Q. Have you previously offered testimony in this proceeding?

A. Yes, I offered direct testimony on behalf of PacifiCorp.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to:

- the testimony of Public Counsel witness Lazar that dismisses the importance of qualitative factors and the associated uncertainties with continued operation of the Centralia Plant and Mine,
- the testimony of Staff witness Elgin and ICNU witness Wolverton that incorrectly attempts to tie the decisions in this proceeding to overall industry restructuring, and
- the testimony of Staff witness Martin that proposes modifications to the net gain calculation.

Qualitative Factors

With respect to the qualitative factors influencing the decision to sell the Plant and Mine, Mr. Lazar dismisses these issues as largely resolvable, concluding, “Since my analysis shows that the economics of continued operation are very robust, there is little cause for concern.” Do you agree with this conclusion?

A. No. Mr. Lazar appears to be assuming that all eight owners would accept as fact the results of his analysis and base all future decisions solely on these results. There is little reason to expect that the results of Mr. Lazar’s analysis will bring consensus to the owner’s group. As discussed in the testimony of Dr. Weaver, there are significant shortcomings to Mr. Lazar’s analysis that vastly overstate his valuations of the Centralia Plant and Mine. In addition, each owner of Centralia is influenced by its own perceptions of factors such as the risks associated with continued ownership, the level of future market prices, and the preferred corporate structure in a deregulated industry.

Q. Mr Lazar also seems to assume certainty with respect to the installation of sulphur scrubbers at the Plant. Is that realistic?

A. No, it is not. Contractual arrangements among the Centralia owners require cancellation of the scrubber contract if the sale to TransAlta is terminated. This was the only basis upon which we could achieve agreement among the owners to enter into a scrubber contract and meet the RACT compliance milestone last May. Consequently, installation of the scrubbers is uncertain if the proposed sale is not completed. This uncertainty is further exacerbated by a recently filed lawsuit challenging the constitutionality of the law that provides for tax concessions related to the Plant and Mine that are tied to the scrubber installation.

Q. Mr. Lazar concludes that his analysis considers the expected costs of mine reclamation. Are there risks associated with mine reclamation that have not been captured by his analysis?

A. Yes. The analysis assumes that the Plant and the Mine remain open through the entire analysis period, that final reclamation expense is collected over that time frame, and that the current estimate of final reclamation expense exactly matches the final reclamation liability. This is a best case scenario. Any one of these factors could change, significantly altering the financial analysis.

Relationship to Industry Restructuring

Q. Mr. Elgin and Mr. Wolverton suggest that the decision to sell Centralia relates directly to open access and urge consideration of the sale and the allocation of gain with this in mind. Do you agree?

A. No. As indicated in my direct testimony, the decision to attempt to sell Centralia was made by the Company independent of any larger decisions concerning industry restructuring or vertical dissagregation. We believe that the Commission's role in this proceeding is to determine whether the sale of Centralia, on the terms proposed by the Company, is in the public interest. We believe that this determination can and should be made independent of any decision related to industry restructuring.

Net Gain Calculation

Staff witness Martin recommends exclusion of the accruals for environmental liabilities associated with the Plant and the Mine. How do you respond to this recommendation?

With respect to the accrual for environmental liabilities associated with the Plant, PacifiCorp's proposal effectively caps the customer-borne monetary risk associated with existing environmental liabilities. As I understand Mr. Martin's proposal, future customers would have an open-ended liability associated with existing environmental liabilities. Because the sale agreements establish a fifteen-year period over which the liability for existing soil contamination is the responsibility of the current owners, some of these expenses may not be known for many years. PacifiCorp believes it is reasonable to subtract an amount from the sale proceeds to reflect estimated future costs associated with existing conditions and hold customers harmless from any additional expenses. Mr. Martin appears to believe that all associated costs should be collected from future customers through a specific filing when they become known. This appears to me to be a riskier course for customers that the Company's proposed solution.

Should the environmental liabilities associated with the Mine be handled differently?

No. PacifiCorp believes that its proposal is equally reasonable for the Mine. However, to the extent that the Commission adopts Mr. Martin's proposal, Mr. Martin's figures should be adjusted to exclude estimates of accruals for environmental liabilities associated with the unregulated portion of the Mine. If the Commission were to exclude the accruals, it should only impact the 47.5% of the Mine that is included in PacifiCorp's rate base.

Mr. Martin suggests that PacifiCorp be required to seek a ruling from the IRS with respect to excess deferred federal taxes. Is that something PacifiCorp is agreeable to?

A. Yes. PacifiCorp is willing to seek a ruling from the IRS on this issue if other utilities' similar requests - which are currently pending - receive a favorable outcome.

Q. If the Commission decides to share the net gain from the sale between shareholders and customers, Mr. Martin proposes to exclude an amount equal to the accrued reclamation balance. Do you think this is appropriate?

A. No. As I've stated in my direct testimony, the accrued reclamation balances are well below the most recent estimate of expected final reclamation liability. The unfunded portion of this liability is the responsibility of TECWA and doubtless decreases the purchase price for the Plant and Mine that they otherwise would have been prepared to pay. Since this is a situation where TECWA is essentially "buying cash", one would expect a dollar for dollar reduction to the overall sale price related to the difference between the accrual and the estimated liability. PacifiCorp believes it is reasonable for customers and shareholders to share this responsibility and believes Mr. Martin's proposal is an inappropriate adjustment to the calculation of the net gain.

Q. Does this conclude your rebuttal testimony?

A. Yes.