BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

PREPARED TESTIMONY OF RONALD L. MCKENZIE

REPRESENTING AVISTA CORPORATION

Exhibit T-311

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

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 in this proceeding addresses the calculation of the gain associated with the sale of Avista's 15% share of the Centralia Power Plant to TECWA Power, Inc. ("TECWA"). I also set forth proposed accounting entries to record the sales transaction. I discuss the Company's proposed ratemaking treatment in the event that the Commission allocates a portion of the gain to customers.

Q How did Avista originally plan to treat the gain resulting from the sale?

A Avista originally proposed to defer the gain on the sale and to decide the issue of allocation of the gain between shareholders and customers in a future proceeding.

Q Have the sale and issues surrounding the gain been set for hearing?

A Yes. At its open meeting on October 13, 1999 the Commission set the matter of the sale and issues surrounding the gain for hearing.

Q Are you sponsoring any exhibits?

A Yes. I am sponsoring Exhibit No. 312 which consists of three pages and Exhibit No. 313 which consists of two pages.

Q Will you please explain page 1 of Exhibit No. 312?

A Yes. Page 1 shows the estimated cash proceeds from the plant sale, the estimated income tax calculation and the estimated after tax gain. The plant sale price that Avista expects to receive is 15% of $454,698,000, or $68,204,700. Avista's share is subject to an adjustment which will be determined based on what PacifiCorp's actual breakeven price of the mine turns out to be in comparison to the sales price of the mine. Avista's share of the sale of the 230KV transmission system amounts to $18,000. The purchase price is reduced by $2,100,000 for employee benefit obligations with Avista's 15% share amounting to $315,000. The purchase price is further reduced by the amount of expected reclamation accruals with Avista's share amounting to $8,610,000. Projected closing costs amount to $625,000. TECWA is reimbursing plant additions and RACT (Reasonably Available Control Technology) compliance expenditures. Coal inventory is being purchased at a price determined by the cost of the last 100,000 tons of coal delivered by rail adjusted by the heating value of the coal in inventory delivered from the mine. TECWA is purchasing supplies at original cost. The total projected cash proceeds amounts to approximately $67,800,000. The estimated income tax expense amounts to approximately $19,100,000 and the after tax gain is projected to be approximately $29,600,000.

Q Would you please explain pages 2 and 3 of Exhibit No. 312?

A Yes. Page 2 of Exhibit No. 312 shows the projected accounting entries for Avista. Page 3 consists of notes that relate to the proposed accounting entries on page 2.

Q Is the gain subject to change as well as the accounting entries?

A Yes. There are a number of factors that will affect the amount of the gain as well as the accounting entries. Such factors include the closing date of the sale, the difference between PacifiCorp's actual breakeven price of the mine and the sales price of the mine, the valuation of coal inventory, and the true up of estimates to actuals once actual information is available.

Q Will Avista provide the Commission with final accounting entries?

A Yes. Avista will provide the Commission with final accounting entries that will include a final calculation of the gain.

Q Turning now to the gain on the sale of Centralia, what is the Company's position on the disposition of the gain?

A As indicated in Mr. Dukich's testimony, the Company is proposing that all the gain should be assigned to shareholders.

Q In the event the Commission allocates a portion of the gain to customers, such as the depreciation method proposed by PacifiCorp, does the Company have a specific proposal on the ratemaking treatment for the customers' share of the gain?

A Yes. If the Commission were to allocate a portion of the gain to customers based on the depreciation method proposed by PacifiCorp, it would result in a sharing of the gain between customers and shareholders as shown on page 1 of Exhibit No. 313. Line 4 shows the customer percentage of the gain being 69.70% based on the ratio of accumulated depreciation to gross plant. Line 8 shows the dollar amount of the customer portion of the estimated gain amounting to approximately $20,635,000. Line 10 shows the allocation of the customer portion of the gain to jurisdictions based on the production/transmission allocation formula with the Washington portion of the customer share of the gain amounting to approximately $13,823,000.

Q Is the method of allocating the gain between shareholders and customers in Exhibit No. 313 the same method being proposed by PacifiCorp?

A Yes. This method allocates the gain between shareholders and customers on the ratio of undepreciated plant (gross plant less accumulated depreciation) to gross plant for the shareholder share of the gain, and on the ratio of depreciated plant to gross plant for the customer share of the gain. This is the same methodology being proposed by PacifiCorp for allocating their gain on sale of the Centralia Power Plant.

Q How does the Company propose to handle the customer portion of the gain for ratemaking purposes, if a portion of the gain is allocated to customers?

A Page 2 of Exhibit No. 313 shows that the Company proposes to use the customer portion of the gain to: 1) offset costs related to storm damage repair costs resulting from Ice Storm 1996 and 2) offset the Washington electric portion of the remaining transition obligation for postretirement health care and life insurance benefits.

Q How does the Company propose that the customer portion of the gain be treated for ratemaking purposes in the event that the Commission allocates a smaller percentage of the gain to customers than that allocated under the depreciation method?

A In that event, the Company proposes that the customers' share of the gain first be used to offset all or a portion of the costs related to storm damages resulting from Ice Storm 1996. Then, if any customer gain remains, the remaining gain be used to offset a portion of the transition obligation for postretirement health care and life insurance benefits.

Q Will the Company's revenue requirement in its general rate case be impacted by the Company's proposal on how to handle the customer portion of the gain?

A Yes. Both items identified above will have the effect of reducing the revenue requirement in the Company's general electric rate case, Docket No. UE-991606 as well as reducing the revenue requirement in the future. If needed a Company witness will provide supplemental testimony and exhibits in that case, showing the impact on the revenue requirement of the Company's proposal. The Company does not want the effective date of its general rate increase delayed due to the Centralia sale.

Q Is there a rationale for using storm damage costs and postretirement benefit transition costs to offset any customer portion of the gain?

A Yes. The gain on the sale of the Centralia Power Plant is the type of event that does not occur on a regular basis. Likewise, the storm damage costs from Ice Storm 1996 relate to an unusual event. The postretirement benefit transition costs resulted from a one-time, accounting change. The combined amount of the two offset items equal the customer portion of the gain under the depreciation method of allocating the gain, and the two offset items will benefit customers by reducing revenue requirements in the current general rate case and to the future.

Q Does that conclude your direct testimony in this proceeding?

A Yes, it does.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

EXHIBIT NO. 312

WITNESS: RONALD L. MCKENZIE, AVISTA CORPORATION

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

EXHIBIT NO. 313

WITNESS: RONALD L. MCKENZIE, AVISTA CORPORATION