

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
COMMISSION

DOCKET NO. UE-991255  
APPLICATION TO SELL THE CENTRALIA POWER PLANT

REBUTTAL TESTIMONY OF RONALD L. MCKENZIE

REPRESENTING AVISTA CORPORATION

1 Q Please state your name, business address and present position with  
2 Avista Corporation.

3 A My name is Ronald L. McKenzie and my business address is East  
4 1411 Mission Avenue, Spokane, Washington. I am employed by Avista  
5 Corporation as a Senior Rate Accountant.

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

7 A My rebuttal testimony explains why the proposal of Staff witness,  
8 Mr. Martin, to adjust the gain subject to sharing by the reclamation balance should  
9 be rejected.

10 Q Would you please explain why Mr. Martin's proposal to adjust the  
11 gain subject to sharing by the reclamation balance should be rejected?

12 A Yes. At page 11, beginning at line 3, of Mr. Martin's direct  
13 testimony he states that if the Commission finds that there is a basis for gain  
14 sharing based on a method such as the depreciation-based methodology, then the  
15 gain subject to sharing should exclude the accrued reclamation balance. He argues  
16 that the accrued reclamation balance should be directly assigned to customers since  
17 fuel costs included reclamation charges.

18 The Commission should reject Mr. Martin's proposal to directly assign the  
19 reclamation balance to customers. The depreciation method of allocating gain is an  
20 overall approach that, if adopted, should apply to all components of the net of tax  
21 gain on the sale of the Centralia Power Plant. Specific components of the net of tax  
22 gain should not be singled out for assignment to either customers or shareholders.

23 While Avista is not proposing to directly assign components of the net of tax  
24 gain, Mr. Martin's proposal is flawed from the standpoint that he looks at only one  
25 component that, if directly assigned, would produce a benefit to customers. He  
26 fails to consider the direct assignment of other components that would reduce the  
27 benefit to customers.

28 One such direct assignment that would reduce the benefit to customers is a  
29 direct assignment of federal income tax associated with the sale. Federal income  
30 tax associated with the sale will be computed on the difference between the sales  
31 price and the net depreciated tax basis of the plant. Hence, a portion of the taxable  
32 gain relates to the cumulative amount of depreciation taken for tax purposes. It is  
33 estimated that accumulated tax depreciation at December 31, 1999 will be  
34 \$44,767,210 and the associated federal income tax on that portion of the gain will  
35 be \$15,668,523 ( $\$44,767,210 \times 35\%$ ). Since tax benefits relating to approximately  
36 \$42,029,393 or 93.88% of the total amount of tax depreciation of \$44,767,210 will  
37 cumulatively have been passed on to customers at December 31, 1999, 93.88% of  
38 the \$15,668,523 tax on the gain or \$14,709,609 could be directly assigned to  
39 customers with \$958,914 being assigned to shareholders.

40 Q How does a direct assignment of a portion of the federal income tax  
41 on the gain on sale compare to Mr. Martin's proposal to directly assign the  
42 reclamation trust?

43 A The amount of reduction in customer benefit from directly  
44 assigning a portion of federal income tax on the gain to customers is \$14.7 million.  
45 The comparable amount of increase in customer benefit associated with directly

1 assigning the reclamation trust balance would be \$6.7 million after federal income  
2 tax.

3 Q Would you please summarize Avista's position on directly assigning  
4 portions of the gain on the sale?

5 A Yes. Avista's position is that components of the net of tax gain on  
6 the sale should not be directly assigned. If the Commission adopts the depreciation  
7 method of assigning the gain between customers and shareholders, the methodology  
8 should be applied to the entire net of tax gain. If the Commission does decide to  
9 directly assign portions of the gain on the sale, then the Commission should directly  
10 assign items such as federal income taxes in the manner described above.

11 Q Does that conclude your rebuttal testimony in this proceeding?

12 A Yes, it does.