTAL	<u>100.00%</u>		<u>7.62%</u>

⁽¹⁾ Proposed return on common equity

⁽²⁾ Last approved ROE as of 1/1/2017.

AVISTA CORPORATION
 Cost of Long-Term Variable Rate Debt Detail
 December 31, 2017

	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Avg of
(a)	(b)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(o)
Trust Preferred*	\$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
Number of Days in Month	30	31	28	31	30	31	30	31	31	30	31	30	31	
Forecasted Rates Trust Preferred**	1.8057%	1.8057%	1.8057%	2.0000%	2.2200%	2.2200%	2.2200%	2.3200%	2.3200%	2.3200%	2.5000%	2.5000%	2.5000%	
Trust Preferred Interest Expense	\$ 60,189	\$ 62,195	\$ 56,176	\$ 68,889	\$ 74,000	\$ 76,467	\$ 74,000	\$ 79,911	\$ 79,911	\$ 77,333	\$ 86,111	\$ 83,333	\$ 86,111	\$ 964,627

Description	Coupon Rate	Maturity Date	Settlement Date	Principal Amount	Issuance Costs	Loss/Reacq Expenses	Net Proceeds	Yield to Maturity	Outstanding 12/31/2017	Effective Cost
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Trust Preferred	2.412%	6/1/2037	6/3/1997	\$ 40,000,000	\$ 1,296,086	\$ (1,769,125)	\$ 40,473,039	2.366%	\$ 40,000,000	\$ 946,269

*Original issue principal amount was \$50 million. The Company repurchased \$10 million of the securities outstanding.

**Forecasted Rates are based on forward rates from Thomson Reuters analysis tools plus the 87.5 basis points pursuant to the debt agreement.

AVISTA CORPORATION
Capital Structure Reconciliation
(dollars in thousands)

	10-K 12/31/2016	10-K cap structure % 12/31/2016	Adjustments	Adjusted Regulatory Balance 12/31/2016	Adjusted cap structure % 12/31/2016	2017 Activity	Adjusted Regulatory Balance 12/31/2017	Adjusted cap structure % 12/31/2017
Short-term borrowings	120,000		(120,000) a	-				
Long-term Debt								
Long-term debt	\$ 1,678,717		\$ (140,717) b	\$ 1,538,000		\$ 80,000	\$ 1,618,000	
Current portion of long-term debt and capital leases	3,287		(3,287) c	-			-	
Debt to affiliated trust	51,547		(11,547) d	40,000			40,000	
Total long-term debt	<u>\$ 1,733,551</u>	<u>52.9%</u>	<u>\$ (155,551)</u>	<u>\$ 1,578,000</u>	<u>50.1%</u>	<u>\$ 80,000</u>	<u>\$ 1,658,000</u>	<u>51.3%</u>
Equity								
Total Avista Corporation stockholders' equity	<u>\$ 1,648,727</u>	<u>47.1%</u>	<u>\$ (77,796) e</u>	<u>\$ 1,570,931</u>	<u>49.9%</u>	<u>\$ -</u>	<u>\$ 1,570,931</u>	<u>48.7%</u>

a Short-term borrowings are included as debt in the 10-K, but consistent with past practice are not included for regulatory cap structure

b These adjustments are made to reflect our actual principal amount outstanding. We exclude amounts related to unamortized debt discount, and unamortized debt issuance costs and short-term debt reclassified as long-term debt. The amounts related to settled interest rate swaps, unamortized debt discount, and unamortized debt issuance costs are included as a cost of debt. Additionally, amounts related to capital leases and subsidiary long-term debt are excluded from Avista Utilities long-term debt.

Long Term Debt Adjustments (dollars in thousands):

AEL&P Long-Term Debt	\$ (75,000)
AERC Long-Term Debt	\$ (15,000)
Capital Lease Obligations	\$ (65,435)
Unamortized Debt Discounts	\$ 792
Unamortized long-term debt issuance costs	\$ 10,639
Unsecured short-term loan to be refinanced on a long-term basis	\$ -
Committed line of credit to be refinanced on a long-term basis	\$ -
Current portion of long-term debt and capital leases	\$ 3,287
Total	<u>\$ (140,717)</u>

c Current portion of capital leases are included as debt in the 10-K but consistent with past practice we are not included for regulatory cap structure

d We hold \$11.547 million of these securities. The \$40 million adjusted balance relates to the current outstanding balance to third party investors.

e The numbers provided in the 10-K do not include capital stock expense; in order to recover the costs incurred for issuing equity and accumulated other comprehensive loss; in order to reflect our actual equity balance. The investment in AERC is included as equity in the 10-K and is adjusted out for regulatory cap structure

Equity Adjustments (dollars in thousands):

	<u>12/31/2016</u>
Capital Stock Expense	\$ 15,757
Accumulated other comprehensive loss	\$ 7,568
Investment in AERC	\$ (101,121)
Total	<u>\$ (77,796)</u>

f Forecasted issuance of \$80 million in 2017.

g Forecasted issuance of \$250 million and \$130 million and a maturity of \$272.5 million in 2018.

h Forecasted Equity Activity (dollars in thousands):

	<u>12/31/2017</u>
Change in equity in AERC	[REDACTED]
Equity Activity	[REDACTED]
Total	[REDACTED]

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Company's planned capital expenditures and long-term debt issuances by year

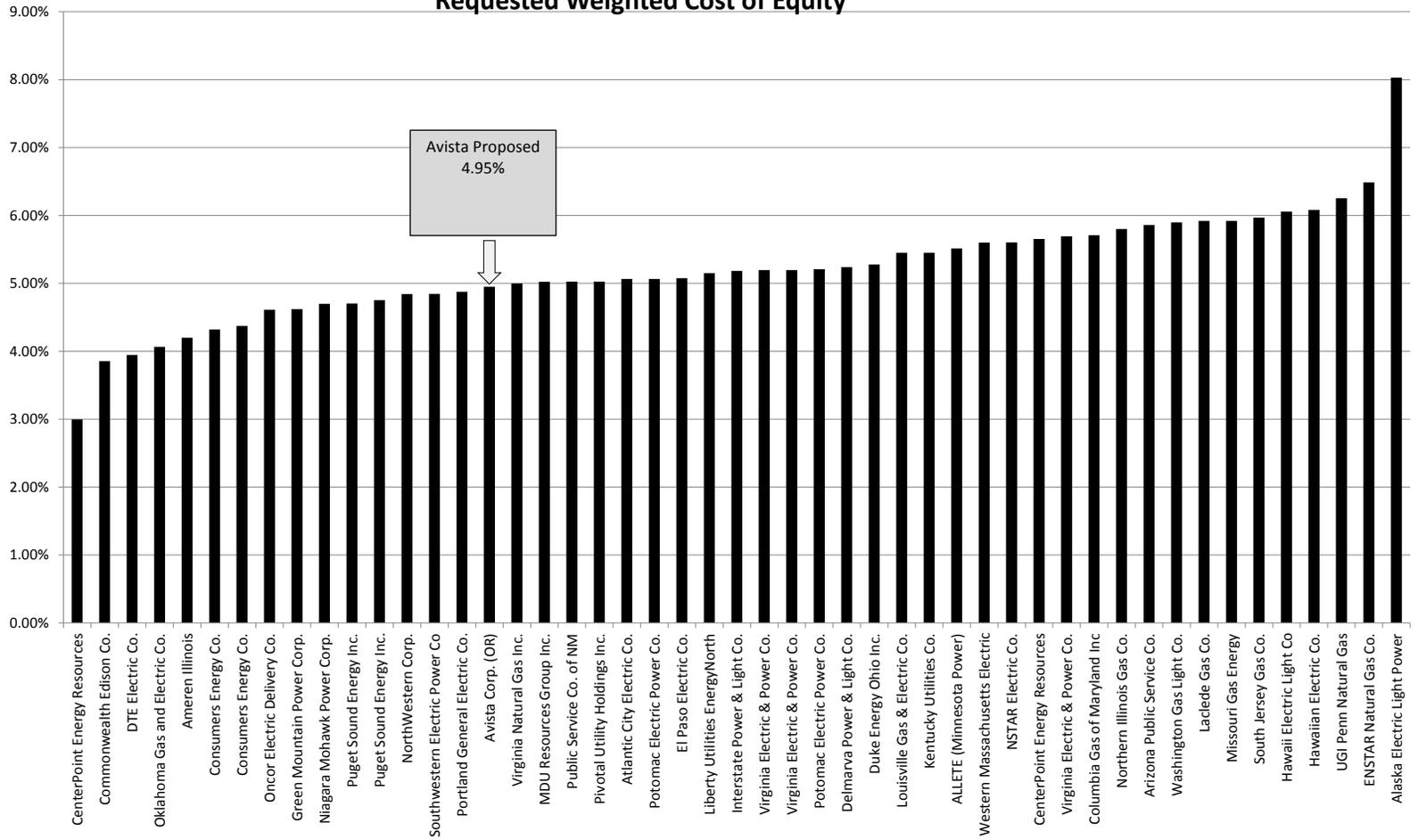
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Interest Rate Risk Management Plan

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Requested Weighted Cost of Equity



Source: SNL Financial, Pending Rate Cases filed May 1, 2016 through April 30, 2017.