Q. Please state your name and business address.

A. My name is Roland C. Martin; my business address is 1300 South Evergreen Park Drive SW, Olympia, Washington, 98504.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission (WUTC) as a Regulatory Consultant in the Electric Section.

Q. Have you prepared an exhibit which describes your educational background and professional experience?

A. Yes, I have. See Exhibit No. ____ (RCM-1), attached.

Q. What is the purpose of your testimony in these consolidated proceedings?

A. I present Staff's accounting and ratemaking proposal relating to the treatment of the ratepayer share of the gain from the sale of Avista's interests in the Centralia Power Plant (Centralia). My testimony describes a simple method by which the ratepayers directly receive the benefits from the sale of Centralia consistent with the Orders of this Commission approving the sale.

Q. Please describe the Staff proposal.

A. Staff's proposal is to place the gain, grossed-up to the revenue requirement level, in an account that earns interest at Avista's rate of return authorized by the Commission in this case. The amount in the account will be amortized to the ratepayers in the form of a separate billing credit, at rates equivalent to the Company's Washington demand-side management (DSM) tariff rider rates in electric Schedule 91 in effect at the time the final Centralia sale accounting is complete, filed and accepted by the Commission. The accrual of interest at the Company's authorized rate of return, to be compounded annually, is necessary to compensate ratepayers for the time-value of money.

Q. Please briefly describe the sale of Avista's interest in the Centralia Facilities.

A. On March 6, 2000 the Commission approved in consolidated Docket Nos. UE-991255, UE-991262, and UE-991409 the proposals by Avista Corporation (Avista), Puget Sound Energy (PSE), and PacifiCorp to sell their respective shares of the Centralia power plant to TECWA Power, Inc., a subsidiary of TransAlta Corporation, a Canadian corporation. In its Order in that consolidated case, the Commission prescribed the allocation of the sale proceeds as follows: net book value to shareholders; remainder, up to original cost, to ratepayers; of the remainder (appreciation), one-half to shareholders and one-half to ratepayers; taxes to be paid by shareholders and ratepayers in proportion to taxable gain awarded. On March 22, 2000 in Docket No. UE-000080, the Commission also authorized Avista to sell its ownership interest to TECWA in a 2.5% share of the Centralia facilities acquired from Portland General Electric (PGE), and ordered that the gain on that sale should be allocated equally between Avista's shareholders and ratepayers. Avista's sale of its total 17.5% ownership share in Centralia is estimated to generate a net after tax gain of approximately $33.9 million.

Q. What is the source of the estimated $33.9 million gain that Avista will realize from the sale?

A. The estimated $33.9 million gain came from Avista's gain calculations in the dockets mentioned above. In Docket No. UE-991255 dealing with the original 15% share of the Centralia properties owned by Avista, the Company showed in Exhibit 312 and in Attachment A to its petition for reconsideration a calculated net-of-tax gain of $29,605,503. In Avista's application in Docket No. UE-000080 for a ruling regarding the sale of the 2.5% share acquired from PGE, the Company submitted a workpaper showing an estimated net-of-tax gain of $4,284,656. The sum of the two estimates equals $33,890,159. These figures are not final and will not be known until the sale to TECWA is consummated. The regulated utilities involved in the transaction were ordered by the Commission to recalculate the gain on the sale to match the date that the sale closes and provide the figure to the Commission for acceptance.

Q. Of the $33.9 million estimated gain, what is the approximate share that should be passed on to Washington ratepayers as a bill credit?

A. Based on the Commission's prescribed methodology, the amount allocated to the ratepayers of Washington is approximately $19 million. The revenue requirement level of this allocated net-of-tax gain is approximately $31.8 million. This amount, subject to final true-up, represents the beginning balance in the bill credit account. I should note at this point that in addition to trueing-up the amounts in the gain calculation, the 66.99% factor applicable to the 1998 test year used by Avista to allocate the amount to the Washington jurisdiction will also need to be updated. In addition, the tax rates used in the calculation should also be revised accordingly.

Q. Please briefly describe Avista's proposal with respect to disposition of the Washington ratepayers' share of the net gain.

A. Avista proposes that the Washington ratepayers' share of the gain be used to offset the proposed Washington share of the 1996 ice storm damage costs. Any remaining gain would be amortized over an eight-year period, similar to what was ordered in Idaho. (Tr. 856-7; Testimony of Mr. McKenzie).

Q. Is Avista's proposal acceptable to Staff?

A. No. Staff recommends rejection of the Company's proposal. The use of the customer share of the gain to offset the 1996 ice storm costs is not appropriate considering that these prior period costs have not been approved for recovery in rates. Staff witness Thomas Schooley discusses in his testimony why it is not appropriate to consider these costs in rates in this proceeding.

Q. Please explain the underlying basis of Staff's proposed methodology.

A. Staff's proposal is a simple and direct way of giving the benefits of the gain to the Company's Washington ratepayers. Using the rates mirrored in the DSM tariff rider effectively relieves the rate pressure on customers who are paying for the acquisition of DSM resources. Also, by showing the Centralia gain on customers' bills, ratepayers directly see the effect of the Commission's Orders regarding the Centralia disposition. Using this gain as part of a regulatory offset masks the benefit of the sale from customers. The DSM tariff rider collection and the Centralia gain tariff refund are separate mechanisms that will achieve two different objectives which, when contemporaneously implemented, will leave the ratepayer financially indifferent. Further, the offsetting effect of these two tariff elements is sensible because the gain from the sale of the Centralia power plant and the costs to acquire DSM are both presumably power resource related. Finally, reflecting the gain separately from the base rates adds flexibility in terms of accommodating future revisions and any possible adjustments in the balance.

Q. Under the Staff proposal, will the gain refund rates fluctuate directly with any future changes in the DSM tariff rider rates?

A. Not necessarily. While the refund rates initially mirror the tariff rider rates, these are two separate and distinct mechanisms. If the tariff rider rates are revised in the future, it is not envisioned that the refund rates will automatically change. Any interested party may petition the Commission for adjustment of the gain refund rate based on net impact to customers or other factors that may warrant the change.

Q. Beside the ratemaking treatment of the ratepayer portion of the gain, what other gain related aspects were determined by the Commission to be addressed in this general rate proceeding?

A. The Commission, in its Fourth Supplemental Order in the Centralia consolidated dockets, clarified that after the sale closes and final numbers are known, Avista should present its detailed implementation proposals regarding other state taxes. Staff will accordingly review such proposals as soon as submitted by Avista.

Q. Does that conclude your direct testimony concerning the treatment of the ratepayer share of the gain from the Centralia sale?

A. Yes.