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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION



Corp.

March 3, 2004

Carole Washburn, Executive Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
1300 S. Evergreen Park Drive S.W.
Olympia, WA 98504-7250

Dear Ms. Washburn:

RE: Docket No. UE-040338, Amended Pages

Enclosed are amended pages associated with Avista's previously filed "*Application of Avista Corporation for an Order Approving the Sale of its Interest in the Skookumchuck Hydroelectric Plant and for EWG Determinations*" in the above referenced docket. There are four sets of amended pages for the application and four sets of amended pages for the pre-filed testimony of Ronald Peterson. Please insert the amended pages and discard the pages being replaced. Also enclosed are four sets of "redline" versions of the application and testimony that indicate the changes that have been made. The changes primarily result from recommendations from TransAlta to clarify ownership structure and entity names.

Please direct any questions on this matter to Ron McKenzie at (509) 495-4320.

Sincerely,

Kelly Norwood
Vice-President, State and Federal Regulation

Enclosures

c: Simon ffitc, Attorney General, Public Counsel Division

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UTIL. AND TRANSP.
COMMISSION

1 Kelly O. Norwood
2 Vice President, State and Federal Regulation
3 1411 E. Mission Avenue
4 P. O. Box 3727
5 Spokane, Washington 99220
6 Phone: (509) 495-4267, Fax: (509) 495-8856

7 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

8 APPLICATION OF AVISTA CORPORATION FOR)
9 AN ORDER APPROVING THE SALE OF ITS) DOCKET NO. UE-04____
10 INTEREST IN THE SKOOKUMCHUCK)
11 HYDROELECTRIC PLANT AND FOR EWG)
12 DETERMINATIONS)

13
14 Avista Corporation (“Avista”) hereby requests that the Washington Utilities and
15 Transportation Commission (“WUTC”) authorize Avista to sell its minority ownership interest in the
16 Skookumchuck dam, hydroelectric plant and related facilities (“Skookumchuck”), and issue
17 determinations required for the new owner/operator to qualify as an Exempt Wholesale Generator
18 (“EWG”) under Section 32 of the Public Utility Holding Company Act of 1935 (“PUHCA”).¹ The
19 purchaser is 2677588 Washington LLC (“Washington LLC”), a limited liability company formed by
20 TransAlta USA Inc. (“TransAlta”).

21 **I. INTRODUCTION**

22 **A. The Parties**

23 **1. The Applicant: Avista**

24 Avista is an investor-owned utility engaged in the generation, transmission, and distribution
25 of electricity in certain portions of Eastern Washington and in Northern Idaho. Avista is further
26 engaged in the distribution of natural gas in certain portions of Eastern and Central Washington, in

1 WAC 480-143-180 requires Commission approval if the property to be disposed has a market value that exceeds the greater of 0.1% of the public service company's rate base (for the applicable utility service) last established by commission order, or \$20,000. The Company is requesting approval, even though this property is less than 0.1% of Avista's Washington electric jurisdictional rate base, to effectuate appropriate accounting treatment.

1 Northern California, in Western and Central Oregon, and in Northern Idaho. Avista is subject to the
2 jurisdiction of this Commission (RCW Title 80) with regard to its rates, charges, services and
3 practices. As of December 31, 2003 Avista provided service to approximately 326,000 electric
4 customers and 298,000 natural gas customers throughout its service area. Approximately 216,000
5 electric customers were served in the state of Washington.

6 Communications in reference to this Application should be addressed to:

7 Kelly O. Norwood
8 Vice President, State and Federal Reg.
9 Avista Corporation
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15 **2. The Owners**

16 Skookumchuck is jointly owned by seven public and private owners (collectively, the
17 “Owners”): PacifiCorp; Avista; Public Utility District No. 1 of Snohomish County, Washington;
18 Puget Sound Energy, Inc.; City of Tacoma, Washington; City of Seattle, Washington; and Public
19 Utility District No. 1 of Grays Harbor County, Washington. PacifiCorp is the majority owner with a
20 47.5% ownership share. Avista is a minority owner with a 17.5% ownership share.

21 **3. The Purchaser**

22 Washington LLC is a Washington limited liability company and a direct, wholly-owned
23 subsidiary of TransAlta. TransAlta is the indirect owner of the Centralia Power Plant, a coal-fired
24 generating plant, and the Centralia Coal Mine. In 2000, the Owners sold the Centralia Power Plant
25 to a direct wholly-owned subsidiary of TransAlta, TECWA Power Inc., and PacifiCorp sold the
26 Centralia Coal Mine to another direct wholly-owned subsidiary of TransAlta, TECWA Fuel Inc.

1 TransAlta Central Generation LLC, a direct wholly-owned subsidiary of TECWA Power, Inc., owns
2 and operates the Centralia Power Plant as an EWG.

3 **B. The Skookumchuck Plant to be Sold**

4 Skookumchuck is a small earth-fill dam and hydroelectric generating plant located in the
5 vicinity of Centralia, Washington on property adjacent to the Centralia Power Plant. The
6 Skookumchuck dam was constructed in 1973 as a water storage facility for the Centralia Power
7 Plant. In 1991, a hydroelectric unit with a capacity of approximately one megawatt was installed at
8 the dam. The Skookumchuck assets being sold include real property and associated easements and
9 water rights, as well as various equipment. Skookumchuck was granted an exemption from licensing
10 as a hydropower facility by the Federal Energy Regulatory Commission (“FERC”) pursuant to
11 U.S.C. §2705(d), which allows exemptions for facilities less than five megawatts. Skookumchuck
12 is, however, subject to dam safety regulation by the FERC.

13 **II. PROPOSED TRANSACTION**

14 The Owners propose to sell and transfer to Washington LLC the Skookumchuck dam,
15 powerhouse, water rights, land, easements and other related assets, including certain fixtures,
16 contracts and other rights. The sale and transfer is governed by the Skookumchuck Facilities
17 Purchase and Sale Agreement between the Owners and Washington LLC, dated November 25, 2003
18 (the “Sale Agreement”). A copy of the Sale Agreement is included as Appendix 1. A copy of the
19 Skookumchuck Dam Management Agreement is attached as Appendix 2.

20 The aggregate sale price of the transaction is \$7.57 million, adjusted for changes in
21 PacifiCorp’s Net Book Value of the Facilities from September 30, 2003 to the Closing Date. See
22 Section 2.3(a) of the Sale Agreement. Avista’s share of the sales price is 17.5%, or approximately
23 \$1.32 million on system basis prior to closing costs.

1 The new owner/operator intends to continue operation of Skookumchuck to provide cooling
2 water supply to the Centralia Power Plant, and to produce power from Skookumchuck either as an
3 EWG or as a qualifying facility under the Public Utility Regulatory Policies Act of 1978. None of
4 the electrical output of Skookumchuck has been or will be used to serve Avista's retail customers,
5 except perhaps indirectly through the wholesale power markets.

6 At the time the Centralia coal-fired Generating Plant was sold to TransAlta (TECWA Power,
7 Inc.), a Flood Control Committee formed by Lewis and Grays Harbor Counties, Washington and the
8 cities of Centralia, Chehalis and Aberdeen, Washington (the "Committee") had expressed an interest
9 in acquiring the Skookumchuck Dam and reservoir. The Committee had been working with the U.S.
10 Army Corps of Engineers to develop a comprehensive flood control plan for the basin. In June 1999,
11 a Memorandum of Understanding ("MOU") between the Owners and the Committee was signed
12 reflecting the Committee's intent to purchase the facilities. This MOU expired in December 1999,
13 but the Owners understood that the Committee's intent to acquire the facilities had not changed.
14 This desire by the Committee to purchase the facilities and the Committee's stated intent to operate
15 the facilities in a manner that would not be in conflict with the continued operation of the Centralia
16 Steam Plant caused the Owners to withhold Skookumchuck from the sale of the Centralia Steam
17 Plant.

18 III. JURISDICTION AND AUTHORITY

19 A. Transfer of Utility Property

20 A public service company must receive WUTC approval for any transaction to sell
21 property that is necessary or useful in the company's performance of its duties to the public.
22 Specifically, RCW 80.12.020 provides:

23 No public service company shall sell, lease assign or otherwise dispose of the whole

1 or any part of its franchises, properties or facilities whatsoever, which are necessary
2 or useful in the performance of its duties to the public, and no public service
3 company shall, by any means whatsoever, directly or indirectly, merge or consolidate
4 any of its franchises, properties or facilities with any other public service company,
5 without having secured from the commission an order authorizing it so to do

6 The standard for approval of a sale is whether the proposed transaction is consistent with the public
7 interest:

8 **WAC 480-143-170 Application in the public interest.**

9 If, upon the examination of any application and accompanying exhibits, or upon a
10 hearing concerning the same, the commission finds the proposed transaction is not
11 consistent with the public interest, it shall deny the application.

12 The Commission has further articulated this as a “no harm” standard.

13 The standard in our rule does not require the Applicants to show that customers,
14 or the public generally, will be made better off if the transaction is approved and goes
15 forward. In our view, Applicants’ initial burden is satisfied if they at least
16 demonstrate no harm to the public interest.

17 *PacifiCorp/ScottishPower Merger Proceeding*, Docket No. UE-981627, Third Supplemental
18 Order (April 2, 1999), p. 2; *see also*, *GTE/Bell Atlantic Merger Proceeding*, Docket No. UT-981367,
19 Second Supplemental Order (1999), p. 25.

20 **B. EWG Determinations**

21 To qualify as an EWG, the owner/operator must be engaged exclusively in the business of
22 owning or operating an “eligible facility” and selling electric energy at wholesale. If the costs of a
23 generation facility were included in the rates of a regulated utility on October 24, 1992 (the date of
24 enactment of section 32 of PUHCA), then in order for the facility to be considered an “eligible
25 facility,” every state commission having jurisdiction over such rates must specifically determine that
26 allowing the facility to become an eligible facility (1) will benefit consumers, (2) is in the public
27 interest, and (3) does not violate State law. 15 U.S.C. § 79z-5a(c). Thus, the WUTC and each of
28 PacifiCorp’s other state regulatory commissions, which include Avista’s other state regulatory

1 commission, the Idaho Public Utilities Commission, would be required to make these determinations
2 regarding the sale and transfer of the Skookumchuck facilities.

3 **IV. BENEFITS OF TRANSACTION**

4 **A. Compliance with State Law**

5 The requirements of Washington law regarding the transfer of Skookumchuck to
6 Washington LLC are set forth in Section III.A of this Application, above. If the Commission
7 approves this Application, the transfer to Washington LLC and allowing the facility to become an
8 eligible facility will not violate Washington State law.

9 **B. Benefits to Consumers**

10 Skookumchuck has an electrical capacity of 1 MW but, because the facility is operated for
11 purposes of supplying cooling water to the Centralia Power Plant, it has relatively low energy output.
12 Over the last eight years, the average annual production has been 3,000 megawatt-hours.
13 Skookumchuck's bus bar cost in PacifiCorp's fiscal year 2003 (twelve months ending March 31,
14 2003) was approximately \$250 per MWh. With regard to this cost per MWh, it is important to
15 remember that the dam was originally built to provide water supply for the coal plant, and therefore
16 the energy produced by the hydroelectric generator does not reflect the total value of the project.
17 Skookumchuck is interconnected with the system of Puget Sound Energy, Inc. ("PSE") and
18 historically all of the power from Skookumchuck has been sold to PSE.

19 As one of the Owners of Skookumchuck, Avista must pay its proportionate share of the costs
20 of the facilities. Net plant related to Avista's share of its investment in Skookumchuck is included in
21 the Company's rate base. Customers will not be harmed by the proposed transaction and will in fact
22 benefit from it. The forecast of the market price of power is substantially below the cost of power
23 generated from Skookumchuck. Hence, the Company's revenue requirement will be lower as a

1 result of the sale of Skookumchuck.

2 In addition, the proposed transaction eliminates the risk that the Owners will be required to
3 fund future expenditures for ensuring the structural integrity of the Skookumchuck dam. The
4 benefits from the proposed sale outweigh the risks and costs of continuing to own and operate
5 Skookumchuck.

6 Moreover, the sale will not harm the public interest because competitive markets will be
7 unaffected by the sale. A 1 MW plant, with only 3,000 MWhs of annual production would not have
8 a measurable impact on western electricity supply or any impact on wholesale electricity prices.

9 **C. Public Interest Standard**

10 The transfer of Skookumchuck to Washington LLC is in the public interest because it
11 will benefit Avista's customers by lowering the Company's costs of providing electrical service, for
12 the reasons stated in Section IV.B of this Application, above. In addition, the transfer will give
13 TransAlta greater control of the water flows in the Skookumchuck River for providing cooling water
14 to the Centralia Power Plant, thus supporting the electrical output of the Centralia Power Plant for
15 the benefit of all electricity consumers.

16 **V. OTHER MATTERS**

17 **A. Proposed Ratemaking Treatment**

18 Avista projects that the sale of Skookumchuck will result in a small after-tax gain. The
19 Washington jurisdictional share (66.99%) of the after-tax gain is projected to be approximately
20 \$440,000. Actual figures will not be known until the transaction closes. Avista proposes to allocate
21 the after-tax Skookumchuck gain between jurisdictions and between ratepayers and shareholders in
22 the same manner as Avista's after-tax gain on the sale of the Centralia Power Plant was allocated in
23 Docket Nos. UE-991255 and UE-000080. Applying the methodology for allocating proceeds set

1 forth in the orders approving the sale of the Centralia Power Plant to the estimated Washington share
2 of the Skookumchuck after-tax gain of approximately \$440,000 yields an allocation to ratepayers of
3 approximately \$290,000 and an allocation to shareholders of approximately \$150,000. The
4 calculation and allocation of the estimated gain is attached as Exhibit ___ (RRP-1) to the testimony
5 of Ronald R. Peterson.

6 Avista is proposing that the estimated portion of the Skookumchuck gain allocated to
7 ratepayers of approximately \$290,000 be applied against the demand side management (“DSM”)
8 tariff rider balance. This proposal is consistent with the methodology of handling any residual
9 balance associated with the pass through of the gain on the sale of the Centralia Power Plant
10 approved in the Fifth Supplemental Order Approving Centralia Gain Bill Credit Compliance Tariff
11 in Docket Nos. UE-991606 and UG-991607 dated November 21, 2000. An over-refund associated
12 with the pass through of the gain on the sale of the Centralia Power Plant of approximately \$174,000
13 has previously been charged to the DSM tariff rider balance. The ratepayer portion of the
14 Skookumchuck gain would result in a credit of approximately \$290,000 to the DSM tariff rider
15 balance. Excerpts from Paragraphs 6 and 7 of the Fifth Supplemental related to this accounting
16 treatment is as follows.

17 At the end of the credit period, if there is a residual balance (due either to actual volumes
18 that receive the Schedule 56 credit being different than projected, and/or interest on the
19 balance being different than projected), Avista’s proposal is to net the residual balance
20 (positive or negative) against the DSM tariff rider balance. Schedule 25 customers will
21 receive their proportionate share of the residual Centralia gain through the Schedule 91
22 DSM tariff rider rates. There would, therefore, be no windfall to Avista, contrary to the
23 suggestion of ICNU. For these reasons, Staff supports Avista’s bill credit proposal to
24 credit back the gain on the Centralia sale.

25
26 The Commission finds that the tariff revision filed by the Company on October 24, 2000,
27 is consistent with the Commission’s Third Order and concludes therefore that the tariff
28 should be approved as filed.
29

1 A portion of the Skookumchuck facilities was treated as thermal property since it provided a
2 cooling water source to the Centralia Power Plant and was retired as part of the Centralia Power
3 Plant when that plant was sold. Hence, the gain recognized on the sale of the Centralia Power Plant
4 was slightly lower than it would have been if none of the Skookumchuck facilities had been retired at
5 that time. The gain on the sale of the Skookumchuck facilities is now slightly higher due to the
6 earlier, partial retirement. Allocating the gain on the sale of Skookumchuck in the same manner that
7 the gain on the sale of the Centralia Power Plant was allocated results in a total gain being allocated
8 to ratepayers that is the same irrespective of when the Skookumchuck retirements occurred or will
9 occur.

10 **B. Timing of Approval**

11 The new owner/operator of Skookumchuck cannot process its EWG application with the
12 FERC until all of the state regulatory commissions have ruled on the EWG status request.
13 Accordingly, Avista respectfully requests that the Commission process this matter and issue its Order
14 as expeditiously as possible.

15 **C. Appendices to Application**

16 The Sale Agreement, which is the instrument governing the transfer that is the subject
17 of this Application, is included as Appendix 1. The Skookumchuck Dam Management Agreement is
18 attached as Appendix 2. Application Appendix No. 3 consists of Avista's most recent Forms 10-K
19 and 10-Q as filed with the Securities and Exchange Commission. Also, plant balances being retired
20 and the calculation and allocation of the estimated gain is included as Exhibit ___ (RRP-1) to the
21 testimony of Ronald R. Peterson.

22 **VI. REQUEST**

23 Avista requests a Commission order:

1 (a) Approving the proposed sale of Avista's interests in the Skookumchuck facilities in
2 accordance with the Sale Agreement;


3 (b) Determining that the proposed transfer of Skookumchuck to Washington LLC and
4 allowing the facility to become an "eligible facility" within the meaning of section 32 of PUHCA (1)
5 will benefit consumers, (2) is in the public interest and (3) does not violate Washington State law;

6 (c) Approving the proposed accounting treatment related to the gain on the sale; and

7 (d) Granting such other relief as the Commission deems necessary and proper.

8
9 Dated at Spokane, Washington this 20th day of February 2004.

10
11 AVISTA CORPORATION

12 BY 
13 Kelly O. Norwood
14 Vice President, State and Federal Regulation
15

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-04 _____

DIRECT TESTIMONY OF

RONALD R. PETERSON

REPRESENTING AVISTA CORPORATION

Exhibit T ____ (RRP-T)
Amended 3/3/04

1 **I. INTRODUCTION**

2 **Q. Please state your name, employer and business address.**

3 A. My name is Ronald R. Peterson. I am employed as Vice President of Energy
4 Resources and Optimization by Avista Corporation at 1411 East Mission Avenue, Spokane,
5 Washington.

6 **Q. Please briefly describe your educational background and professional**
7 **experience.**

8 A. I am a 1975 graduate of Washington State University with degrees in business
9 administration and accounting. I joined the Company in 1975. I passed the Washington State
10 CPA examination in 1976 and worked as a staff accountant in a variety of positions until 1987
11 when I became supervisor of the Company's corporate accounting function. In 1991, I was
12 selected customer service manager, and in 1992, was elected Treasurer. I was elected Controller
13 and assumed the director of information service responsibilities in 1996. In 1998, I was elected
14 Vice President and Treasurer. In September 2001, I was also named Vice President of Finance
15 for Avista Utilities. I assumed my present position as Vice President of Energy Resources and
16 Optimization in April 2003.

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

18 A. I describe the proposed sale of the Skookumchuck dam, hydroelectric plant and
19 related facilities ("Skookumchuck") and the reasons for the proposed sale. I briefly discuss the
20 Company's request for the Commission to issue determinations required for the new
21 owner/operator to qualify as an Exempt Wholesale Generator ("EWG") under Section 32 of the
22 Public Utility Holding Company Act of 1935 ("PUHCA"). I also address the proposed

1 ratemaking treatment of the proposed sale, including the allocation of the gain between
2 ratepayers and shareholders and the Company’s proposal to credit the ratepayer share of the gain
3 against the Company’s demand side management (“DSM”) tariff rider balance.

4 **Q. Please briefly describe the assets to be sold.**

5 A. Skookumchuck is a small earth-fill dam and hydroelectric generating plant located
6 in the vicinity of Centralia, Washington on property adjacent to the Centralia Power Plant. The
7 Skookumchuck dam was constructed in 1973 as a water storage facility for the Centralia Power
8 Plant. In 1991, a hydroelectric unit with a capacity of approximately one megawatt was installed
9 at the dam. The Skookumchuck assets being sold include real property and associated easements
10 and water rights, as well as various equipment. Skookumchuck was granted an exemption from
11 licensing as a hydropower facility by the Federal Energy Regulatory Commission (“FERC”)
12 pursuant to 16 U.S.C. §2705(d), which allows exemptions for facilities less than five megawatts.
13 Skookumchuck is, however, subject to dam safety regulation by the FERC.

14 **Q. Who are the current owners of Skookumchuck?**

15 A. Skookumchuck is jointly owned by seven public and private owners (collectively,
16 the “Owners”): PacifiCorp; Avista; Public Utility District No. 1 of Snohomish County,
17 Washington; Puget Sound Energy, Inc.; City of Tacoma, Washington; City of Seattle,
18 Washington; and Public Utility District No. 1 of Grays Harbor County, Washington. PacifiCorp
19 is the majority owner with a 47.5% ownership share. Avista is a minority owner with a 17.5%
20 ownership share.

21 **Q. Who is the purchaser?**

1 A. The purchaser is 2677588 Washington LLC (“Washington LLC”), a limited liability
2 company formed by TransAlta USA Inc (“TransAlta”). Washington LLC is a Washington
3 limited liability company and a direct, wholly-owned subsidiary of TransAlta. TransAlta is the
4 indirect owner of the Centralia Power Plant, a coal-fired generating plant, and the Centralia Coal
5 Mine. In 2000, the Owners sold the Centralia Power Plant to a direct wholly-owned subsidiary
6 of TransAlta, TECWA Power Inc., and PacifiCorp sold the Centralia Coal Mine to another direct
7 wholly-owned subsidiary of TransAlta, TECWA Fuel Inc. TransAlta Centralia Generation LLC,
8 a direct wholly-owned subsidiary of TECWA Power, Inc., owns and operates the Centralia
9 Power Plant as an EWG.

10 **Q. Please describe the proposed sale.**

11 A. The Owners propose to sell and transfer to Washington LLC the Skookumchuck
12 dam, powerhouse, water rights, land, easements and other related assets, including certain
13 fixtures, contracts and other rights. The sale and transfer is governed by the Skookumchuck
14 Facilities Purchase and Sale Agreement between the Owners and Washington LLC, dated
15 November 25, 2003 (the “Sale Agreement”). A copy of the Sale Agreement is attached as
16 Appendix 1 to Avista’s Application. The aggregate sale price of the transaction is \$7.57 million,
17 adjusted for changes in PacifiCorp’s Net Book Value of the Facilities from September 30, 2003
18 to the Closing Date. See Section 2.3(a) of the Sale Agreement. Avista’s share of the sales price
19 is 17.5%, or \$1,300,000 on a system basis prior to closing costs.

20 **Q. How will the plant be operated by the purchaser?**

21 A. The new owner/operator intends to continue operation of Skookumchuck to provide
22 cooling water supply to the Centralia Power Plant, and to produce power from Skookumchuck

1 either as an EWG or as a qualifying facility under the Public Utility Regulatory Policies Act of
2 1978. None of the electrical output of Skookumchuck has been or will be used to serve Avista's
3 retail customers, except perhaps indirectly, through the wholesale power markets.

4 **Q. When the Centralia Steam Plant was sold in 2000, why was the Skookumchuck**
5 **Project retained by the Owners?**

6 A. A Flood Control Committee formed by Lewis and Grays Harbor Counties,
7 Washington and the cities of Centralia, Chehalis and Aberdeen, Washington (the "Committee")
8 had expressed an interest in acquiring the Skookumchuck Dam and reservoir. The Committee
9 had been working with the U.S. Army Corps of Engineers to develop a comprehensive flood
10 control plan for the basin. In June 1999, a Memorandum of Understanding ("MOU") between
11 the Owners and the Committee was signed reflecting the Committee's intent to purchase the
12 facilities. This MOU expired in December 1999, but the Owners understood that the
13 Committee's intent to acquire the facilities had not changed. This desire by the Committee to
14 purchase the facilities and the Committee's stated intent to operate the facilities in a manner that
15 would not be in conflict with the continued operation of the Centralia Steam Plant caused the
16 Owners to withhold Skookumchuck from the sale of the Centralia Steam Plant.

17 **Q. Please explain the EWG determination that is being requested.**

18 A. To qualify as an EWG, the owner/operator must be engaged exclusively in the
19 business of owning or operating an "eligible facility" and selling electric energy at wholesale. If
20 the costs of a generation facility were included in the rates of a regulated utility on October 24,
21 1992 (the date of enactment of section 32 of PUHCA), then in order for the facility to be
22 considered an "eligible facility," every state commission having jurisdiction over such rates must

1 specifically determine that allowing the facility to become an eligible facility (1) will benefit
2 consumers, (2) is in the public interest, and (3) does not violate State law. 15 U.S.C. § 79z-5a(c).
3 Thus, the WUTC and each of PacifiCorp's other state regulatory commissions, which include
4 Avista's other state regulatory commission, the Idaho Public Utilities Commission, would be
5 required to make these determinations regarding the sale and transfer of the Skookumchuck
6 facilities.

7 **Q. Please explain how the sale will benefit Avista's customers.**

8 A. Avista proposes to sell Skookumchuck to Washington LLC because a sale results in
9 lower costs to Avista Utilities' customers than continuing to invest in and operate and maintain
10 the facility. Skookumchuck has an electrical capacity of 1 MW, but because the facility is
11 operated for purposes of supplying cooling water to the Centralia Power Plant, it has relatively
12 low energy output. Over the last eight years, the average annual production has been 3,000
13 megawatt-hours. Skookumchuck's bus bar cost in PacifiCorp's fiscal year 2003 (twelve months
14 ending March 31, 2003) was approximately \$250 per MWh. With regard to this cost per MWh,
15 it is important to remember that the dam was originally built to provide water supply for the coal
16 plant, and therefore the energy produced by the hydroelectric generator does not reflect the total
17 value of the project. Skookumchuck is interconnected with the system of Puget Sound Energy,
18 Inc. ("PSE") and historically all of the power from Skookumchuck has been sold to PSE.

19 As one of the Owners of Skookumchuck, Avista must pay its proportionate share of the
20 costs of the facilities. Net plant related to Avista's share of its investment in Skookumchuck is
21 included in the Company's rate base. The Company's analysis indicates that its customers will
22 not be harmed by the proposed transaction and will in fact benefit from it. The forecast of the

1 market price of power is substantially below the cost of power generated from Skookumchuck.
2 Hence, the Company's revenue requirement will be lower as a result of the sale of
3 Skookumchuck.

4 In addition, the proposed transaction eliminates the risk that the Owners will be required
5 to fund future expenditures for ensuring the structural integrity of the Skookumchuck dam. The
6 benefits from the proposed sale outweigh the risks and costs of continuing to own and operate
7 Skookumchuck.

8 Moreover, the sale will not harm the public interest because competitive markets will be
9 unaffected by the sale. It cannot reasonably be suggested that a 1 MW plant, with only 3,000
10 MWhs of annual production, could have a measurable impact on western electricity supply or
11 any impact on wholesale electricity prices.

12 **Q. Please explain the proposed ratemaking treatment of the sale.**

13 A. Avista projects that the sale of Skookumchuck will result in a small after-tax gain.
14 The Washington jurisdictional share of the after-tax gain is projected to be approximately
15 \$400,000. Actual figures will not be known until the transaction closes. Avista proposes to
16 allocate the after-tax Skookumchuck gain between jurisdictions and between ratepayers and
17 shareholders in the same manner as Avista's after-tax gain on the sale of the Centralia Power
18 Plant was allocated in Docket Nos. UE-991255 and UE-000080. The Washington jurisdiction
19 would receive an allocation of 66.99% of the after-tax gain, or approximately \$400,000.
20 Applying the methodology for allocating proceeds set forth in the orders approving the sale of the
21 Centralia Power Plant to the estimated Washington share of the Skookumchuck after-tax gain of
22 approximately \$400,000 yields an allocation to ratepayers of approximately \$260,000 and an

1 allocation to shareholders of approximately \$140,000. Plant balances being retired and the
2 calculation and allocation of the estimated gain are included in Exhibit ___ (RRP-1).

3 Avista is proposing that the estimated portion of the Skookumchuck gain allocated to
4 ratepayers of approximately \$260,000 be applied against the demand side management (“DSM”)
5 tariff rider balance. This proposal is consistent with the methodology of handling any residual
6 balance associated with the pass through of the gain on the sale of the Centralia Power Plant
7 approved in the Fifth Supplemental Order Approving Centralia Gain Bill Credit Compliance
8 Tariff in Docket Nos. UE-991606 and UG-991607 dated November 21, 2000 as described on
9 page 2 as follows.

10 At the end of the credit period, if there is a residual balance (due either to actual volumes
11 that receive the Schedule 56 credit being different than projected, and/or interest on the
12 balance being different than projected), Avista’s proposal is to net the residual balance
13 (positive or negative) against the DSM tariff rider balance. Schedule 25 customers will
14 receive their proportionate share of the residual Centralia gain through the Schedule 91
15 DSM tariff rider rates. There would, therefore, be no windfall to Avista, contrary to the
16 suggestion of ICNU. For these reasons, Staff supports Avista’s bill credit proposal to
17 credit back the gain on the Centralia sale.

18
19 The Commission finds that the tariff revision filed by the Company on October 24, 2000,
20 is consistent with the Commission’s Third Order and concludes therefore that the tariff
21 should be approved as filed.
22

23 An over-refund associated with the pass through of the gain on the sale of the Centralia
24 Power Plant of approximately \$174,000 has previously been charged to the DSM tariff rider
25 balance. The ratepayer portion of the Skookumchuck gain would result in a credit of
26 approximately \$260,000 to the DSM tariff rider balance.

27 A portion of the Skookumchuck facilities was treated as thermal property since it
28 provided a cooling water source to the Centralia Power Plant and was retired as part of the

1 Centralia Power Plant when that plant was sold. Hence, the gain recognized on the sale of the
2 Centralia Power Plant was slightly lower than it would have been if none of the Skookumchuck
3 facilities had been retired at that time. Alternatively, the gain on the sale of the Skookumchuck
4 facilities is now slightly higher due to the earlier, partial retirement. Allocating the gain on the
5 sale of Skookumchuck in the same manner as the gain on the sale of the Centralia Power Plant
6 was allocated results in a total gain being allocated to ratepayers that is the same irrespective of
7 when the Skookumchuck retirements occurred or will occur.

8 **Q. Is the Company asking for expedited treatment for EWG findings and**
9 **approval of the sale?**

10 A. Yes. The Company is asking the Commission to consider the EWG issues and
11 approval of the sale on an expedited basis.

12 **Q. Does that conclude your prefiled direct testimony?**

13 A. Yes.

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20

1 Kelly O. Norwood
2 Vice President, State and Federal Regulation
3 1411 E. Mission Avenue
4 P. O. Box 3727
5 Spokane, Washington 99220
6 Phone: (509) 495-4267, Fax: (509) 495-8856

7 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

8 APPLICATION OF AVISTA CORPORATION FOR)
9 AN ORDER APPROVING THE SALE OF ITS) DOCKET NO. UE-04____
10 INTEREST IN THE SKOOKUMCHUCK)
11 HYDROELECTRIC PLANT AND FOR EWG)
12 DETERMINATIONS)
13

14 Avista Corporation (“Avista”) hereby requests that the Washington Utilities and
15 Transportation Commission (“WUTC”) authorize Avista to sell its minority ownership interest in the
16 Skookumchuck dam, hHydroelectric pPlant and related facilities (“Skookumchuck”), and issue
17 determinations required for the new owner/operatorpurchaser to qualify as an Exempt Wholesale
18 Generator (“EWG”) under Section 32 of the Public Utility Holding Company Act of 1935
19 (“PUHCA”).¹ The purchaser is 2677588 Washington LLC² (“Washington LLC”), a limited liability
20 company formed by TransAlta USA Inc. (“TransAlta”).

21 **I. INTRODUCTION**

22 **A. The Parties**

23 **1. The Applicant: Avista**

24 Avista is an investor-owned utility engaged in the generation, transmission, and distribution
25 of electricity in certain portions of Eastern Washington and in Northern Idaho. Avista is further
26 engaged in the distribution of natural gas in certain portions of Eastern and Central Washington, in

1 WAC 480-143-180 requires Commission approval if the property to be disposed has a market value that exceeds the greater of 0.1% of the public service company's rate base (for the applicable utility service) last established by commission order, or \$20,000. The Company is requesting approval, even though this property is less than 0.1% of Avista’s Washington electric jurisdictional rate base, to effectuate appropriate accounting treatment.

1 Northern California, in Western and Central Oregon, and in Northern Idaho. Avista is subject to the
2 jurisdiction of this Commission (RCW Title 80) with regard to its rates, charges, services and
3 practices. As of December 31, 2003 Avista provided service to approximately 326,000 electric
4 customers and 298,000 natural gas customers throughout its service area. Approximately 216,000
5 electric customers were served in the state of Washington.

6 Communications in reference to this Application should be addressed to:

7 Kelly O. Norwood
8 Vice President, State and Federal Reg.
9 Avista Corporation
10 1411 E. Mission Avenue
11 Spokane, Washington 99220
12 Phone: (509) 495-4267
13 Fax: (509) 495-8856
14 kelly.norwood@avistacorp.com

David J. Meyer
Senior Vice President and General Counsel
Avista Corporation
1411 E. Mission Avenue
Spokane, Washington 99220
Phone: (509) 489-0500
Fax: (509) 495-4361
david.meyer@avistacorp.com

15 **2. The Owners**

16 Skookumchuck is jointly owned by seven public and private owners (collectively, the
17 “Owners”): PacifiCorp; Avista; Public Utility District No. 1 of Snohomish County, Washington;
18 Puget Sound Energy, Inc.; City of Tacoma, Washington; City of Seattle, Washington; and Public
19 Utility District No. 1 of Grays Harbor County, Washington. PacifiCorp is the majority owner with a
20 47.5% ownership share. Avista is a minority owner with a 17.5% ownership share.

21 **3. The Purchaser**

22 Washington LLC is a Washington limited liability company and a direct, wholly-owned
23 subsidiary of TransAlta. TransAlta is the indirect owner of the Centralia Power Plant, a coal-fired
24 generating plant, and the Centralia Coal Mine. In 2000, the Owners sold the Centralia Power Plant
25 to a direct wholly-owned subsidiary of TransAlta, TECWA Power Inc., and PacifiCorp sold the

2 ~~2677588 Washington LLC is an interim corporate name used by TransAlta USA Inc.~~

1 Centralia Coal Mine to another direct wholly-owned subsidiary of TransAlta, TECWA Fuel Inc.
2 TransAlta Central Generation LLC, a direct wholly-owned subsidiary of TECWA Power, Inc., owns
3 and operates the Centralia Power Plant as an EWG.

4 **B. The Skookumchuck Plant to be Sold**

5 Skookumchuck is a small earth-fill dam and hydroelectric generating plant located in the
6 vicinity of Centralia, Washington on property adjacent to the Centralia Power Plant. The
7 Skookumchuck dam was constructed in 1973 as a water storage facility for the Centralia Power
8 Plant. In 1991, a hydroelectric unit with a capacity of approximately one megawatt was installed at
9 the dam. The Skookumchuck ~~assets~~ plant being sold includes real property and associated easements
10 and water rights, as well as various equipment. Skookumchuck was granted an exemption from
11 licensing as a hydropower facility by the Federal Energy Regulatory Commission (“FERC”) pursuant
12 to 16 U.S.C. §2705(d), which allows exemptions for facilities less than five megawatts.
13 Skookumchuck is, however, subject to dam safety regulation by the FERC.

14 **II. PROPOSED TRANSACTION**

15 The Owners propose to sell and transfer to Washington LLC the Skookumchuck dam,
16 powerhouse, water rights, land, easements and other related assets, including certain fixtures,
17 contracts and other rights. The sale and transfer is governed by the Skookumchuck Facilities
18 Purchase and Sale Agreement between the Owners and Washington LLC, dated November 25, 2003
19 (the “Sale Agreement”). A copy of the Sale Agreement is included as Appendix 1. A copy of the
20 Skookumchuck Dam Management Agreement is attached as Appendix 2.

21 The aggregate sale price of the transaction is \$7.57 million, adjusted for changes in
22 PacifiCorp’s Net Book Value of the Facilities from September 30, 2003 to the Closing Date. See
23 Section 2.3(a) of the Sale Agreement. Avista’s share of the sales price is 17.5%, or approximately

1 \$1.32 million on system basis prior to closing costs.

2 ~~The new owner/operator Washington LLC has indicated that their intention is~~ intends to
3 continue operation of Skookumchuck to provide cooling water supply to the Centralia Power Plant,
4 and ~~to that it will~~ produce power from Skookumchuck either as an EWG or as a qualifying facility
5 under the Public Utility Regulatory Policies Act of 1978. None of the electrical output of
6 Skookumchuck has been or will be used to serve Avista's retail customers, except perhaps indirectly
7 through the wholesale power markets.

8 At the time the Centralia coal-fired Generating Plant was sold to TransAlta (TECWA Power,
9 Inc.), a Flood Control Committee formed by Lewis and Grays Harbor Counties, Washington and the
10 cities of Centralia, Chehalis and Aberdeen, Washington (the "Committee") had expressed an interest
11 in acquiring the Skookumchuck Dam and reservoir. The Committee had been working with the U.S.
12 Army Corps of Engineers to develop a comprehensive flood control plan for the basin. In June 1999,
13 a Memorandum of Understanding ("MOU") between the Owners and the Committee was signed
14 reflecting the Committee's intent to purchase the facilities. This MOU expired in December 1999,
15 but the Owners understood that the Committee's intent to acquire the facilities had not changed.
16 This desire by the Committee to purchase the facilities and the Committee's stated intent to operate
17 the facilities in a manner that would not be in conflict with the continued operation of the Centralia
18 Steam Plant caused the Owners to withhold ~~the Skookumchuck Project~~ from the sale of the Centralia
19 Steam Plant.

20 III. JURISDICTION AND AUTHORITY

21 A. Transfer of Utility Property

22 A public service company must receive WUTC approval for any transaction to sell
23 property that is necessary or useful in the company's performance of its duties to the public.

1 Specifically, RCW 80.12.020 provides:

2 No public service company shall sell, lease assign or otherwise dispose of the whole
3 or any part of its franchises, properties or facilities whatsoever, which are necessary
4 or useful in the performance of its duties to the public, and no public service
5 company shall, by any means whatsoever, directly or indirectly, merge or consolidate
6 any of its franchises, properties or facilities with any other public service company,
7 without having secured from the commission an order authorizing it so to do

8 The standard for approval of a sale is whether the proposed transaction is consistent with the public
9 interest:

10 **WAC 480-143-170 Application in the public interest.**

11 If, upon the examination of any application and accompanying exhibits, or upon a
12 hearing concerning the same, the commission finds the proposed transaction is not
13 consistent with the public interest, it shall deny the application.

14 The Commission has further articulated this as a “no harm” standard.

15 The standard in our rule does not require the Applicants to show that customers,
16 or the public generally, will be made better off if the transaction is approved and goes
17 forward. In our view, Applicants’ initial burden is satisfied if they at least
18 demonstrate no harm to the public interest.

19 *PacifiCorp/ScottishPower Merger Proceeding*, Docket No. UE-981627, Third Supplemental
20 Order (April 2, 1999), p. 2; *see also*, *GTE/Bell Atlantic Merger Proceeding*, Docket No. UT-981367,
21 Second Supplemental Order (1999), p. 25.

22 **B. EWG Determinations**

23 To qualify as an EWG, ~~the owner/operator~~ Washington LLC must be engaged exclusively in
24 the business of owning or operating an “eligible facility” and selling electric energy at wholesale. If
25 the costs of a generation facility were included in the rates of a regulated utility on October 24, 1992
26 (the date of enactment of section 32 of PUHCA), then in order for the facility to be considered an
27 “eligible facility,” every state commission having jurisdiction over such rates must specifically
28 determine that allowing the facility to become an eligible facility (1) will benefit consumers, (2) is in
29 the public interest, and (3) does not violate State law. 15 U.S.C. § 79z-5a(c). Thus, the WUTC and

1 each of PacifiCorp's other state regulatory commissions, which include Avista's other state
2 regulatory commission, the Idaho Public Utilities Commission, would be required to make these
3 determinations regarding the sale and transfer of the Skookumchuck facilities.

4 **IV. BENEFITS OF TRANSACTION**

5 **A. Compliance with State Law**

6 The requirements of Washington law regarding the transfer of Skookumchuck to
7 Washington LLC are set forth in Section III.A of this Application, above. If the Commission
8 approves this Application, the transfer to Washington LLC and allowing the facility to become an
9 eligible facility will not violate Washington State law.

10 **B. Benefits to Consumers**

11 Skookumchuck has an electrical capacity of 1 MW but, because the facility is operated for
12 purposes of supplying cooling water to the Centralia Power Plant, it has relatively low energy output.

13 Over the last eight years, the average annual production has been 3,000 megawatt-hours.
14 Skookumchuck's bus bar cost in PacifiCorp's fiscal year 2003 (twelve months ending March 31,
15 2003) was approximately \$250 per MWh. With regard to this cost per MWh, it is important to
16 remember that the dam was originally built to provide water supply for the coal plant, and therefore
17 the energy produced by the hydroelectric generator does not reflect the total value of the project.
18 Skookumchuck is interconnected with the system of Puget Sound Energy, Inc. ("PSE") and
19 historically all of the power from Skookumchuck has been sold to PSE.

20 As one of the Owners of Skookumchuck, Avista must pay its proportionate share of the costs
21 of the facilities. Net plant related to Avista's share of its investment in Skookumchuck is included in
22 the Company's rate base. Customers will not be harmed by the proposed transaction and will in fact
23 benefit from it. The forecast of the market price of power is substantially below the cost of power

1 generated from Skookumchuck. Hence, the Company's revenue requirement will be lower as a
2 result of the sale of Skookumchuck.

3 In addition, the proposed transaction eliminates the risk that the Owners will be required to
4 fund future expenditures for ensuring the structural integrity of the Skookumchuck dam. The
5 benefits from the proposed sale outweigh the risks and costs of continuing to own and operate
6 Skookumchuck.

7 Moreover, the sale will not harm the public interest because competitive markets will be
8 unaffected by the sale. A 1 MW plant, with only 3,000 MWhs of annual production would not have
9 a measurable impact on western electricity supply or any impact on wholesale electricity prices.

10 **C. Public Interest Standard**

11 The transfer of Skookumchuck to Washington LLC is in the public interest because it
12 will benefit Avista's customers by lowering the Company's costs of providing electrical service, for
13 the reasons stated in Section IV.B of this Application, above. In addition, the transfer will give
14 TransAlta greater control of the water flows in the Skookumchuck River for providing cooling water
15 to the Centralia Power Plant, thus supporting the electrical output of the Centralia Power Plant for
16 the benefit of all electricity consumers.

17 **V. OTHER MATTERS**

18 **A. Proposed Ratemaking Treatment**

19 Avista projects that the sale of Skookumchuck will result in a small after-tax gain. The
20 Washington jurisdictional share (66.99%) of the after-tax gain is projected to be approximately
21 \$440,000. Actual figures will not be known until the transaction closes. Avista proposes to allocate
22 the after-tax Skookumchuck gain between jurisdictions and between ratepayers and shareholders in
23 the same manner as Avista's after-tax gain on the sale of the Centralia Power Plant was allocated in

1 Docket Nos. UE-991255 and UE-000080. Applying the methodology for allocating proceeds set
2 forth in the orders approving the sale of the Centralia Power Plant to the estimated Washington share
3 of the Skookumchuck after-tax gain of approximately \$440,000 yields an allocation to ratepayers of
4 approximately \$290,000 and an allocation to shareholders of approximately \$150,000. The
5 calculation and allocation of the estimated gain is attached as Exhibit ___ (RRP-1) to the testimony
6 of Ronald R. Peterson.

7 Avista is proposing that the estimated portion of the Skookumchuck gain allocated to
8 ratepayers of approximately \$290,000 be applied against the demand side management (“DSM”)
9 tariff rider balance. This proposal is consistent with the methodology of handling any residual
10 balance associated with the pass through of the gain on the sale of the Centralia Power Plant
11 approved in the Fifth Supplemental Order Approving Centralia Gain Bill Credit Compliance Tariff
12 in Docket Nos. UE-991606 and UG-991607 dated November 21, 2000. An over-refund associated
13 with the pass through of the gain on the sale of the Centralia Power Plant of approximately \$174,000
14 has previously been charged to the DSM tariff rider balance. The ratepayer portion of the
15 Skookumchuck gain would result in a credit of approximately \$290,000 to the DSM tariff rider
16 balance. Excerpts from Paragraphs 6 and 7 of the Fifth Supplemental related to this accounting
17 treatment is as follows.

18 At the end of the credit period, if there is a residual balance (due either to actual volumes
19 that receive the Schedule 56 credit being different than projected, and/or interest on the
20 balance being different than projected), Avista’s proposal is to net the residual balance
21 (positive or negative) against the DSM tariff rider balance. Schedule 25 customers will
22 receive their proportionate share of the residual Centralia gain through the Schedule 91
23 DSM tariff rider rates. There would, therefore, be no windfall to Avista, contrary to the
24 suggestion of ICNU. For these reasons, Staff supports Avista’s bill credit proposal to
25 credit back the gain on the Centralia sale.
26

27 The Commission finds that the tariff revision filed by the Company on October 24, 2000,
28 is consistent with the Commission’s Third Order and concludes therefore that the tariff

1 should be approved as filed.
2

3 A portion of the Skookumchuck facilities was treated as thermal property since it provided a
4 cooling water source to the Centralia Power Plant and was retired as part of the Centralia Power
5 Plant when that plant was sold. Hence, the gain recognized on the sale of the Centralia Power Plant
6 was slightly lower than it would have been if none of the Skookumchuck facilities had been retired at
7 that time. The gain on the sale of the Skookumchuck facilities is now slightly higher due to the
8 earlier, partial retirement. Allocating the gain on the sale of Skookumchuck in the same manner that
9 the gain on the sale of the Centralia Power Plant was allocated results in a total gain being allocated
10 to ratepayers that is the same irrespective of when the Skookumchuck retirements occurred or will
11 occur.

12 **B. Timing of Approval**

13 The new owner/operator of Skookumchuck~~Washington LLC~~ cannot process its EWG
14 application with the FERC until all of the state regulatory commissions have ruled on the EWG
15 status request. Accordingly, Avista respectfully requests that the Commission process this matter and
16 issue its Order as expeditiously as possible.

17 **C. Appendices to Application**

18 The Sale Agreement, which is the instrument governing the transfer that is the subject
19 of this Application, is included as Appendix 1. The Skookumchuck Dam Management Agreement is
20 attached as Appendix 2. Application Appendix No. 3 consists of Avista's most recent Forms 10-K
21 and 10-Q as filed with the Securities and Exchange Commission. Also, plant balances being retired
22 and the calculation and allocation of the estimated gain is included as Exhibit ___ (RRP-1) to the
23 testimony of Ronald R. Peterson.

24 **VI. REQUEST**

1 Avista requests a Commission order:

2 (a) Approving the proposed sale of Avista's interests in the Skookumchuck facilities in
3 accordance with the Sale Agreement;

4 (b) Determining that the proposed transfer of Skookumchuck to Washington LLC and
5 allowing the facility to become an "eligible facility" within the meaning of section 32 of PUHCA (1)
6 will benefit consumers, (2) is in the public interest and (3) does not violate Washington State law;

7 (c) Approving the proposed accounting treatment related to the gain on the sale; and

8 (d) Granting such other relief as the Commission deems necessary and proper.

9
10 Dated at Spokane, Washington this 20th day of February 2004.

11
12 AVISTA CORPORATION

13 BY _____
14 Kelly O. Norwood
15 Vice President, State and Federal Regulation
16

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-04 _____

DIRECT TESTIMONY OF

RONALD R. PETERSON

REPRESENTING AVISTA CORPORATION

Exhibit T ____ (RRP-T)
Redline Changes

1 **I. INTRODUCTION**

2 **Q. Please state your name, employer and business address.**

3 A. My name is Ronald R. Peterson. I am employed as Vice President of Energy
4 Resources and Optimization by Avista Corporation at 1411 East Mission Avenue, Spokane,
5 Washington.

6 **Q. Please briefly describe your educational background and professional
7 experience.**

8 A. I am a 1975 graduate of Washington State University with degrees in business
9 administration and accounting. I joined the Company in 1975. I passed the Washington State
10 CPA examination in 1976 and worked as a staff accountant in a variety of positions until 1987
11 when I became supervisor of the Company's corporate accounting function. In 1991, I was
12 selected customer service manager, and in 1992, was elected Treasurer. I was elected Controller
13 and assumed the director of information service responsibilities in 1996. In 1998, I was elected
14 Vice President and Treasurer. In September 2001, I was also named Vice President of Finance
15 for Avista Utilities. I assumed my present position as Vice President of Energy Resources and
16 Optimization in April 2003.

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

18 A. I describe the proposed sale of the Skookumchuck dam, hHydroelectric pPlant and
19 related facilities ("Skookumchuck") and the reasons for the proposed sale. I briefly discuss the
20 Company's request for the Commission to issue determinations required for the new
21 owner/operator/purchaser to qualify as an Exempt Wholesale Generator ("EWG") under Section
22 32 of the Public Utility Holding Company Act of 1935 ("PUHCA"). I also address the proposed

1 ratemaking treatment of the proposed sale, including the allocation of the gain between
2 ratepayers and shareholders and the Company's proposal to credit the ratepayer share of the gain
3 against the Company's demand side management ("DSM") tariff rider balance.

4 **Q. Please briefly describe the assets to be sold.**

5 A. Skookumchuck is a small earth-fill dam and hydroelectric generating plant located
6 in the vicinity of Centralia, Washington on property adjacent to the Centralia Power Plant. The
7 Skookumchuck dam was constructed in 1973 as a water storage facility for the Centralia Power
8 Plant. In 1991, a hydroelectric unit with a capacity of approximately one megawatt was installed
9 at the dam. The Skookumchuck ~~assets~~plant being sold includes real property and associated
10 easements and water rights, as well as various equipment. Skookumchuck was granted an
11 exemption from licensing as a hydropower facility by the Federal Energy Regulatory
12 Commission ("FERC") pursuant to 16 U.S.C. §2705(d), which allows exemptions for facilities
13 less than five megawatts. Skookumchuck is, however, subject to dam safety regulation by the
14 FERC.

15 **Q. Who are the current owners of Skookumchuck?**

16 A. Skookumchuck is jointly owned by seven public and private owners (collectively,
17 the "Owners"): PacifiCorp; Avista; Public Utility District No. 1 of Snohomish County,
18 Washington; Puget Sound Energy, Inc.; City of Tacoma, Washington; City of Seattle,
19 Washington; and Public Utility District No. 1 of Grays Harbor County, Washington. PacifiCorp
20 is the majority owner with a 47.5% ownership share. Avista is a minority owner with a 17.5%
21 ownership share.

22 **Q. Who is the purchaser?**

1 A. The purchaser is 2677588 Washington LLC (“Washington LLC”), a limited liability
2 company formed by TransAlta USA Inc (“TransAlta”). Washington LLC is a Washington
3 limited liability company and a direct, wholly-owned subsidiary of TransAlta. TransAlta is the
4 indirect owner of the Centralia Power Plant, a coal-fired generating plant, and the Centralia Coal
5 Mine. In 2000, the Owners sold the Centralia Power Plant to a direct wholly-owned subsidiary
6 of TransAlta, TECWA Power Inc., and PacifiCorp sold the Centralia Coal Mine to another direct
7 wholly-owned subsidiary of TransAlta, TECWA Fuel Inc. TransAlta Centralia Generation LLC,
8 a direct wholly-owned subsidiary of TECWA Power, Inc., owns and operates the Centralia
9 Power Plant as an EWG.

10 **Q. Please describe the proposed sale.**

11 A. The Owners propose to sell and transfer to Washington LLC the Skookumchuck
12 dam, powerhouse, water rights, land, easements and other related assets, including certain
13 fixtures, contracts and other rights. The sale and transfer is governed by the Skookumchuck
14 Facilities Purchase and Sale Agreement between the Owners and Washington LLC, dated
15 November 25, 2003 (the “Sale Agreement”). A copy of the Sale Agreement is attached as
16 Appendix 1 to Avista’s Application. The aggregate sale price of the transaction is \$7.57 million,
17 adjusted for changes in PacifiCorp’s Net Book Value of the Facilities from September 30, 2003
18 to the Closing Date. See Section 2.3(a) of the Sale Agreement. Avista’s share of the sales price
19 is 17.5%, or \$1,300,000 on a system basis prior to closing costs.

20 **Q. How will the plant be operated by the purchaser?**

21 A. ~~The new owner/operator~~ Washington LLC ~~has indicated that their intention is~~
22 intends to continue operation of Skookumchuck to provide cooling water supply to the Centralia

1 Power Plant, and ~~to that it will~~ produce power from Skookumchuck either as an EWG or as a
2 qualifying facility under the Public Utility Regulatory Policies Act of 1978. None of the
3 electrical output of Skookumchuck has been or will be used to serve Avista's retail customers,
4 except perhaps indirectly, through the wholesale power markets.

5 **Q. When the Centralia Steam Plant was sold in 2000, why was the Skookumchuck**
6 **Project retained by the Owners?**

7 A. A Flood Control Committee formed by Lewis and Grays Harbor Counties,
8 Washington and the cities of Centralia, Chehalis and Aberdeen, Washington (the "Committee")
9 had expressed an interest in acquiring the Skookumchuck Dam and reservoir. The Committee
10 had been working with the U.S. Army Corps of Engineers to develop a comprehensive flood
11 control plan for the basin. In June 1999, a Memorandum of Understanding ("MOU") between
12 the Owners and the Committee was signed reflecting the Committee's intent to purchase the
13 facilities. This MOU expired in December 1999, but the Owners understood that the
14 Committee's intent to acquire the facilities had not changed. This desire by the Committee to
15 purchase the facilities and the Committee's stated intent to operate the facilities in a manner that
16 would not be in conflict with the continued operation of the Centralia Steam Plant caused the
17 Owners to withhold ~~the Skookumchuck Project~~ from the sale of the Centralia Steam Plant.

18 **Q. Please explain the EWG determination that is being requested.**

19 A. To qualify as an EWG, ~~the owner/operator Washington LLC~~ must be engaged
20 exclusively in the business of owning or operating an "eligible facility" and selling electric
21 energy at wholesale. If the costs of a generation facility were included in the rates of a regulated
22 utility on October 24, 1992 (the date of enactment of section 32 of PUHCA), then in order for the

1 facility to be considered an “eligible facility,” every state commission having jurisdiction over
2 such rates must specifically determine that allowing the facility to become an eligible facility (1)
3 will benefit consumers, (2) is in the public interest, and (3) does not violate State law. 15 U.S.C.
4 § 79z-5a(c). Thus, the WUTC and each of PacifiCorp’s other state regulatory commissions,
5 which include Avista’s other state regulatory commission, the Idaho Public Utilities
6 Commission, would be required to make these determinations regarding the sale and transfer of
7 the Skookumchuck facilities.

8 **Q. Please explain how the sale will benefit Avista’s customers.**

9 A. Avista proposes to sell Skookumchuck to Washington LLC because a sale results in
10 lower costs to Avista Utilities’ customers than continuing to invest in and operate and maintain
11 the facility. Skookumchuck has an electrical capacity of 1 MW, but because the facility is
12 operated for purposes of supplying cooling water to the Centralia Power Plant, it has relatively
13 low energy output. Over the last eight years, the average annual production has been 3,000
14 megawatt-hours. Skookumchuck’s bus bar cost in PacifiCorp’s fiscal year 2003 (twelve months
15 ending March 31, 2003) was approximately \$250 per MWh. With regard to this cost per MWh,
16 it is important to remember that the dam was originally built to provide water supply for the coal
17 plant, and therefore the energy produced by the hydroelectric generator does not reflect the total
18 value of the project. Skookumchuck is interconnected with the system of Puget Sound Energy,
19 Inc. (“PSE”) and historically all of the power from Skookumchuck has been sold to PSE.

20 As one of the Owners of Skookumchuck, Avista must pay its proportionate share of the
21 costs of the facilities. Net plant related to Avista’s share of its investment in Skookumchuck is
22 included in the Company’s rate base. The Company’s analysis indicates that its customers will

1 not be harmed by the proposed transaction and will in fact benefit from it. The forecast of the
2 market price of power is substantially below the cost of power generated from Skookumchuck.
3 Hence, the Company's revenue requirement will be lower as a result of the sale of
4 Skookumchuck.

5 In addition, the proposed transaction eliminates the risk that the Owners will be required
6 to fund future expenditures for ensuring the structural integrity of the Skookumchuck dam. The
7 benefits from the proposed sale outweigh the risks and costs of continuing to own and operate
8 Skookumchuck.

9 Moreover, the sale will not harm the public interest because competitive markets will be
10 unaffected by the sale. It cannot reasonably be suggested that a 1 MW plant, with only 3,000
11 MWhs of annual production, could have a measurable impact on western electricity supply or
12 any impact on wholesale electricity prices.

13 **Q. Please explain the proposed ratemaking treatment of the sale.**

14 A. Avista projects that the sale of Skookumchuck will result in a small after-tax gain.
15 The Washington jurisdictional share of the after-tax gain is projected to be approximately
16 \$400,000. Actual figures will not be known until the transaction closes. Avista proposes to
17 allocate the after-tax Skookumchuck gain between jurisdictions and between ratepayers and
18 shareholders in the same manner as Avista's after-tax gain on the sale of the Centralia Power
19 Plant was allocated in Docket Nos. UE-991255 and UE-000080. The Washington jurisdiction
20 would receive an allocation of 66.99% of the after-tax gain, or approximately \$400,000.
21 Applying the methodology for allocating proceeds set forth in the orders approving the sale of the
22 Centralia Power Plant to the estimated Washington share of the Skookumchuck after-tax gain of

1 approximately \$400,000 yields an allocation to ratepayers of approximately \$260,000 and an
2 allocation to shareholders of approximately \$140,000. Plant balances being retired and the
3 calculation and allocation of the estimated gain are included in Exhibit ___ (RRP-1).

4 Avista is proposing that the estimated portion of the Skookumchuck gain allocated to
5 ratepayers of approximately \$260,000 be applied against the demand side management (“DSM”)
6 tariff rider balance. This proposal is consistent with the methodology of handling any residual
7 balance associated with the pass through of the gain on the sale of the Centralia Power Plant
8 approved in the Fifth Supplemental Order Approving Centralia Gain Bill Credit Compliance
9 Tariff in Docket Nos. UE-991606 and UG-991607 dated November 21, 2000 as described on
10 page 2 as follows.

11 At the end of the credit period, if there is a residual balance (due either to actual volumes
12 that receive the Schedule 56 credit being different than projected, and/or interest on the
13 balance being different than projected), Avista’s proposal is to net the residual balance
14 (positive or negative) against the DSM tariff rider balance. Schedule 25 customers will
15 receive their proportionate share of the residual Centralia gain through the Schedule 91
16 DSM tariff rider rates. There would, therefore, be no windfall to Avista, contrary to the
17 suggestion of ICNU. For these reasons, Staff supports Avista’s bill credit proposal to
18 credit back the gain on the Centralia sale.

19
20 The Commission finds that the tariff revision filed by the Company on October 24, 2000,
21 is consistent with the Commission’s Third Order and concludes therefore that the tariff
22 should be approved as filed.
23

24 An over-refund associated with the pass through of the gain on the sale of the Centralia
25 Power Plant of approximately \$174,000 has previously been charged to the DSM tariff rider
26 balance. The ratepayer portion of the Skookumchuck gain would result in a credit of
27 approximately \$260,000 to the DSM tariff rider balance.

1 A portion of the Skookumchuck facilities was treated as thermal property since it
2 provided a cooling water source to the Centralia Power Plant and was retired as part of the
3 Centralia Power Plant when that plant was sold. Hence, the gain recognized on the sale of the
4 Centralia Power Plant was slightly lower than it would have been if none of the Skookumchuck
5 facilities had been retired at that time. Alternatively, the gain on the sale of the Skookumchuck
6 facilities is now slightly higher due to the earlier, partial retirement. Allocating the gain on the
7 sale of Skookumchuck in the same manner as the gain on the sale of the Centralia Power Plant
8 was allocated results in a total gain being allocated to ratepayers that is the same irrespective of
9 when the Skookumchuck retirements occurred or will occur.

10 **Q. Is the Company asking for expedited treatment for EWG findings and**
11 **approval of the sale?**

12 A. Yes. The Company is asking the Commission to consider the EWG issues and
13 approval of the sale on an expedited basis.

14 **Q. Does that conclude your prefiled direct testimony?**

15 A. Yes.

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