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IDAHO PUBLIC  
UTILITIES COMMISSION

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE APPLICATION )  
OF AVISTA CORPORATION FOR )  
AN ORDER APPROVING THE SALE OF ITS )  
INTEREST IN THE SKOOKUMCHUCK )  
HYDROELECTRIC PLANT AND FOR EWG )  
DETERMINATIONS )

CASE NO. AVU-E-04-02  
DIRECT TESTIMONY  
OF  
RONALD R. PETERSON

FOR AVISTA CORPORATION

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  
10 State CPA examination in 1976 and worked as a staff accountant in a variety of positions  
11 until 1987 when I became supervisor of the Company's corporate accounting function. In  
12 1991, I was selected customer service manager, and in 1992, was elected Treasurer. I was  
13 elected Controller and assumed the director of information service responsibilities in 1996.  
14 In 1998, I was elected Vice President and Treasurer. In September 2001, I was also named  
15 Vice President of Finance for Avista Utilities. I assumed my present position as Vice  
16 President of Energy Resources and 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  
22 Company Act of 1935 ("PUHCA"). I also address the proposed ratemaking treatment of the

1 proposed sale, including the allocation of the gain between ratepayers and shareholders and  
2 the Company's proposal that the ratepayer share of the after-tax gain be added to the balance  
3 of the deferred gain on the Centralia Power Plant, which is currently being passed on to  
4 ratepayers.

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

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

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

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

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

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

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

11           A. The Owners propose to sell and transfer to Washington LLC the Skookumchuck  
12 dam, powerhouse, water rights, land, easements and other related assets, including certain  
13 fixtures, contracts and other rights. The sale and transfer is governed by the Skookumchuck  
14 Facilities Purchase and Sale Agreement between the Owners and Washington LLC, dated  
15 November 25, 2003 (the “Sale Agreement”). A copy of the Sale Agreement is attached as  
16 Appendix 1 to Avista’s Application. The aggregate sale price of the transaction is \$7.57  
17 million, adjusted for changes in PacifiCorp’s Net Book Value of the Facilities from  
18 September 30, 2003 to the Closing Date. See Section 2.3(a) of the Sale Agreement. Avista’s  
19 share of the sales price is 17.5%, or \$1.32 million on a system basis prior to closing costs.

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

21           A. Washington LLC has indicated that their intention is to continue operation of  
22 Skookumchuck to provide cooling water supply to the Centralia Power Plant, and that it will

1 produce power from Skookumchuck either as an EWG or as a qualifying facility under the  
2 Public Utility Regulatory Policies Act of 1978. None of the electrical output of  
3 Skookumchuck has been or will be used to serve Avista's retail customers, except perhaps  
4 indirectly through the wholesale power markets.

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

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

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

20 A. To qualify as an EWG, Washington LLC must be engaged exclusively in the  
21 business of owning or operating an "eligible facility" and selling electric energy at wholesale.  
22 If the costs of a generation facility were included in the rates of a regulated utility on October

1 24, 1992 (the date of enactment of section 32 of PUHCA), then in order for the facility to be  
2 considered an “eligible facility,” every state commission having jurisdiction over such rates  
3 must specifically determine that allowing the facility to become an eligible facility (1) will  
4 benefit consumers, (2) is in the public interest, and (3) does not violate State law. 15 U.S.C.  
5 § 79z-5a(c). Thus, the IPUC and each of PacifiCorp’s other state regulatory commissions,  
6 which include Avista’s other state regulatory commission, the Washington Utilities and  
7 Transportation Commission, would be required to make these determinations regarding the  
8 sale and transfer of the Skookumchuck facilities.

9 **Q. Please explain how the sale will benefit Avista’s customers.**

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

1           As one of the Owners of Skookumchuck, Avista must pay its proportionate share of  
2 the costs of the facilities. Net plant related to Avista's share of its investment in  
3 Skookumchuck is included in the Company's rate base. The Company's analysis indicates  
4 that its customers will not be harmed by the proposed transaction and will in fact benefit from  
5 it. The forecast of the market price of power is substantially below the cost of power  
6 generated from Skookumchuck. Hence, the Company's revenue requirement will be lower as  
7 a result of the sale of Skookumchuck.

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

12           Moreover, the sale will not harm the public interest because competitive markets will  
13 be unaffected by the sale. A 1 MW plant with only 3,000 MWhs of annual production would  
14 not have a measurable impact on western electricity supply or any impact on wholesale  
15 electricity prices.

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

17           A. Avista projects that the sale of Skookumchuck will result in a small after-tax  
18 gain. The Idaho jurisdictional share of the after-tax gain is projected to be approximately  
19 \$216,000. Actual figures will not be known until the transaction closes. Avista proposes to  
20 allocate the after-tax Skookumchuck gain between jurisdictions and between ratepayers and  
21 shareholders in the same manner as Avista's after-tax gain on the sale of the Centralia Power  
22 Plant was allocated in Order No. 28297 in Case No. AVU-E-99-6. The Idaho jurisdiction

1 would receive an allocation of 33.01% of the after-tax gain, or approximately \$216,000.  
2 Applying the methodology for allocating proceeds set forth in the orders approving the sale  
3 of the Centralia Power Plant to the estimated Idaho share of the Skookumchuck after-tax gain  
4 of approximately \$216,000 yields an allocation to ratepayers of approximately \$151,000  
5 (69.70%) and an allocation to shareholders of approximately \$65,000 (30.30%). Plant  
6 balances being retired and the calculation and allocation of the estimated gain are included in  
7 Exhibit 1.

8 Avista is proposing that the estimated portion of the Skookumchuck after-tax gain  
9 allocated to ratepayers of approximately \$151,000 be deferred and added to the deferred gain  
10 on the Centralia Power Plant which is currently being passed on to ratepayers through a rate  
11 credit on Schedule 65 – Temporary Rate Adjustment. The Centralia gain rate credit was  
12 originally put into effect on August 1, 2000 and will expire when the deferred gain has been  
13 passed on to customers.

14 A portion of the Skookumchuck facilities was treated as thermal property since it  
15 provided a cooling water source to the Centralia Power Plant and was retired as part of the  
16 Centralia Power Plant when that plant was sold. Hence, the gain recognized on the sale of  
17 the Centralia Power Plant was slightly lower than it would have been if none of the  
18 Skookumchuck facilities had been retired at that time. The gain on the sale of the  
19 Skookumchuck facilities is now slightly higher due to the earlier, partial retirement.

20 In the IPUC's order approving the sale of the Centralia Power Plant it adopted a  
21 methodology to allocate the gain between ratepayers and shareholders based on the ratio of

1 accumulated depreciation to gross plant. This methodology resulted in an allocation of  
2 69.7% of the gain to ratepayers and 30.3% to shareholders.

3 The ratio of accumulated depreciation to gross plant of the Skookumchuck plant  
4 currently being retired is approximately 39%. Applying 39% to the after-tax gain on the  
5 proposed sale of Skookumchuck would result in a lesser amount of gain being allocated to  
6 ratepayers than the allocated gain that results from using the 69.70% Centralia allocation.  
7 The Company is proposing to use the higher 69.70% Centralia allocation to ratepayers in the  
8 interest of minimizing the issues in this case regarding the allocation of the gain.

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

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

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

14 A. Yes.

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IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-04- <i>02</i>
OF AVISTA CORPORATION FOR	)	
AN ORDER APPROVING THE SALE OF ITS	)	EXHIBIT No. 1
INTEREST IN THE SKOOKUMCHUCK	)	
HYDROELECTRIC PLANT AND FOR EWG	)	RONALD R. PETERSON
<u>DETERMINATIONS</u>	)	

FOR AVISTA CORPORTATION

Avista Corporation

Assignment of Gain on Sale of Skookumchuck  
State of Idaho  
Allocated Using Methodology Set Forth in  
Order No. 28297/ Case No. AVU-E-99-6

Line No.		Total	Assignment of Gain			
			Avista 17.50%	Idaho 33.01%	Ratepayers 69.70%	Shareholders 30.30%
1	Plant Sale Price	\$7,570,373	\$1,324,815	437,321		
2	Projected Closing Costs		-20,000	-6,602		
3	Projected Plant Sale Proceeds		1,304,815	430,719		
Gross Assets Sold						
4	Plant in Service @ 3/31/04 (estimate)		578,916	191,100		
Book Gain Before Income Taxes						
5	Appreciation on Assets Sold (Line 3 - Line 4)		725,899	239,619		
6	Accumulated Depreciation @ 3/31/04 (estimate)		254,614	84,048		
7	Total Book Gain		980,513	323,667		
Income Taxes						
8	Book Gain on Sale of Plant (Line 7)		980,513	323,667		
9	Net Plant-Books		324,302	107,052		
10	Net Plant-Tax		-222,329	-73,391		
11	Taxable Gain		1,082,486	357,328		
12	Tax Rate		37.5%	37.5%		
13	Tax on Gain on Sale of Plant		405,932	133,998		
14	DFIT Expense-MACRS Reversal		-81,168	-26,794		
15	Total Income Tax (Lines 13+14)		324,764	107,204		
16	Book Gain net of Income Tax (Line 7 - Line 15)		\$655,749	\$216,463	\$150,875	\$65,588

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