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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

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I. INTRODUCTION

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

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

Q. Please briefly describe your educational background and professional experience.

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

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

A. I describe the proposed sale of the Skookumchuck dam, hydroelectric plant and related facilities ("Skookumchuck") and the reasons for the proposed sale. I briefly discuss the Company's request for the Commission to issue determinations required for the new owner/operator to qualify as an Exempt Wholesale Generator ("EWG") under Section 32 of the Public Utility Holding Company Act of 1935 ("PUHCA"). I also address the proposed

1 ratemaking treatment of the proposed sale, including the allocation of the gain between
2 ratepayers and shareholders and the Company's proposal that the ratepayer share of the after-
3 tax gain be added to the balance of the deferred gain on the Centralia Power Plant, which is
4 currently being passed on to 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 assets 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 A. The new owner/operator intends to continue operation of Skookumchuck to
2 provide cooling water supply to the Centralia Power Plant, and to produce power from
3 Skookumchuck either as an EWG or as a qualifying facility under the Public Utility
4 Regulatory Policies Act of 1978. None of the electrical output of Skookumchuck has been or
5 will be used to serve Avista's retail customers, except perhaps indirectly through the
6 wholesale power markets.

7 **Q. When the Centralia Steam Plant was sold in 2000, why was the**
8 **Skookumchuck Project retained by the Owners?**

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

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

1 interconnected with the system of Puget Sound Energy, Inc. ("PSE") and historically all of
2 the power from Skookumchuck has been sold to PSE.

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

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

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

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

19 A. Avista projects that the sale of Skookumchuck will result in a small after-tax
20 gain. The Idaho jurisdictional share of the after-tax gain is projected to be approximately
21 \$216,000. Actual figures will not be known until the transaction closes. Avista proposes to
22 allocate the after-tax Skookumchuck gain between jurisdictions and between ratepayers and

1 shareholders in the same manner as Avista's after-tax gain on the sale of the Centralia Power
2 Plant was allocated in Order No. 28297 in Case No. AVU-E-99-6. The Idaho jurisdiction
3 would receive an allocation of 33.01% of the after-tax gain, or approximately \$216,000.
4 Applying the methodology for allocating proceeds set forth in the orders approving the sale
5 of the Centralia Power Plant to the estimated Idaho share of the Skookumchuck after-tax gain
6 of approximately \$216,000 yields an allocation to ratepayers of approximately \$151,000
7 (69.70%) and an allocation to shareholders of approximately \$65,000 (30.30%). Plant
8 balances being retired and the calculation and allocation of the estimated gain are included in
9 Exhibit 1.

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

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

