

T608

ERRATA SHEET TO TESTIMONY OF MICHAEL P. PARVINEN
WUTC DOCKET NOS. UE-991606 and UG-991607

<u>Page</u>	<u>Line</u>	<u>Change From</u>	<u>Change To</u>
2	5	\$16,489,000	\$17,613,000
2	6	\$785,000	\$569,000
4	5	\$16,489,000	\$17,613,000
4	7	\$785,000	\$569,000
4	8	\$334,755,000	\$333,631,000
4	8	\$77,773,000	\$77,557,000
4	9	"respectivel,y"	"respectively,"
8	21	"... test period..."	"... rate year..."
14	12	\$77,664,000	\$71,664,000
17	23	"... rate base that is"	"... rate base that it"

WUTC		
DOCKET NO. <u>UE-991606</u>		
EXHIBIT # <u>T-608</u>		
ADMIT	W/D	REJECT
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

RECEIVED
RECORDS MANAGEMENT
00 MAY -5 PM 4: 39
STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

DOCKET NOS. UE-991606, UG-991607

RECEIVED
RECORDS MANAGEMENT
00 MAY -5 PM 4: 39
STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

DIRECT TESTIMONY

OF

MICHAEL P. PARVINEN

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

May 5, 2000

WUTC		
DOCKET NO. <u>UE-991606</u>		
EXHIBIT # <u>T-608</u>		
ADMIT	W/D	REJECT
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

1 **Q. Would you state your name and business address?**

2 A. My name is Michael P. Parvinen. My business address is 1300 S Evergreen Park Drive
3 SW, Olympia, Washington, 98504-7250.

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

5 A. I am employed by the Washington Utilities and Transportation Commission as a Policy
6 Research Specialist.

7 **Q. How long have you been with this agency?**

8 A. I have been with the Washington Utilities and Transportation Commission since January
9 1987.

10 **Q. What are your educational and professional qualifications?**

11 A. I graduated from Montana College of Mineral Science and Technology in May, 1986 and
12 received a Bachelor of Science Degree in business administration with a major in
13 accounting.

14 I have appeared before the Commission in the following cases: Docket No.
15 UG-931405, Washington Natural Gas Company; Docket No. UG-920840, Washington
16 Natural Gas Company; Docket No. UG-911246, Cascade Natural Gas Corporation;
17 Docket No. UE-900093, The Washington Water Power Company; Docket
18 No. U-89-688, Puget Sound Power & Light Company; Docket No. D-2576, Bremerton-
19 Kitsap Airporter, Inc.; and Docket No. U-88-2294-T, Richardson Water Companies. I
20 have also analyzed or assisted in the analyses of numerous transportation and utility rate
21 filings. I have attended the Seventh Annual Western Utility Rate Seminar and the 1988

1 Annual Regulatory Studies Program, sponsored by the National Association of
2 Regulatory Utility Commissioners (NARUC).

3 **Q. What is the purpose of your testimony in this proceeding?**

4 A. In section I of my testimony, I will present the summary of Staff's recommended rate
5 decrease of \$16,489,000 for Avista's Washington electric operations and increase of
6 \$785,000 for Avista's Washington gas operations. I will also identify other Staff
7 witnesses responsible for each of the adjustments shown in Exhibit _____ (MPP-1) and
8 Exhibit _____ (MPP-2).

9 In section II of my testimony, I present and explain of the following adjustments
10 from Exhibit _____ (MPP-1) and Exhibit _____ (MPP-2) for which I am responsible.

- 11 1) Deferred FIT Rate Base (electric, gas);
- 12 2) Deferred Gain on Office Building (electric, gas);
- 13 3) Colstrip 3 AFUDC (electric);
- 14 4) Colstrip Common AFUDC (electric);
- 15 5) Kettle Falls Disallowance (electric);
- 16 6) Clearwater Hydro. (electric);
- 17 7) Weatherization & DSM Investment (electric & gas);
- 18 8) Customer Advances (electric, gas);
- 19 9) Settlement Exchange Power (electric);
- 20 10) Uncollectible Expense (electric, gas);
- 21 11) Regulatory Expense (electric, gas);

- 1 12) Proforma Restate Debt Interest (electric, gas);
2 13) Restate Excise/Franchise Taxes (electric, gas);
3 14) Profroma Potlatch 7/00-6/01;
4 15) Proforma Depreciation (electric, gas);
5 16) Hamilton Street Bridge Cleanup Costs (gas);
6 17) PGE Contract Renegotiation.

7 I am also responsible for the calculation of the Conversion Factor (electric, gas).

8 In section III of my testimony I will present my recommendation regarding the
9 Company's request for an added 2% equity incentive on its Kettle Falls investment.

10 **SECTION I: SUMMARY OF STAFF'S RECOMMENDED REVENUE REQUIREMENT**

11 **Q. Please describe your exhibits which present Staff's revenue requirement**
12 **recommendations.**

13 A. As the lead accounting analyst for this case, it is my responsibility to present and explain
14 the overall revenue requirement recommendations Staff is making in this case. To do so I
15 have combined the rate of return recommendation of Richard J. Lurito, Ph.D., Staff's rate
16 of return witness, and the necessary accounting adjustments to test year results presented
17 by myself and Staff members Thomas E. Schooley, Joanna Huang, Alan P. Buckley,
18 Joelle Steward, and Roland C. Martin.

19 The summary of revenue requirements is presented as Exhibit ____ (MPP-1) for
20 Washington electric operations and Exhibit ____ (MPP-2) for Washington gas
21 operations. The beginning point for Staff's case is the test year per books results of

1 operations as shown in column (b). The adjustments in columns (c) through (z) for
 2 electric and columns (c) through (u) for gas are restating adjustments. Columns (bb)
 3 through (nn) for electric and columns (w) through (aa) for gas are the proforma
 4 adjustments. Based on Staff's recommended adjustments and rate of return, the rate
 5 decrease recommended by Staff for Washington electric operations is \$16,489,000, as
 6 shown in column (pp), and the increase recommended by Staff for Washington gas is
 7 \$785,000, as shown in column (cc). The resulting total revenue requirement after the
 8 recommended decrease for electric and increase for gas is \$334,755,000 and \$77,773,000,
 9 respectively as shown in column (qq) of Exhibit _____ (MPP-1) and column (dd) of
 10 Exhibit _____ (MPP-2).

11 The following table sets forth the responsibilities of various Staff witnesses by
 12 column and subject, as shown in Exhibit _____ (MPP-1) and Exhibit _____ (MPP-2):

MPP-1 Col	MPP-2 Col	DESCRIPTION	WITNESS
c	c	Deferred FIT Rate Base	Parvinen
d	d	Deferred Gain on Office Building	Parvinen
e		Colstrip 3 AFUDC Elimination	Parvinen
f		Colstrip Common AFUDC	Parvinen
g		Kettle Falls Disallowance	Parvinen
h		Clearwater Hydro	Parvinen
	e	Gas Inventory	Huang
i	f	Weatherization and DSM Investment	Steward Parvinen
j	g	Customer Advances	Parvinen

MPP-1 Col	MPP-2 Col	DESCRIPTION	WITNESS	
1	k	Settlement Exchange Power	Parvinen	
2	l	h	Eliminate B&O Taxes	Huang
3	m	i	Proforma Property Tax	Huang
4	n	j	Uncollectible Expense	Parvinen
5	o	k	Regulatory Expense	Parvinen
6	p	l	Injuries and Damages	Schooley
7	q	m	Federal Income Tax (FIT)	Schooley
8	r	n	Proforma Restate Debt Interest	Parvinen
9	s	o	Eliminate A/R Expense	Huang
10	t	p	Office Space Charges to Subs.	Schooley
11	u		Reclassify DADS/MOPs Revenues	Huang
12	v	q	Restate Excise/Franchise Taxes	Parvinen
13	y	r	Lease Expense Adjustment	Huang
14	w	s	Bonuses Adjustment	Huang
15	x	t	Staff Misc. Restating	Schooley
16	z	u	Relocation Expense Adjustment	Huang
17	bb		Proforma Power Supply 7/00-6/01	Buckley
18	cc		Proforma Potlatch 7/00-6/01	Parvinen
19	dd	w	Proforma Depreciation Adjustment	Parvinen
20	ee		Proforma Hydro Relicensing	Schooley
21	ff		Proforma Commercial Trading	Schooley
22	gg		Proforma Nez Perce	Schooley
23	hh	x	Proforma Labor/Benefits Adj.	Huang
24	ii	y	Proforma Revenue	Huang

MPP-1 Col	MPP-2 Col	DESCRIPTION	WITNESS
jj	z	Proforma Misc. Adjustment	Schooley
kk		Proforma MOPs Adjustment	Huang
ll		Proforma Lost Revenue Fuel Efficiency	Huang
mm		Proforma Centralia Sale	Martin
nn		Proforma PGE Contract Restructure	Buckley Parvinen
	aa	Hamilton St. Bridge Remed. Cost Adj.	Parvinen

SECTION II: RECOMMENDED ADJUSTMENTS

Q. Would you please describe your understanding of what the Commission's policy has been with regard to restating and proforma adjustments?

A. As stated in WAC 480-09-330 (2) (b) (i), the Commission has defined restating adjustments as those which:

... adjust the booked operating results for any defects or infirmities which may exist in actual recorded results which can distort test period earnings. Restating actual adjustments are also used to adjust from an as-recorded basis to a basis which is acceptable for rate making. Examples of restating actual adjustments are adjustments to remove prior period amounts, to eliminate below-the-line items which were recorded as operating expenses in error, to adjust from book estimates to actual amounts, and to eliminate or normalize extraordinary items which have been recorded during the test period.

Also as stated at WAC 480-09-330 (2) (b) (ii), proforma adjustments are those which:

... give effect for the test period to all known and measurable changes which are not offset by other factors.

Q. Which of the adjustments that you have identified as your responsibility have you reviewed the Company's proposed adjustment and find them to be appropriate?

1 A. The following adjustments were proposed by the Company. I have reviewed them and
2 find them to be appropriate.

- 3 1) Deferred Gain on Office Building (electric, gas);
- 4 2) Colstrip 3 AFUDC (electric);
- 5 3) Colstrip Common AFUDC (electric);
- 6 4) Kettle Falls Disallowance (electric);
- 7 5) Customer Advances (electric, gas);
- 8 6) Uncollectible Expense (electric, gas); and
- 9 7) Regulatory Expense (electric, gas).

10 **Q. Would you please describe each of the remaining rate making adjustments that you**
11 **have identified as your responsibility?**

12 A. Yes. They are contained in the following sections.

13 **DEFERRED FIT RATE BASE (ELECTRIC, GAS)**

14 **Q. Would you please describe the Deferred FIT Rate Base adjustment?**

15 A. The Deferred FIT Rate Base adjustment reflects the end of period deferred taxes arising
16 from accelerated tax depreciation, bond refinancing premiums, and contributions in aid of
17 construction.

18 **Q. What is the difference between your adjustment and that of the Company?**

19 A. The Company's adjustment was based on an estimate of the end of period balances. I
20 have adjusted to the actual end of period balances. This adjustment is shown in
21 Exhibit _____ (MPP-1), column (c) and Exhibit _____ (MPP-2), column (c).

1 **CLEARWATER HYDROELECTRIC**

2 **Q. Would you explain the adjustment in column (h), of Exhibit _____ (MPP-1) entitled**
3 **Clearwater Hydro?**

4 A. This adjustment eliminates the Company's proposed adjustment. The Clearwater Hydro
5 adjustment proposed by the Company was intended to represent a rate base addition for
6 the unamortized level of costs associated with the termination of a proposed hydroelectric
7 plant. The Commission had approved a 10-year amortization of these costs. The
8 amortization period ended October, 1999. Therefore, the costs have been fully amortized
9 prior to the rate year and no adjustment is necessary.

10 **WEATHERIZATION & DSM INVESTMENT**

11 **Q. Would you please explain the Weatherization and DSM Investment adjustment and**
12 **why it is different than the adjustment proposed by the Company?**

13 A. This adjustment places into rate base the unamortized balance of Weatherization and
14 DSM investments made prior to establishing the tariff rider mechanism, which recovers
15 DSM costs on an ongoing basis. The only difference between the Company's adjustment
16 and the Staff proposed adjustment is that the Staff adjustment uses the unamortized
17 balance as of October 1, 2000, the beginning of the rate year. The Company's adjustment
18 was based on the end of the test period, December 31, 1998.

19 **Q. Why did you adjust to the rate year and isn't that inconsistent with prior treatment**
20 **of the DSM investment?**

21 A. I proformed the balance to the beginning of the test period to reflect the actual balance at

1 the beginning of the period in which rates will be in effect. This treatment is different
2 than in past rate cases, however, since the formation of the rider mechanism the balance is
3 no longer subject to additional investment or change other than the amortization. It is a
4 constantly reducing balance.

5 Since this is a regulatory asset that has no offsetting factors, unlike typical rate
6 base investment, it is entirely appropriate to proforma to a rate year balance. Staff is
7 being consistent with the treatment of other regulatory assets and other items in this case.

8 **SETTLEMENT EXCHANGE POWER (ELECTRIC)**

9 **Q. Would you please explain the Settlement Exchange Power adjustment and the**
10 **reason for the difference between the Company's proposal and your**
11 **recommendation?**

12 A. The adjustment is the result of replacing the test period booked amortization expense and
13 deferred FIT expense with a level of net operating income as approved in Docket
14 No. U-86-99.

15 The differences between the Company's proposal and Staff's recommendation is
16 that Staff adjusted to the **rate year** level of net income as opposed to the Company's use
17 of the **test period** level. Staff and the Company each used their respective proposed rates
18 of return and debt interest rates.

19 Similar to the Weatherization and DSM Investment adjustment, this adjustment is
20 accounting for a regulatory asset that has no offsetting factors, so it is appropriate to
21 proforma to the rate year level of net investment.

1 **Q. Would you explain your Exhibit ____ (MPP-3)?**

2 A. This exhibit calculates the rate year level of Staff's proposed adjustment. However, if
3 there is a change in the allowed rate of return and/or weighted cost of debt as shown in
4 rows 28 and 29, the revised rate of return and/or weighted cost of debt rates should be
5 incorporated in lines 13 and 24 of this exhibit.

6 **PROFORMA RESTATE DEBT INTEREST (ELECTRIC, GAS)**

7 **Q. Would you describe this adjustment as well as the difference between the Staff**
8 **recommendation and the Company's proposal?**

9 A. This adjustment calculates the tax effect on interest using the Staff recommended
10 weighted cost of debt applied to the Staff recommended level of rate base. The difference
11 between the Company's adjustment and Staff's proposal is due to Staff using the
12 weighted cost of debt proposed by Staff witness Dr. Lurito and Staff's recommended
13 level of rate base.

14 **Q. Have you included an exhibit which shows this calculation?**

15 A. Yes. Exhibit ____ (MPP- 4), page 1 of 2, for the electric operations and page 2 of 2 for
16 the gas operations. It should be noted that the final Rate Base and Weighted Cost of Debt
17 should be reflected in this exhibit and the result placed in column (r) in Exhibit ____
18 (MPP-1) and column (n) in Exhibit ____ (MPP-2).

19 **RESTATE EXCISE/FRANCHISE TAXES (ELECTRIC, GAS)**

20 **Q. Would you describe the Restate Excise/Franchise Tax adjustment you are**
21 **recommending?**

1 A. Yes. This adjustment is twofold. First, it reflects an adjustment from an accrual to the
2 actual excise taxes paid for the test period. Second, it reflects the removal of the
3 Franchise Fees paid to the cities of Millwood and Colville for the electric operations and
4 cities of Spokane and Millwood for the gas operations.

5 Under RCW 35.21.860, franchise fees can recover only actual administrative
6 expenses incurred by a city or town that are directly related to receiving and approving a
7 permit, license, and franchise, to inspecting plans and construction, or to the preparation
8 of a detailed statement pursuant to chapter 43.21C RCW. Unless the Company can
9 produce evidence that the cities are recovering actual costs as described in
10 RCW 35.21.860, and only those actual costs, Staff proposes that the expenses be removed
11 from general rates and recovered from the Municipal Tax Schedules (Schedule 58 for
12 electric and Schedule 158 for gas).

13 **Q. Is the Staff proposal an actual disallowance of the costs paid by the Company to the**
14 **above mentioned cities and towns?**

15 A. No, it is not. Staff is proposing that the fees be recovered through the Municipal Tax
16 schedules directly from the customers of the respective cities and towns and be subject to
17 the limitations set forth in RCW 35.21.870.

18 **PROFORMA POTLATCH 7/00-6/01 (ELECTRIC)**

19 **Q. Would you please describe the Proforma Potlatch adjustment?**

20 A. This adjustment synchronizes portions of the Potlatch Contract revenues that are

1 dependent upon the non-firm rates with the non-firm rates developed in the Proforma
2 Power Supply adjustment.

3 **Q. Is this adjustment different than that proposed by the Company?**

4 A. Yes. To the extent that the non-firm rates calculated in the Power Supply adjustment are
5 different this adjustment changes.

6 **Q. Have you provided an exhibit with the calculation of this adjustment?**

7 A. Exhibit _____ (MPP-5). Line one represents the non-firm rates determined in the Power
8 Supply adjustment. The non-firm rates can be found in Exhibit _____ (APB-2), line 5.

9 **PROFORMA DEPRECIATION (ELECTRIC, GAS)**

10 **Q. Would you please describe the Depreciation adjustment?**

11 A. The depreciation adjustment reflected in Staff's results of operation is the result of
12 applying depreciation parameters to determine the depreciation rates applied to each of
13 the Company's plant accounts.

14 **Q. What is the recommendation in regards to the depreciation adjustment?**

15 A. The recommendation is that the Commission authorize the revised depreciation
16 parameters for Avista as shown in Exhibit _____ (MPP-6) with an effective date of
17 January 1, 2000.

18 **Q. Please explain why Staff is requesting that the Commission authorize revised
19 depreciation rates in this proceeding.**

20 A. In September, 1999 Avista provided Staff with a depreciation study of its plant and
21 equipment and included the effect of the revised depreciation rates on expenses in its rate

1 request in this case. Staff reviewed the depreciation study and proposed a number of
2 changes to the depreciation study parameter proposals. Staff and the Company's
3 depreciation consultant then met to discuss the proposed changes. The Company and
4 Staff have reached a negotiated agreement as to the depreciation parameters and rates to
5 be used for depreciating Avista's plant and equipment.

6 On April 27, 2000, the Company submitted a revised Exhibit 291, pages 1 through
7 11, recalculating the depreciation rates and effects on the depreciation adjustment based
8 on the parameters in Exhibit _____ (MPP-6).

9 **Q. Does Staff agree with revised Exhibit 291?**

10 A. Staff is in agreement with the revised exhibit and again recommends that the depreciation
11 parameters shown in Exhibit _____ (MPP-6) be approved effective January 1, 2000.

HAMILTON STREET BRIDGE CLEANUP COSTS (GAS)

13 **Q. Would you please describe the Hamilton Street Bridge Cleanup Costs adjustment?**

14 A. The Company in Docket UG-991827 filed an accounting petition requesting deferral of
15 incremental cleanup costs associated with the Hamilton Street Bridge site. The request
16 was to recover the deferred costs, including carrying charges, in a future rate proceeding.
17 The request was withdrawn at Staff's request to incorporate a level of costs into the
18 current rate case.

19 **Q. Is Exhibit _____ (MPP-7) the letter sent to the Company outlining Staff's
20 recommendation?**

21 A. Yes, it is.

1 **Q. Would you describe Exhibit _____ (MPP-8)?**

2 A. Exhibit _____ (MPP-8) shows the calculation, using the latest known costs, which
3 conforms with Staff's recommendation in its letter to the Company dated
4 December 28, 1999.

5 **PGE CONTRACT RENEGOTIATION (ELECTRIC)**

6 **Q. Would you describe the PGE Contract Renegotiation adjustment?**

7 A. This adjustment reflects the ratemaking treatment of the remaining balance from the
8 \$143.4 million payment from PGE as a result of renegotiating its long term power sales
9 agreement with the Company. Mr. Buckley has presented testimony on the renegotiation
10 and Staff's recommended ratemaking treatment of the payment.

11 **Q. What is the remaining balance after allowing for Mr. Buckley's recommendations?**

12 A. The system amount is \$77,664,000 and after applying the Production/Transmission
13 allocator the figure for Washington operations is \$48,008,000.

14 **Q. What is your recommendation regarding the remaining \$48,008,000?**

15 A. First, the funds should be used to eliminate the DSM regulatory asset shown in column (i)
16 of Exhibit _____ (MPP-1) in the amount of \$21,408,000. This has the effect of removing
17 one regulatory asset from rate base and the associated amortization expense of
18 \$2,939,000.

19 **Q. What is your recommendation regarding to the remaining \$26,600,000?**

20 A. I propose that a rate base reduction be made and a corresponding amortization expense
21 level established based on a 16-year amortization period. The amortization period started

1 in 1999 and I have reflected an accumulated amortization based on the average rate year
2 level.

3 **Q. Can you elaborate further on your recommendation?**

4 A. By making a ratebase reduction the customers are given the benefits of the contract
5 renegotiations. Since the revised revenues from this contract are being reflected in the
6 Power Supply adjustment it is only appropriate that the rest of the revised contract be
7 reflected as well.

8 The amortization period I propose is 16 years. This is based on the period
9 established in the revised long-term sales contract.

10 **CONVERSION FACTOR (ELECTRIC, GAS)**

11 **Q. Are you responsible for the computation of the conversion factor to be used in this
12 case?**

13 A. Yes, I am.

14 **Q. Have you prepared an exhibit which details the calculation of the conversion factor?**

15 A. Yes. Exhibit _____ (MPP- 9), page 1 of 2 for electric operations and page 2 of 2 for gas
16 operations.

17 **Q. Would you please describe these exhibits and how they differ from the conversion
18 factors proposed by the Company?**

19 A. Exhibit _____ (MPP-9), pages 1 and 2, calculate the conversion factors used to convert
20 net operating income into a gross revenue figure. The appropriate conversion factor for
21 this case is .621330 for the electric operations and .621466 for the gas operations. The

1 only difference between the conversion factor calculated by Staff and the Company is due
2 to the Staff-proposed removal of the Franchise Fee from the calculation.

3 **Q. Why did you eliminate the franchise fee component from the calculation?**

4 A. Staff has taken the position that the franchise fees paid by the Company are more properly
5 treated as municipal taxes which are collected through Schedule 58 for electric operations
6 and Schedule 158 for gas operations. Therefore, it is unnecessary to reflect this
7 component in the calculation of the conversion factor. A more detailed explanation of
8 Staff's recommendation regarding the treatment of franchise fees can be found in my
9 testimony describing the Restate Excise/Franchise Taxes adjustment.

10 **SECTION III: KETTLE FALLS EQUITY INCENTIVE**

11 **Q. Would you describe the Company's request for an equity incentive on the remaining
12 balance of its Kettle Falls Investment?**

13 A. Yes. The Company is claiming to have met all the requirements of RCW 80.28.025,
14 which gives the Commission the ability to apply a 2% equity incentive to the investment.
15 The Company claims that the Washington State Department of Revenue's February, 1991
16 ruling, that this project met the requirements of RCW 82.16.055 for renewable energy
17 state tax credits, supports this request. RCW 82.16.055 and RCW 80.28.025 are
18 essentially identical with regard to the criteria.

19 **Q. Do you agree with the Company's proposal?**

20 A. No, I do not.

21 **Q. Would you explain why you disagree with the Company?**

1 A. Yes. The reason is quite simple. In U-83-26 the Commission indirectly determined that
2 Kettle Falls did not meet all the requirements in RCW 80.28.025 by not allowing the total
3 investment in rate base.

4 **Q. Can you explain what you mean when you say “indirectly” in your previous**
5 **answer?**

6 A The Commission did not specifically say that Kettle Falls did not meet the requirements
7 stated in RCW 80.28.025. However, on page 15 of the order in U-83-26, factor (10)
8 states:

9 The board [of Washington Water Power, now Avista] did not select a lower cost
10 alternative (considering projected construction and operating costs) to Kettle Falls
11 in January 1982 and could have more rigorously studied the alternatives open to
12 it;

13
14 The order also stated on page 16 that the Commission considered several options when
15 determining the level of investment disallowance. One of the options utilized by the
16 Commission in setting the amount of investment to be disallowed was the difference
17 between the cost of the project and any lower cost alternative. RCW 80.28.025 states:

18 . . . at the time they are placed in the rate base, are reasonably expected to save,
19 produce, or generate energy at a total incremental system cost per unit of energy
20 delivered to end use which is less than or equal to similarly available conventional
21 energy resources

22
23 (Emphasis added) It is clear that at the time Kettle Falls was placed in rate base that is
24 was not the lowest cost alternative and, therefore, does not meet the requirements set
25 forth in RCW 80.28.025.
26

1 **Q. Do you have anything to add about the Company's reliance on the Washington**
2 **State Department of Revenue's order in February, 1991?**

3 A. RCW 82.16.055 set forth essentially the same requirements as RCW 80.28.025; however,
4 item (5) states:

5 The department of revenue, after consultation with the utilities and transportation
6 commission in the case of investor-owned utilities and the governing bodies of
7 locally regulated utilities, shall determine the eligibility of individual projects and
8 measures for deductions under this section.

9
10 In the Department of Revenue Order No. 91-047 the only mention of the Commission is
11 on the bottom of page 2, and it states:

12 The auditor noted that the Idaho Public Service Commission recognized that the
13 gas turbine may have been the cheapest alternative when they allowed 90% of the
14 plant's cost to be computed in its rate base (Washington's Utilities and
15 Transportation Commission made no adjustment).

16
17 There is no other language regarding the Commission's disallowance of the investment in
18 the U-83-26 order.

19 **Q. Does that conclude your direct testimony?**

20 A. Yes it does.