

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND )  
TRANSPORTATION COMMISSION, )  
 )  
Complainant, )  
 )  
v. )  
 )  
AVISTA CORPORATION, )  
 )  
Respondent. )  
\_\_\_\_\_ )

DOCKET NOS. UE-991606, UG-991607

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STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION

DIRECT TESTIMONY

OF

ROLAND C. MARTIN

STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

May 5, 2000

WUTC		
DOCKET NO. <u>UE-991606</u>		
EXHIBIT # <u>T-601</u>		
ADMIT	W/D	REJECT
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

1 **Q. Please state your name and business address.**

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

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

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

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

9 A. Yes, I have. See Exhibit No. \_\_\_\_ (RCM-1), attached.

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

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

16 **Q. Please describe the Staff proposal.**

17 A. Staff's proposal is to place the gain, grossed-up to the revenue requirement level, in  
18 an account that earns interest at Avista's rate of return authorized by the Commission  
19 in this case. The amount in the account will be amortized to the ratepayers in the form  
20 of a separate billing credit, at rates equivalent to the Company's Washington demand-  
21 side management (DSM) tariff rider rates in electric Schedule 91 in effect at the time

1 the final Centralia sale accounting is complete, filed and accepted by the Commission.  
2 The accrual of interest at the Company's authorized rate of return, to be compounded  
3 annually, is necessary to compensate ratepayers for the time-value of money.

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

5 **A.** On March 6, 2000 the Commission approved in consolidated Docket Nos. UE-991255,  
6 UE-991262, and UE-991409 the proposals by Avista Corporation (Avista), Puget  
7 Sound Energy (PSE), and PacifiCorp to sell their respective shares of the Centralia  
8 power plant to TECWA Power, Inc., a subsidiary of TransAlta Corporation, a  
9 Canadian corporation. In its Order in that consolidated case, the Commission  
10 prescribed the allocation of the sale proceeds as follows: net book value to  
11 shareholders; remainder, up to original cost, to ratepayers; of the remainder  
12 (appreciation), one-half to shareholders and one-half to ratepayers; taxes to be paid by  
13 shareholders and ratepayers in proportion to taxable gain awarded. On March 22,  
14 2000 in Docket No. UE-000080, the Commission also authorized Avista to sell its  
15 ownership interest to TECWA in a 2.5% share of the Centralia facilities acquired from  
16 Portland General Electric (PGE), and ordered that the gain on that sale should be  
17 allocated equally between Avista's shareholders and ratepayers. Avista's sale of its  
18 total 17.5% ownership share in Centralia is estimated to generate a net after tax gain of  
19 approximately \$33.9 million.

20

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

3 A. The estimated \$33.9 million gain came from Avista's gain calculations in the dockets  
4 mentioned above. In Docket No. UE-991255 dealing with the original 15% share of  
5 the Centralia properties owned by Avista, the Company showed in Exhibit 312 and in  
6 Attachment A to its petition for reconsideration a calculated net-of-tax gain of  
7 \$29,605,503. In Avista's application in Docket No. UE-000080 for a ruling regarding  
8 the sale of the 2.5% share acquired from PGE, the Company submitted a workpaper  
9 showing an estimated net-of-tax gain of \$4,284,656. The sum of the two estimates  
10 equals \$33,890,159. These figures are not final and will not be known until the sale to  
11 TECWA is consummated. The regulated utilities involved in the transaction were  
12 ordered by the Commission to recalculate the gain on the sale to match the date that  
13 the sale closes and provide the figure to the Commission for acceptance.

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

16 A. Based on the Commission's prescribed methodology, the amount allocated to the  
17 ratepayers of Washington is approximately \$19 million. The revenue requirement  
18 level of this allocated net-of-tax gain is approximately \$31.8 million. This amount,  
19 subject to final true-up, represents the beginning balance in the bill credit account. I  
20 should note at this point that in addition to trueing-up the amounts in the gain  
21 calculation, the 66.99% factor applicable to the 1998 test year used by Avista to

1 allocate the amount to the Washington jurisdiction will also need to be updated. In  
2 addition, the tax rates used in the calculation should also be revised accordingly.

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

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

9 **Q. Is Avista's proposal acceptable to Staff?**

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

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

16 A. Staff's proposal is a simple and direct way of giving the benefits of the gain to the  
17 Company's Washington ratepayers. Using the rates mirrored in the DSM tariff rider  
18 effectively relieves the rate pressure on customers who are paying for the acquisition of  
19 DSM resources. Also, by showing the Centralia gain on customers' bills, ratepayers  
20 directly see the effect of the Commission's Orders regarding the Centralia disposition.  
21 Using this gain as part of a regulatory offset masks the benefit of the sale from

1 customers. The DSM tariff rider collection and the Centralia gain tariff refund are  
2 separate mechanisms that will achieve two different objectives which, when  
3 contemporaneously implemented, will leave the ratepayer financially indifferent.  
4 Further, the offsetting effect of these two tariff elements is sensible because the gain  
5 from the sale of the Centralia power plant and the costs to acquire DSM are both  
6 presumably power resource related. Finally, reflecting the gain separately from the  
7 base rates adds flexibility in terms of accommodating future revisions and any possible  
8 adjustments in the balance.

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

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

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

19 A. The Commission, in its Fourth Supplemental Order in the Centralia consolidated  
20 dockets, clarified that after the sale closes and final numbers are known, Avista should

1 present its detailed implementation proposals regarding other state taxes. Staff will  
2 accordingly review such proposals as soon as submitted by Avista.

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

5 A. Yes.

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**ROLAND C. MARTIN**  
**STAFF OF**  
**WASHINGTON UTILITIES AND**  
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May 5, 2000



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3 Drive SW, Olympia, Washington, 98504.

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

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

7 **Q. Would you please describe your educational background and professional  
8 experience?**

9 A. I received a Bachelor of Science in Business Administration, major in marketing  
10 management, from the University of the Philippines in April, 1975. I am also a  
11 graduate of the University of Pangasinan where I received a Bachelor of Science in  
12 Commerce, major in accounting, in March, 1980. On an ongoing basis, I attend  
13 educational seminars on regulation and ratemaking.

14 I have been employed by the Washington Utilities and Transportation  
15 Commission since May, 1982. I have performed various phases of accounting and  
16 financial analysis of regulated utility and transportation companies both independently  
17 and jointly with other analysts, either as a lead or member of a team. During the  
18 course of my employment, I have been a Commission Staff witness in numerous  
19 formal contested proceedings before this Commission. Most recently, I was a Staff  
20 witness in consolidated Docket Nos. UE-991255, UE-991262, and UE-991409  
21 regarding the applications by Avista Corporation (Avista), Pacific Power & Light

1 Company (PacifiCorp), and Puget Sound Energy (PSE) to transfer their respective  
2 interests in the Centralia facilities. I was also a Staff witness in Docket No.  
3 UE-990267 regarding PSE's application to transfer its Colstrip facilities. I also  
4 presented testimony in Cause Nos. U-84-28, U-88-2380-T, and UG-900190  
5 concerning The Washington Water Power Company's (now Avista Corp.) filings for  
6 general rate increases. I also testified in Cause No. U-85-32 concerning the general  
7 rate increase filing of Continental Telephone Company of the Northwest, Inc. and in  
8 Cause No. U-86-02 regarding PacifiCorp's filing for a general rate increase. I have  
9 participated in a number of rate proceedings involving Puget Sound Power & Light  
10 Company (Puget) including the past energy cost adjustment clause (ECAC) filings, the  
11 general rate increase filing in Docket No. U-89-2688-T, the proceeding that dealt with  
12 Puget's cost recovery proposals in Docket Nos. UE-901183-T and UE-901184-P, the  
13 Periodic Rate Adjustment Mechanism (PRAM) implementation proceedings in Docket  
14 Nos. UE-910626, UE-920630, UE-940728, and UE-950618. I was the lead revenue  
15 requirement specialist in Puget's consolidated filings including a petition for  
16 accounting of residential exchange benefits, rate design case, and general rate change  
17 (Docket Nos. UE-920433, UE-920499, and UE-921262) and Puget's filing to transfer  
18 revenues from PRAM rates to general rates (Docket No. UE-951270). I was a member  
19 of the Staff team in the proceeding regarding the merger of Puget and Washington  
20 Natural Gas Company into PSE in Docket No. UE-960195.  
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