BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the AVISTA CORPORATION, for Authority to Sell Its Interest in the Coal-Fired Centralia Power Plant	DOCKET NO. UE-991255
In the Matter of the Application of PACIFICORP for an Order Approving the Sale of Its Interest in (1) the Centralia Steam Electric Generating Plant, (2) the Ratebased Portion of the Centralia Coal Mine, and (3) Related Facilities, for a Determination of the Amount of and the Proper Ratemaking Treatment of the Gain Associated with the sale; and for an EWG Determination	DOCKET NO. UE-991262
In the Matter of the Application of PUGET SOUND ENERGY, INC., for (1) Approval of the Proposed Sale of PSE's Share of the Centralia Facilities, and (2) Authorization to Amortize Gain Over a Five-Year Period	DOCKET NO. UE-991409

PETITION OF COMMISSION STAFF FOR RECONSIDERATION OF SECOND SUPPLEMENTAL ORDER

On March 6, 2000 the Commission issued its Second Supplemental Order (Order) in this consolidated docket. Staff seeks reconsideration of the Order for the limited purpose of clarifying three items that relate to calculating the gain to be allocated between ratepayers and shareholders. Clarification will avoid controversy on these topics during the general rate filings in which ratepayers are to receive their portion of the gain. We also include three items which correct what appear to be errors of a purely clerical nature.

1. Allocated Sale Proceeds Should Match Original Cost

The first item for which clarification is requested concerns Table 2 of the Order. Table 2 estimates for each company the amount of Appreciation to be split between shareholders and ratepayers as the difference between the Allocated Sale Proceeds for Centralia and the Original Cost of Centralia. Table 2, however, does not always match the sale proceeds with the corresponding cost element those proceeds were designed to recover. This mismatch results in the Appreciation amounts being overstated which, in turn, inappropriately inflates the amount of gain to be allocated to shareholders, but without a commensurate benefit for ratepayers.

For example, for PSE the $33.6 million Allocated Sale Proceeds is compared with an Original Cost of $27.2 million to derive the Appreciation amount of $6.4 million that is to be divided equally between ratepayers and shareholders. The sale proceeds of $33.6 million include both a sales price of $31,681,860 for the Plant and a sales price of $1,890,969 for Fuel and Material Inventory. (Ex. 109, lines 2 and 3.) The Original Cost of $27.2 million, however, appears to come from Exhibit 110 and does not include the cost for Fuel and Material Inventory of $2,269,182. (Ex. 109, line 7.)

Therefore, the amount of Appreciation to be shared by shareholders is inflated because the original cost for Fuel and Material Inventory of $2,269,182 is not deducted from the Allocated Sales Proceeds. This discrepancy, however, does not equally favor ratepayers because the sales price for Fuel and Materials Inventory is less than their original cost. In other words, there was no appreciation for these items. Rather, there was a loss, which would be presumably offset entirely against ratepayers' share of the Appreciation, absent any direction to the contrary from the Commission.

In order to correct this and all other similar discrepancies[1] the Commission should clarify its Order to require each company to match each element of its estimated sales proceeds to the corresponding cost that the proceeds were designed to cover. This will result in the proper level of Appreciation to be shared by ratepayers and shareholders, in accordance with the Commission's Order.[2]

2. Transaction Costs

In order to consummate the sale of Centralia, each of the companies incurs transaction costs which include attorney and investment banker fees, miscellaneous closing costs, and other cost overruns. The Order, however, does not clearly state how transaction costs should be assigned between ratepayers and shareholders. Although, because the shareholder ratios in

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[1] Another example concerns sale proceeds of $3.6 million which Avista projected to cover the cost of RACT compliance. (Exhibit 312.) These projections were not included in Table 2's Allocated Sale Proceeds of $68.2 million for Avista. That amount covers only the Plant sales price. (Ex. 312.)

The clarification requested by Staff, therefore, insures that both the cost of RACT compliance and the proceeds estimated to recover that cost will be included in determining the Appreciation gain to be allocated between ratepayers and shareholders.

[2] Referring back to the example of Fuel and Material Inventory for PSE, this clarification will result in Appreciation of $4.3 million, rather than the $6.4 million currently shown in Table 2, all else being held constant. The calculation is as follows:

1 Allocated Sales Proceeds:	Plant	$31,681,860
2	Fuel & Mat.	1,890,969
3		$33,572,829
4 Original Cost	Plant	$27,027,388
5	Fuel & Mat.	2,269,182
6		$29,296,570
7 Difference (3-6)		$ 4,276,259

Source: Exs. 109 and 110.

Table 6, page 31, are not reduced by those costs, the Order may imply that all transaction costs are to be paid entirely from that portion of the gain that is allocated to ratepayers.

The Commission, therefore, should clarify its Order as to the treatment of transaction costs. Staff recommends that the Commission require ratepayers and shareholders to share equally in the responsibility for transaction costs, consistent with the assignment of the Appreciation gain. This method recognizes that the Appreciation gain could not have been realized without incurrence of the transaction costs. This method, therefore, is consistent with the principle established by the Commission that the costs of the sale should be borne by those that benefit from the sale. (Order at 27.)

3. State Income Taxes

At page 30, paragraph 87 of the Order, the Commission states that the amount of income tax assignable to the appreciation should be split in half, with each half deducted from the respective share of appreciation assigned to ratepayers and shareholders. A tax rate of 35% is used for federal income taxes (page 31, Table 5), but the Order is silent on the allocation of any state income taxes which PacifiCorp and Avista will have to pay in other states because their total company income increases with the gain. Paragraphs 90-94 of the Order also refer only to federal income taxes.

Therefore, the Commission should clarify the Order to include both federal and state income taxes in the assignment required under paragraph 87. While it may be appropriate for ratepayers to pay some state income taxes associated with the gain, it is inappropriate for ratepayers to shoulder entirely that tax liability. Clarification as requested by Staff will avoid this controversy in Avista's and PacifiCorp's pending general rate cases.

4. Corrections to Clerical Errors

There are three errors in the Order of a clerical nature that deserve correction. First, at page 22, paragraph 66, there is a reference to paragraph 106. We suggest that the reference should instead be to paragraph 105.

Second, on page 41, paragraph 144, it states that "PSE's proposal to amortize the sale over a five-year period is not consistent with the public interest." We suggest that a more accurate statement would be that "PSE's proposal to amortize the *gain* over a five-year period is not consistent with the public interest."

Finally, on Table 5 at page 31, the "Ratepayer Total" amount for PacifiCorp is shown incorrectly as 13.29. The correct amount is 13.89 (12.88 plus 1.01).

DATED this 16th day of March, 2000.

Respectfully submitted,

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