BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-99

PREPARED TESTIMONY OF RONALD L. MCKENZIE

REPRESENTING AVISTA CORPORATION

WUTC
DOCKET NO. UE-991606
EXHIBIT # T-445
ADMIT W/D REJECT

Exhibit T-46

Q Please state your name, business address and present position with Avista Corporation ("Avista" or "Company").

A My name is Ronald L. McKenzie and my business address is East 1411 Mission Avenue, Spokane, Washington. I am employed by Avista as a Senior Rate Accountant.

Q Would you briefly describe your educational background?

A I was graduated from Eastern Washington University in 1973 with a Bachelor of Arts degree in Business Administration majoring in accounting. I obtained a Master of Business Administration Degree from Eastern Washington University in 1989. I have attended several utility accounting and ratemaking courses and workshops.

Q How long have you been employed by Avista and what are your present duties?

A I was first employed by Avista in September 1974. My present duties include preparing data related to regulatory matters and presenting testimony before regulatory commissions.

Q Have you previously testified before this Commission?

A Yes. I have testified before this Commission in several prior proceedings.

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

A My testimony addresses the procedures and related accounting associated with the Power Cost Adjustment (PCA) mechanism being proposed by the Company. I also address the proposed sale of the Centralia Power Plant and the impact that the sale may have on the revenue requirement in this proceeding.

Power Cost Adjustment Mechanism

Q Would you please describe the Company's PCA proposal?

A Yes. Company witness, Mr. Johnson, discusses in his direct testimony the procedure to be used to calculate the variations in the Company's power supply revenues and expenses due to changes in uncontrollable factors, primarily hydro generation and short-term energy prices. The variations would be calculated monthly on a one-month lag basis. The one-month lag basis means that actual results from the previous month will be used to calculate the variation that will be recorded in the current month. The Company's financial closing schedule does not provide sufficient time to compile information necessary to calculate and record the current month variation in the current month. It will be necessary to record the previous month variation in the current month.

The Production/Transmission allocation percentage approved in this proceeding will be used to allocate the monthly variation in power supply costs to the Washington jurisdiction. The allocation percentage being proposed by the Company is 66.990% for the Washington jurisdiction. This percentage would be used until it is updated in a future general rate case unless circumstances arise that might require that it be updated outside of a general rate case. If such circumstances were to arise, the Company would be responsible for filing a request to update the allocation percentage.

Q Would you please explain how the accounting for the monthly variations in power supply costs would work?

A Yes. Monthly variations would be recorded in a balancing account. If actual net power supply costs are less than authorized costs, an entry would be made to record the difference by debiting Account 557 - Other Power Supply Expenses, thereby increasing recorded power supply expenses, and crediting Account 253 - Other Deferred Credits (or crediting Account 186 - Miscellaneous Deferred Debits if the accumulated deferred balance was a debit balance). If actual net power supply costs are more than authorized costs, an entry would be made to record the difference by crediting Account 557 - Other Power Supply Expenses, thereby decreasing recorded power supply expenses, and debiting Account 186 - Miscellaneous Deferred Debits (or debiting Account 253 - Other Deferred Credits if the accumulated deferred balance was a credit balance). An accumulated debit balance in Account 186 would represent a surcharge balance and an accumulated credit balance in Account 253 would represent a rebate balance.

Q Is the Company proposing to record a carrying charge on the balance in the balancing account?

A No. The Company is not proposing to accrue a carrying charge on the balance in the balancing account. Application of a carrying charge would complicate the PCA proposal. If the deferred surcharge (debit) and rebate (credit) balances tend to be the same over time in terms of magnitude and length of occurrence, then a carrying charge over time would tend to net to zero.

Q When would the Company propose to change rates to implement a surcharge or rebate?

A The Company is proposing that deferrals be allowed to accumulate until a trigger of $6.0 million is reached. A trigger of $6.0 million is approximately 2.5% of general business revenues. A trigger prevents the balancing account from becoming too large before a rate adjustment is made and prevents relatively minor rate adjustments from being made. Use of the balancing account and the trigger limit allow the surcharge and rebate entries to offset each other over time until the balance accumulates in one direction and exceeds the trigger limit.

Q How would the rate adjustments applicable to individual rate schedules be calculated?

A The rate adjustments applicable to individual rate schedules would be calculated using revenues and kilowatt-hours approved in this proceeding. The trigger amount approved in this proceeding, proposed by the Company to be $6.0 million, would be spread to rate schedules on a uniform percentage basis. Within each rate schedule the rate adjustment would apply to the energy charges on a uniform cents per kilowatt-hour basis with the exception of street and area light rates. The rates for street and area light rates would be adjusted by the uniform percentage. The rate adjustment would be in effect for a twelve-month period.

Q Why is the Company proposing to spread the $6.0 million PCA trigger amount to rate schedules on a uniform percentage basis rather than on a uniform cents per kilowatt-hour basis?

A A uniform percentage PCA rate change is simple and easily understood by customers. Spreading the PCA rate change on a uniform cents per kilowatt-hour basis would result in different percentage rate changes to each rate schedule. While a uniform cents per kilowatt-hour basis might seem to have some merit from a cost of service standpoint, the Company's cost of service study allocates power supply costs on both a demand and energy basis. In addition, just because costs are allocated in a certain fashion in a cost of service study does not mean that those costs are being recovered in rates. The various cost of service studies all show some of the Company's rate schedules contribute more than cost of service and some of the rate schedules contribute less than cost of service.

Q Is the Company proposing that the PCA rate adjustment be predetermined?

A Yes. Using the trigger of $6.0 million and the revenues and kilowatt-hours by rate schedule approved in this proceeding the PCA rate adjustment would be predetermined. A predetermination of the PCA rate adjustment would simplify and expedite the approval of PCA rate filings. The Company would reserve the right to update the factors necessary to determine the PCA rate adjustment outside of a general rate case, but the Company would be responsible for filing a request to update the factors.

Q Have you calculated a predetermined PCA rate adjustment?

A Yes. Page 1 of Exhibit No. 47 shows the calculation of the Company's proposed, predetermined PCA rate adjustment based on a $6.0 million trigger and the uniform percentage basis of spreading the PCA adjustment discussed above.

Q Would you please explain page 2 of Exhibit No. 47?

A Yes. Page 2 of Exhibit No. 47 is an example tariff sheet, Schedule 66, which shows the predetermined PCA rate adjustment by rate schedule.

Q What would happen when the balancing account reaches or exceeds the $6.0 million trigger level?

A When the balancing account reaches or exceeds the trigger, $6.0 million would be transferred from the balancing account to either Account 142 - Miscellaneous Accounts Receivable in the case of a surcharge or to Account 242 - Miscellaneous Current Liabilities in the case of a rebate. Any amount in excess of the $6.0 million trigger would remain in the balancing account.

When the trigger is exceeded the Company would file a tariff change to implement the predetermined PCA rate adjustment. The proposed effective date of the tariff change would be the first day of the month following the filing date that provided at least 30 days notice. For example, if the PCA deferral for the month of May, based on actual data for the month of April, resulted in the trigger being exceeded and the Company filed to implement a PCA rate adjustment on May 25, the proposed effective date of the tariff would be July 1 in order to provide a minimum of 30 days notice. Making the effective date of the PCA rate change to be the first of the month simplifies the record keeping process by avoiding the need to prorate revenues for a partial month.

The Company may, depending on circumstances, propose a different effective date than might otherwise be expected. For example, if a rebate was in place and about to expire, and a second rebate had triggered, the Company would likely propose that the second rebate be implemented on the same date that the first rebate expires to minimize the number of rate changes to customers.

Q What reports would the Company submit to the Commission?

A The Company would submit monthly reports to the

Commission which would include the monthly PCA journal together with backup workpapers and a summary sheet showing current and prior month PCA entries and the balances of the PCA accounts. By receiving this information on a monthly basis, the Commission Staff would be informed on the PCA calculations as well as how close the balancing account is to reaching the trigger amount. Having the Staff remain up to date on the PCA calculations should expedite the approval process so that a PCA rate change can be approved on the first of the month immediately following the 30-day notice period.

Q Would you please explain how the accounting would work for rate changes related to PCA surcharges or rebates?

A Yes. The deferred surcharge or rebate accounts will be amortized over a twelve-month period in such a manner that the monthly amortizations will match and offset the amount of surcharge or rebate revenue for the month. For example, assume a rebate is in place. The rebate will cause a reduction in the Company's revenue. The reduction in revenue will be offset by a reduction in expense resulting from the amortization of the rebate contained in Account 242 - Miscellaneous Current Liabilities. In the case of recording the amortization of a rebate, Account 242 will be debited and Account 557 will be credited.

In the case of a surcharge, the surcharge will cause an increase in the Company's revenue. The increase in revenue will be offset by an increase in expense resulting from the amortization of the surcharge contained in Account 142 - Miscellaneous Current Liabilities. In the case of recording the amortization of a surcharge, Account 142 will be credited and Account 557 will be debited.

At the end of the twelve-month amortization period any unamortized surcharge or rebate balance will be transferred back to the PCA balancing account.

Q How will income taxes be accounted for under the proposed PCA mechanism?

A The PCA deferral entries and amortization entries will not be included in the determination of taxable income for federal income tax purposes. Therefore, deferred federal income taxes will be recorded.

Q Is the Company proposing a limitation on the number of surcharges or rebates that can be in effect at any point in time?

A Yes. The Company is proposing that only two rebates or two surcharges be in place at any point in time. This procedure places a limit of approximately 5% on the impact that the PCA mechanism can have on customers' rates at any point in time.

<u>Proposed Sale of the Centralia Power Plant</u>

Q Has Avista filed an Application in a separate docket for authority to sell its 15% interest in the coal-fired, Centralia Power Plant?

A Yes. Avista filed an Application in Docket No. UE-991255 for authority to sell its interest in the Centralia Plant.

Q How is Avista handling the Centralia Plant in this proceeding?

A The Centralia Plant is being treated in the Company's original filing in this proceeding as if the sale has not yet occurred. The Centralia Plant is included in rate base. The available generation from the plant is included in the Dispatch Model. The expenses associated with operating the plant, depreciation expense, taxes and normalized fuel expense are included as costs in this case.

Q How might the Commission's decision in Docket No. UE-991255 impact this proceeding?

A The Commission is expected to issue its order in Docket No. UE-991255 by March 7, 2000. The Commission's order will address the sharing of the gain on the sale of the plant between customers and shareholders, the rate treatment of the customer portion of the gain and the impact of the cost of replacement power. The Commission's decision in Docket No. UE-991255 may have an impact on the revenue requirement in this proceeding depending on when the sale closes. If the sale closes prior to the record being closed and an order being issued in this proceeding, then the revenue requirement could be adjusted accordingly. If the sale closes after an order is issued in this proceeding, then the revenue requirement impacts will need to be addressed in a subsequent proceeding. The Company does not want the effective date of the general increase authorized in this proceeding delayed due to the Centralia sale.

Q Does this conclude your direct testimony?

A Yes, it does.