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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-04 _____

DIRECT TESTIMONY OF

RONALD R. PETERSON

REPRESENTING AVISTA CORPORATION

Exhibit T ____ (RRP-T)

1 **I. INTRODUCTION**

2 **Q. Please state your name, employer and business address.**

3 A. My name is Ronald R. Peterson. I am employed as Vice President of Energy
4 Resources and Optimization by Avista Corporation at 1411 East Mission Avenue, Spokane,
5 Washington.

6 **Q. Please briefly describe your educational background and professional**
7 **experience.**

8 A. I am a 1975 graduate of Washington State University with degrees in business
9 administration and accounting. I joined the Company in 1975. I passed the Washington State
10 CPA examination in 1976 and worked as a staff accountant in a variety of positions until 1987
11 when I became supervisor of the Company's corporate accounting function. In 1991, I was
12 selected customer service manager, and in 1992, was elected Treasurer. I was elected Controller
13 and assumed the director of information service responsibilities in 1996. In 1998, I was elected
14 Vice President and Treasurer. In September 2001, I was also named Vice President of Finance
15 for Avista Utilities. I assumed my present position as Vice President of Energy Resources and
16 Optimization in April 2003.

17 **Q. What is the scope of your testimony in this proceeding?**

18 A. I describe the proposed sale of the Skookumchuck Hydroelectric Plant
19 ("Skookumchuck") and the reasons for the proposed sale. I briefly discuss the Company's
20 request for the Commission to issue determinations required for the purchaser to qualify as an
21 Exempt Wholesale Generator ("EWG") under Section 32 of the Public Utility Holding Company
22 Act of 1935 ("PUHCA"). I also address the proposed ratemaking treatment of the proposed sale,

1 including the allocation of the gain between ratepayers and shareholders and the Company's
2 proposal to credit the ratepayer share of the gain against the Company's demand side
3 management ("DSM") tariff rider balance.

4 **Q. Please briefly describe the assets to be sold.**

5 A. Skookumchuck is a small earth-fill dam and hydroelectric generating plant located
6 in the vicinity of Centralia, Washington on property adjacent to the Centralia Power Plant. The
7 Skookumchuck dam was constructed in 1973 as a water storage facility for the Centralia Power
8 Plant. In 1991, a hydroelectric unit with a capacity of approximately one megawatt was installed
9 at the dam. The Skookumchuck plant being sold includes real property and associated easements
10 and water rights, as well as various equipment. Skookumchuck was granted an exemption from
11 licensing as a hydropower facility by the Federal Energy Regulatory Commission ("FERC")
12 pursuant to 16 U.S.C. §2705(d), which allows exemptions for facilities less than five megawatts.
13 Skookumchuck is, however, subject to dam safety regulation by the FERC.

14 **Q. Who are the current owners of Skookumchuck?**

15 A. Skookumchuck is jointly owned by seven public and private owners (collectively,
16 the "Owners"): PacifiCorp; Avista; Public Utility District No. 1 of Snohomish County,
17 Washington; Puget Sound Energy, Inc.; City of Tacoma, Washington; City of Seattle,
18 Washington; and Public Utility District No. 1 of Grays Harbor County, Washington. PacifiCorp
19 is the majority owner with a 47.5% ownership share. Avista is a minority owner with a 17.5%
20 ownership share.

21 **Q. Who is the purchaser?**

1 A. The purchaser is 2677588 Washington LLC (“Washington LLC”), a limited liability
2 company formed by TransAlta USA Inc (“TransAlta”). Washington LLC is a Washington
3 limited liability company and a direct, wholly-owned subsidiary of TransAlta. TransAlta is the
4 indirect owner of the Centralia Power Plant, a coal-fired generating plant, and the Centralia Coal
5 Mine. In 2000, the Owners sold the Centralia Power Plant to a direct wholly-owned subsidiary
6 of TransAlta, TECWA Power Inc., and PacifiCorp sold the Centralia Coal Mine to another direct
7 wholly-owned subsidiary of TransAlta, TECWA Fuel Inc. TECWA Power, Inc., owns and
8 operates the Centralia Power Plant as an EWG.

9 **Q. Please describe the proposed sale.**

10 A. The Owners propose to sell and transfer to Washington LLC the Skookumchuck
11 dam, powerhouse, water rights, land, easements and other related assets, including certain
12 fixtures, contracts and other rights. The sale and transfer is governed by the Skookumchuck
13 Facilities Purchase and Sale Agreement between the Owners and Washington LLC, dated
14 November 25, 2003 (the “Sale Agreement”). A copy of the Sale Agreement is attached as
15 Appendix 1 to Avista’s Application. The aggregate sale price of the transaction is \$7.57 million,
16 adjusted for changes in PacifiCorp’s Net Book Value of the Facilities from September 30, 2003
17 to the Closing Date. See Section 2.3(a) of the Sale Agreement. Avista’s share of the sales price
18 is 17.5%, or \$1,300,000 on a system basis prior to closing costs.

19 **Q. How will the plant be operated by the purchaser?**

20 A. Washington LLC has indicated that their intention is to continue operation of
21 Skookumchuck to provide cooling water supply to the Centralia Power Plant, and that it will
22 produce power from Skookumchuck either as an EWG or as a qualifying facility under the Public

1 Utility Regulatory Policies Act of 1978. None of the electrical output of Skookumchuck has
2 been or will be used to serve Avista's retail customers, except perhaps indirectly, through the
3 wholesale power markets.

4 **Q. When the Centralia Steam Plant was sold in 2000, why was the Skoomchuck**
5 **Project retained by the Owners?**

6 A. A Flood Control Committee formed by Lewis and Grays Harbor Counties,
7 Washington and the cities of Centralia, Chehalis and Aberdeen, Washington (the "Committee")
8 had expressed an interest in acquiring the Skookumchuck Dam and reservoir. The Committee
9 had been working with the U.S. Army Corps of Engineers to develop a comprehensive flood
10 control plan for the basin. In June 1999, a Memorandum of Understanding ("MOU") between
11 the Owners and the Committee was signed reflecting the Committee's intent to purchase the
12 facilities. This MOU expired in December 1999, but the Owners understood that the
13 Committee's intent to acquire the facilities had not changed. This desire by the Committee to
14 purchase the facilities and the Committee's stated intent to operate the facilities in a manner that
15 would not be in conflict with the continued operation of the Centralia Steam Plant caused the
16 Owners to withhold the Skookumchuck Project from the sale of the Centralia Steam Plant.

17 **Q. Please explain the EWG determination that is being requested.**

18 A. To qualify as an EWG, Washington LLC must be engaged exclusively in the
19 business of owning or operating an "eligible facility" and selling electric energy at wholesale. If
20 the costs of a generation facility were included in the rates of a regulated utility on October 24,
21 1992 (the date of enactment of section 32 of PUHCA), then in order for the facility to be
22 considered an "eligible facility," every state commission having jurisdiction over such rates must

1 specifically determine that allowing the facility to become an eligible facility (1) will benefit
2 consumers, (2) is in the public interest, and (3) does not violate State law. 15 U.S.C. § 79z-5a(c).
3 Thus, the WUTC and each of PacifiCorp's other state regulatory commissions, which include
4 Avista's other state regulatory commission, the Idaho Public Utilities Commission, would be
5 required to make these determinations regarding the sale and transfer of the Skookumchuck
6 facilities.

7 **Q. Please explain how the sale will benefit Avista's customers.**

8 A. Avista proposes to sell Skookumchuck to Washington LLC because a sale results in
9 lower costs to Avista Utilities' customers than continuing to invest in and operate and maintain
10 the facility. Skookumchuck has an electrical capacity of 1 MW, but because the facility is
11 operated for purposes of supplying cooling water to the Centralia Power Plant, it has relatively
12 low energy output. Over the last eight years, the average annual production has been 3,000
13 megawatt-hours. Skookumchuck's bus bar cost in PacifiCorp's fiscal year 2003 (twelve months
14 ending March 31, 2003) was approximately \$250 per MWh. With regard to this cost per MWh,
15 it is important to remember that the dam was originally built to provide water supply for the coal
16 plant, and therefore the energy produced by the hydroelectric generator does not reflect the total
17 value of the project. Skookumchuck is interconnected with the system of Puget Sound Energy,
18 Inc. ("PSE") and historically all of the power from Skookumchuck has been sold to PSE.

19 As one of the Owners of Skookumchuck, Avista must pay its proportionate share of the
20 costs of the facilities. Net plant related to Avista's share of its investment in Skookumchuck is
21 included in the Company's rate base. The Company's analysis indicates that its customers will
22 not be harmed by the proposed transaction and will in fact benefit from it. The forecast of the

1 market price of power is substantially below the cost of power generated from Skookumchuck.
2 Hence, the Company's revenue requirement will be lower as a result of the sale of
3 Skookumchuck.

4 In addition, the proposed transaction eliminates the risk that the Owners will be required
5 to fund future expenditures for ensuring the structural integrity of the Skookumchuck dam. The
6 benefits from the proposed sale outweigh the risks and costs of continuing to own and operate
7 Skookumchuck.

8 Moreover, the sale will not harm the public interest because competitive markets will be
9 unaffected by the sale. It cannot reasonably be suggested that a 1 MW plant, with only 3,000
10 MWhs of annual production, could have a measurable impact on western electricity supply or
11 any impact on wholesale electricity prices.

12 **Q. Please explain the proposed ratemaking treatment of the sale.**

13 A. Avista projects that the sale of Skookumchuck will result in a small after-tax gain.
14 The Washington jurisdictional share of the after-tax gain is projected to be approximately
15 \$400,000. Actual figures will not be known until the transaction closes. Avista proposes to
16 allocate the after-tax Skookumchuck gain between jurisdictions and between ratepayers and
17 shareholders in the same manner as Avista's after-tax gain on the sale of the Centralia Power
18 Plant was allocated in Docket Nos. UE-991255 and UE-000080. The Washington jurisdiction
19 would receive an allocation of 66.99% of the after-tax gain, or approximately \$400,000.
20 Applying the methodology for allocating proceeds set forth in the orders approving the sale of the
21 Centralia Power Plant to the estimated Washington share of the Skookumchuck after-tax gain of
22 approximately \$400,000 yields an allocation to ratepayers of approximately \$260,000 and an

1 allocation to shareholders of approximately \$140,000. Plant balances being retired and the
2 calculation and allocation of the estimated gain are included in Exhibit ___ (RRP-1).

3 Avista is proposing that the estimated portion of the Skookumchuck gain allocated to
4 ratepayers of approximately \$260,000 be applied against the demand side management (“DSM”)
5 tariff rider balance. This proposal is consistent with the methodology of handling any residual
6 balance associated with the pass through of the gain on the sale of the Centralia Power Plant
7 approved in the Fifth Supplemental Order Approving Centralia Gain Bill Credit Compliance
8 Tariff in Docket Nos. UE-991606 and UG-991607 dated November 21, 2000 as described on
9 page 2 as follows.

10 At the end of the credit period, if there is a residual balance (due either to actual volumes
11 that receive the Schedule 56 credit being different than projected, and/or interest on the
12 balance being different than projected), Avista’s proposal is to net the residual balance
13 (positive or negative) against the DSM tariff rider balance. Schedule 25 customers will
14 receive their proportionate share of the residual Centralia gain through the Schedule 91
15 DSM tariff rider rates. There would, therefore, be no windfall to Avista, contrary to the
16 suggestion of ICNU. For these reasons, Staff supports Avista’s bill credit proposal to
17 credit back the gain on the Centralia sale.

18
19 The Commission finds that the tariff revision filed by the Company on October 24, 2000,
20 is consistent with the Commission’s Third Order and concludes therefore that the tariff
21 should be approved as filed.
22

23 An over-refund associated with the pass through of the gain on the sale of the Centralia
24 Power Plant of approximately \$174,000 has previously been charged to the DSM tariff rider
25 balance. The ratepayer portion of the Skookumchuck gain would result in a credit of
26 approximately \$260,000 to the DSM tariff rider balance.

27 A portion of the Skookumchuck facilities was treated as thermal property since it
28 provided a cooling water source to the Centralia Power Plant and was retired as part of the

1 Centralia Power Plant when that plant was sold. Hence, the gain recognized on the sale of the
2 Centralia Power Plant was slightly lower than it would have been if none of the Skookumchuck
3 facilities had been retired at that time. Alternatively, the gain on the sale of the Skookumchuck
4 facilities is now slightly higher due to the earlier, partial retirement. Allocating the gain on the
5 sale of Skookumchuck in the same manner as the gain on the sale of the Centralia Power Plant
6 was allocated results in a total gain being allocated to ratepayers that is the same irrespective of
7 when the Skookumchuck retirements occurred or will occur.

8 **Q. Is the Company asking for expedited treatment for EWG findings and**
9 **approval of the sale?**

10 A. Yes. The Company is asking the Commission to consider the EWG issues and
11 approval of the sale on an expedited basis.

12 **Q. Does that conclude your prefiled direct testimony?**

13 A. Yes.

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BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-04 _____

EXHIBIT NO. ____ (RRP-1)

Avista Corporation

Assignment of Gain on Sale of Skookumchuck
State of Washington
Allocated Using Methodology Set Forth in
Second Supplemental Order in Docket No. UE-991255

Line No.		Total	Assignment of Gain			
			Avista 17.50%	Washington 66.99%	Ratepayers	Shareholders
1	Plant Sale Price	\$7,570,373	\$1,324,815	887,494		
2	Projected Closing Costs		-20,000	-13,398		
3	Projected Plant Sale Proceeds		1,304,815	874,096		
Gross Assets Sold						
4	Plant in Service @ 3/31/04 (estimate)		578,916	387,816		
Book Gain Before Income Taxes						
5	Appreciation on Assets Sold (Line 3 - Line 4)		725,899	486,280	243,140	243,140
6	Accumulated Depreciation @ 3/31/04 (estimate)		254,614	170,566	170,566	
7	Total Book Gain		980,513	656,846	413,706	243,140
Income Taxes						
8	Book Gain on Sale of Plant (Line 7)		980,513	656,846	413,706	243,140
9	Net Plant-Books		324,302	217,250	217,250	
10	Net Plant-Tax		-222,329	-148,938	-148,938	
11	Taxable Gain		1,082,486	725,158	482,018	243,140
12	Tax Rate		37.5%	37.5%	37.5%	37.5%
13	Tax on Gain on Sale of Plant		405,932	271,934	180,757	91,178
14	DFIT Expense-MACRS Reversal		-81,168	-54,374	-54,374	
15	Total Income Tax (Lines 13+14)		324,764	217,560	126,383	91,178
16	Book Gain net of Income Tax (Line 7 - Line 15)		\$655,749	\$439,286	\$287,323	\$151,962

Note: The tax rate shown above is 37.5% to reflect the impact of both federal and state income taxes.