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1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION

2 COMMISSION

3 In the Matter of the ) DOCKET NO. UE-991262  
4 Application of PACIFICORP ) Volume 2  
5 For an Order Approving the ) Pages 86 - 314  
6 Sale of Its Interest in )  
7 (1) The Centralia Steam )  
8 Electric Generating Plant, )  
9 (2) The Ratebased Portion of )  
10 the Centralia Coal Mine, and )  
11 (3) Related Facilities, for )  
12 a Determination of the Amount )  
13 of and the Proper Ratemaking )  
14 Treatment of the Gain )  
15 Associated with the sale; and )  
16 for an EWG Determination. )

10 -----  
11 In the Matter of the ) DOCKET NO. UE-991409  
12 Application of )  
13 PUGET SOUND ENERGY, INC., for )  
14 (1) Approval of the Proposed )  
15 Sale of PSE's Share of the )  
16 Centralia Facilities, and )  
17 (2) Authorization to Amortize )  
18 Gain Over a Five-Year Period. )

15 -----  
16 In the Matter of the ) DOCKET NO. UE-991255  
17 AVISTA CORPORATION for )  
18 Authority to Sell Its )  
19 Interest in the Coal-Fired )  
20 Centralia Power Plant. )  
21 -----

18  
19 A hearing in the above matter was held on  
20 January 7, 2000, at 9:40 a.m., at 1300 South Evergreen  
21 Park Drive Southwest, Olympia, Washington, before  
22 Administrative Law Judge MARJORIE R. SCHAER,  
23 Commissioners WILLIAM R. GILLIS, RICHARD HEMSTAD, and  
24 MARILYN SHOWALTER.

25 Kathryn T. Wilson, CCR  
Court Reporter

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1           The parties were present as follows:

2           PUGET SOUND ENERGY, INC., by MATTHEW R.  
3 HARRIS, Attorney at Law, Summit Law Group, 1505  
4 Westlake Avenue North, Suite 300, Seattle, Washington  
5 98109.

6           AVISTA CORPORATION, by GARY A. DAHLKE,  
7 Attorney at Law, Paine, Hamblen, Coffin, Brooke &  
8 Miller, 717 West Sprague Avenue, Suite 1200, Spokane,  
9 Washington 99201-3505.

10          THE WASHINGTON UTILITIES AND TRANSPORTATION  
11 COMMISSION, by ROBERT D. CEDARBAUM, Assistant Attorney  
12 General, 1400 South Evergreen Park Drive Southwest,  
13 Post Office Box 40128, Olympia, Washington 98504-0128.

14          THE PUBLIC, by Charles F. Adams, Assistant  
15 Attorney General, 900 Fourth Avenue, Suite 2000,  
16 Seattle, Washington 98164-1012.

17          NW ENERGY COALITION, by NANCY HIRSH, Policy  
18 Director, 219 First Avenue South, Suite 100, Seattle,  
19 Washington 98104.

20          INDUSTRIAL CUSTOMERS OF NW UTILITIES,  
21 by S. BRADLEY VAN CLEVE, Attorney at Law, Duncan,  
22 Weinberg, Genzer & Pembroke, 1300 Southwest Fifth  
23 Avenue, Suite 2915, Portland, Oregon 97201.

24          IUOE 612, by ROBERT A. LAVITT, Attorney  
25 at Law, Schwerin, Campbell, Barnard, 18 West Mercer  
Street, Suite 400, Seattle, Washington 98119-3971.

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1 P R O C E E D I N G S

2 JUDGE SCHAER: The hearing will now come to  
3 order. This is the second day of hearing for the  
4 proceeding in which the Commission is considering the  
5 proposed sale of Centralia Steam Plant, application for  
6 sale by Avista Corporation is in Docket No. UE-991255;  
7 by PacifiCorp is in Docket No. UE-991262, and by Puget  
8 Sound Energy is in Docket No. 991409. We are here  
9 today to take the direct and rebuttal cases of the  
10 Applicants and the Staff and Public Counsel and the  
11 Intervenors. We will be taking today the testimony of  
12 the Applicants Puget Sound Energy and Avista  
13 Corporation. At the beginning of the hearing, I'd like  
14 to have appearances noted for counsel that were  
15 previously involved, and I would like Mr. Dahlke to  
16 make a full appearance, so let's start by taking  
17 appearances beginning with Avista Corporation.

18 MR. DAHLKE: My name is Gary Dahlke. I'm  
19 with the law firm of Paine, Hamblen, Coffin, Brooke and  
20 Miller, 700 West Sprague Avenue, Spokane, Washington,  
21 99201. I'm representing Avista Corporation.

22 JUDGE SCHAER: And then for the Applicant  
23 PacifiCorp, I don't believe we have counsel here today,  
24 and I will indicate at this time that we knew from the  
25 outset that PacifiCorp had a conflict with the hearing



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1 today. They are in hearing in Wyoming on this matter  
2 and will join us Monday morning, and then finally  
3 counsel for PSE, please.

4 MR. HARRIS: Matthew Harris on behalf of PSE.

5 MR. CEDARBAUM: Robert Cedarbaum.

6 MR. ADAMS: Charles Adams.

7 JUDGE SCHAER: Intervenors, please, Mr. Van  
8 Cleve.

9 MR. VAN CLEVE: Brad Van Cleve on behalf of  
10 ICNU.

11 MR. LAVITT: Robert Lavitt on behalf of Local  
12 612 Operating Engineers.

13 MS. HIRSH: Nancy Hirsh with the Northwest  
14 Energy Coalition.

15 JUDGE SCHAER: Are there any preliminary  
16 matters that need to be dealt with this morning?  
17 Mr. Adams?

18 MR. ADAMS: I want to note for the record  
19 that we did provide the response to Bench Request 9  
20 that we received. We have talked with PacifiCorp  
21 pursuant with the request. As you know, PacifiCorp is  
22 not here today. I'm assuming they will either today or  
23 on Monday provide an electronic format as their  
24 response to Bench Request 9.

25 JUDGE SCHAER: Anything else?

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1 (Pause in the proceedings.)

2 JUDGE SCHAER: Before we went on the record  
3 this morning, Mr. Gaines has taken the witness stand --  
4 good morning, Mr. Gaines -- and parties have passed out  
5 any cross-examination exhibits that they have for  
6 Mr. Gaines, so the formality at this time, would you  
7 like to call your first witness?

8 MR. HARRIS: Puget Sound Energy calls as its  
9 principle policy witness in this matter William Gaines.  
10 (Witness sworn.)

11

12 DIRECT EXAMINATION

13 BY MR. HARRIS:

14 Q. Good morning, Mr. Gaines. Do you have with  
15 you this morning what's been marked for identification  
16 as Exhibit T-101, which is your direct testimony in  
17 this matter?

18 A. Yes, I have.

19 Q. Do you also have Exhibits 102 through 107?

20 A. Yes.

21 Q. Do you also have what's been marked for  
22 identification at Exhibit T-113, which is your rebuttal  
23 testimony in this matter?

24 A. Yes, I have.

25 Q. Do you also have Exhibits 114 and 115?

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1 A. Yes.

2 Q. Were those exhibits prepared under your  
3 direction and control?

4 A. Yes, they were.

5 Q. Do you have any corrections to make to them?

6 A. No, I don't.

7 Q. Are they complete and accurate to the best of  
8 your knowledge?

9 A. Yes.

10 MR. HARRIS: At this time, PSE would offer  
11 Exhibits T-101, Exhibits 102 through 107, Exhibit  
12 T-113, and Exhibits 114 and 115.

13 JUDGE SCHAER: One question, Mr. Harris, just  
14 glancing at my exhibit list which I have an error in  
15 it. I show Mr. Gaines going through Exhibit 106 rather  
16 than Exhibit 107.

17 MR. HARRIS: I'm sorry; let's check it. 107  
18 is WAG-6. It is a copy of Form 10Q for PSE. If you  
19 are missing that for any reason or need an exhibit list  
20 that includes that, I've got both for you. It was  
21 filed as part of our pre-filed testimony.

22 JUDGE SCHAER: I would like a copy of an  
23 exhibit list for your client at this point, please.

24 (Pause in the proceedings.)

25 MR. HARRIS: Were there any other questions,

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1 Your Honor?

2 JUDGE SCHAER: I don't have any other  
3 questions at this point. Had you offered the exhibits?

4 MR. HARRIS: I had offered the exhibits.

5 JUDGE SCHAER: Are there any objections?

6 Then Exhibit T-101, Exhibits 102 through 107, Exhibit  
7 T-113, and Exhibits 114 and 115 are admitted.

8 MR. HARRIS: With that, Your Honor,  
9 Mr. Gaines is available for cross-examination.

10 JUDGE SCHAER: Did Avista have any questions  
11 for this witness?

12 MR. DAHLKE: No, Your Honor.

13 JUDGE SCHAER: Does PacifiCorp have any  
14 questions for this witness? I will indicate they have  
15 told me they did not, so we'll go to Commission staff  
16 at this time, please? Did you have any questions,  
17 Mr. Cedarbaum?

18 MR. CEDARBAUM: I have a few questions.

19

20 CROSS-EXAMINATION

21 BY MR. CEDARBAUM:

22 Q. Good morning, Mr. Gaines. Just to start off,  
23 is it correct that Puget Sound Energy's proposal to  
24 account for the gain from Centralia in this proceeding  
25 is to amortize the gain over five years beginning in

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1 2000?

2 A. Yes, that's right.

3 Q. That would include then the remainder of the  
4 rate plan that came out of the merger proceeding?

5 A. Yes.

6 Q. The five-year amortization proposal that you  
7 are making in this case is essentially the same as the  
8 Company made in the Colstrip proceeding; is that right?

9 A. It is the same period of years, yes.

10 Q. Turning to your rebuttal testimony, Exhibit  
11 T-113 at Page 3.

12 A. Yes.

13 Q. At Line 16 and 17, you say their position --  
14 (Pause in the proceedings.)

15 JUDGE SCHAER: Go ahead then, Mr. Cedarbaum.

16 Q. Again, Mr. Gaines, I'm on Page 3 of your  
17 rebuttal testimony. At Line 16 you say, "Their  
18 position cannot be reconciled with the merger order";  
19 do you see that?

20 A. Yes, I do.

21 Q. Included in "their" would be the Staff  
22 position; you are including Staff in that criticism?

23 A. Yes.

24 Q. And the interpretation that the Company has  
25 of the merger order is essentially stated at Lines 13

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1 and 14 of the same page where you say that, "The merger  
2 order granted PSE the ability to manage its business  
3 for a five-year period and capture all the benefits of  
4 its management decisions during that time period"; is  
5 that right?

6 A. It's a summary of it, yes.

7 Q. And that is the same rationale the Company  
8 had in the Colstrip case?

9 A. Essentially, yes.

10 Q. If you could turn to your Exhibit 114, Page 2  
11 of the exhibit, and this is WAG-7, and at the Page 2  
12 I'm looking at is a spreadsheet labeled, Centralia  
13 analysis scenario one, NERC availability; do you have  
14 that?

15 A. Yes.

16 Q. Looking at the second column from the right,  
17 this exhibit shows cumulative present value amount for  
18 pre 2002 about 6.7 million dollars; is that right?

19 A. Yes.

20 Q. And that 6.7 million dollars on the Company's  
21 proposal for a five-year amortization would go to the  
22 Company's bottom line; is that correct?

23 A. This is caught up in a question of whether  
24 and when if customers have begun to receive the  
25 benefits of the merger rate plan, so I'm not sure the

00100

1 answer is quite that simple.

2 Q. Let me reask it then. Is the 6.7 million  
3 dollars included in the Company's earnings?

4 A. It would be if this were approved.

5 Q. So earnings would be greater by that amount  
6 than they would be without this amount?

7 A. That's right.

8 Q. In the last column on this page of your  
9 exhibit, you show a negative of approximately 8.6  
10 million dollars of cumulative present value after 2001;  
11 is that right?

12 A. Yes.

13 Q. And assuming after the year 2001 we had  
14 traditional rate base rate of return regulation, that  
15 negative 8.6 million dollars would be the  
16 responsibility of ratepayers; is that right?

17 A. Given all the assumptions that are implicit  
18 in this exhibit, which include market price assumptions  
19 and others, yes.

20 Q. The last question I had for you, Mr. Gaines,  
21 before we went on the record, I predistributed what's  
22 been marked for identification as Exhibit 117; do you  
23 have that?

24 JUDGE SCHAER: And I will officially mark for  
25 identification as Exhibit 117 at this point a document

00101

1 entitled at the top, Public Counsel Data Request No.  
2 PC-1, and that is in Docket No. UE-991409.

3 Q. Do you have that before you, Mr. Gaines?

4 A. Yes, I do.

5 Q. Do you recognize this as your response to  
6 Public Counsel's Data Request No. 1 in your Centralia  
7 application?

8 A. Yes.

9 MR. CEDARBAUM: Your Honor, I would offer  
10 Exhibit 117.

11 JUDGE SCHAER: Is there any objection? That  
12 document is admitted.

13 MR. CEDARBAUM: Those are all my questions.  
14 Thank you.

15 JUDGE SCHAER: Mr. Adams, did you have  
16 questions for Mr. Gaines?

17 MR. ADAMS: Yes, Your Honor.

18

19 CROSS-EXAMINATION

20 BY MR. ADAMS:

21 Q. Good morning, Mr. Gaines.

22 A. Good morning.

23 Q. I wanted to start off first just so I  
24 understand Exhibit 105, which was in your first filing,  
25 and then Exhibit 114, which is in your rebuttal



00102

1 testimony. Am I correct that Exhibit 114 is an update,  
2 basically, using the newest forecast, the newest Aurora  
3 Model of 105?

4 A. Yes.

5 Q. Could you tell me just so we understand when  
6 these were prepared, Exhibit 105. When was that  
7 document prepared?

8 A. I don't remember exactly. I think probably  
9 about roughly November of last year.

10 Q. Do you know what Aurora Model date was used  
11 in that?

12 A. I don't. It was an Aurora forecast that had  
13 been out and published for some time.

14 Q. Although I don't need an exact date, could  
15 you see if you could refine that a bit? Let me ask  
16 you, is that the same one you used in the Colstrip  
17 proceeding?

18 A. No, it's not. In the Centralia proceeding,  
19 we updated the forecast of market prices for about the  
20 first four or five years of the analytical period,  
21 given that market prices generally had risen during  
22 that period.

23 Q. So would I be correct that 105 was prepared  
24 with a run at some point subsequent to the Colstrip  
25 case?

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1 A. I believe what we did is we used a forecast  
2 that relied generally on the then existing Northwest  
3 Power Planning Council study but updated the first four  
4 or five years of that with some new market information.

5 Q. Turning then to Exhibit 114, when was that  
6 prepared and could you give us the Aurora Model that  
7 was used?

8 A. Exhibit 114 was prepared within the last few  
9 weeks, and my understanding is that it was based on a  
10 work product from the Power Planning Council staff that  
11 was dated the 29th of November.

12 CHAIRWOMAN SHOWALTER: Can you make sure you  
13 put in the year? You mean 1999?

14 THE WITNESS: Yes, November 29th of 1999.

15 Q. (By Mr. Adams) Could you refer to what has  
16 been premarked as Exhibit 120. Would you take a look  
17 at that for a moment, please?

18 A. Yes, I have it here.

19 Q. Are you familiar with this document?

20 A. Yes.

21 Q. This is not the total response but was a  
22 portion of the response to Public Counsel Request  
23 No. 16; is that correct?

24 A. Yes, that's right.

25 Q. Is this the November 29th, 1999 run of the

00104

1 Aurora Model that you referred to?

2 A. Yes.

3 Q. This is the information that you relied on to  
4 update Exhibit 114?

5 A. Well, it's a summary of some telephone  
6 conversations and e-mails that were exchanged between  
7 the Company and the Power Planning Council staff.

8 Q. Look at the last page, if you would, of that  
9 document, and that has the numerical analysis of the  
10 model?

11 JUDGE SCHAER: Is that correct, Mr. Gaines?

12 THE WITNESS: I believe it is, subject to  
13 check. I would have to reconcile it with the analysis  
14 that we have done, but I believe it is.

15 Q. (By Mr. Adams) We're assuming, and correct  
16 me if I'm wrong, that you would have used the line  
17 that's entitled, Western Oregon and Washington, the  
18 numbers that refer to that line.

19 A. That's right.

20 Q. Looking at the e-mails back and forth between  
21 your company and the Planning Council, I gather that  
22 you became aware of this model at least at some point  
23 after the 10th of December; is that correct?

24 A. Apparently.

25 Q. This is true and correct, to the best of your

00105

1 knowledge, this exhibit?

2 A. Yes.

3 MR. ADAMS: I move the admittance of Exhibit  
4 120.

5 JUDGE SCHAER: Exhibit 120 is headed at the  
6 top, Public Counsel Data Request No. PC-16. Is that  
7 the document you are referring to, Mr. Gaines?

8 THE WITNESS: Yes, it is.

9 JUDGE SCHAER: Is there any objection to its  
10 admission?

11 MR. HARRIS: We have no objection, Your  
12 Honor, subject to our ability to review the entire  
13 response and, at our option, offer the entire response  
14 in place of this exhibit, if we believe that's  
15 appropriate.

16 JUDGE SCHAER: Any objection to that,  
17 Mr. Adams?

18 MR. ADAMS: No, Your Honor. It simply has  
19 the full e-mail text of a series of e-mails back and  
20 forth, but I have no objection.

21 JUDGE SCHAER: It will be admitted on that  
22 basis, Mr. Harris.

23 MR. HARRIS: Thank you.

24 Q. (By Mr. Adams) Now I'd like to ask some  
25 questions specifically about Exhibit 114, if you would

00106

1 turn to that, and specifically looking at Page 2 of  
2 that exhibit, am I correct that Page 2 is your  
3 representation of the effect of the sale of Centralia  
4 on PSE's total cost of power under the assumption that  
5 the plant is sold and the power replaced at the  
6 Northwest Power Planning Council's forecast of future  
7 market prices using the November 29th Aurora model?

8 A. It's an analysis of the effect on the Company  
9 and its shareholder of selling Centralia, which is  
10 reflective of a number of assumptions that underlie the  
11 analysis, and the market price forecast, of course, is  
12 an important one.

13 Q. This is for the years 2000 through 2018;  
14 correct?

15 A. That's the study period we used, yes.

16 Q. Looking at the first column, this is the  
17 price from the Aurora Model multiplied by the Centralia  
18 power that would be replaced if Centralia were sold;  
19 correct?

20 A. Generally, yes. There are some other pieces  
21 of the analysis that have to do with transmission and  
22 so forth, but generally.

23 Q. Am I correct that the base figures from the  
24 Aurora forecast that you use here are identical between  
25 your exhibit and the revised Exhibit 501 from

00107

1 Mr. Lazar?

2 A. I would have to look at Mr. Lazar's exhibit  
3 and try to reconcile it to this. I'm not prepared at  
4 this moment to do a detailed discussion of the input  
5 discussion.

6 Q. So you have not looked at that to make that  
7 comparison?

8 A. Right.

9 Q. The second column on Page 2 is the estimated  
10 cost of owning and operating Centralia including the  
11 cost of the scrubbers and the net of the sale of excess  
12 sulfur dioxide credits; is that correct?

13 A. Yes.

14 Q. Am I correct that for any year in which the  
15 first column is higher than the second column,  
16 Centralia is cheaper than the market?

17 A. Given the assumptions about market, yes.

18 Q. Looking again at Columns 1 and 2, am I  
19 correct that Colstrip is cheaper than the market for  
20 every year from 2004 to the end of the analysis?

21 JUDGE SCHAER: Did you mean to say Centralia?

22 MR. ADAMS: Yes, I did.

23 JUDGE SCHAER: Go ahead and answer the  
24 question.

25 THE WITNESS: I have a fairly poor copy of

00108

1 the exhibit, but that appears to be the case.

2 JUDGE SCHAER: I have a nice clear copy so I  
3 assume you have some. Would you provide one to the  
4 witness, please?

5 THE WITNESS: I think I'm all right.

6 JUDGE SCHAER: Can you answer that question  
7 yes or no instead of having to express concerns about  
8 your copy, Mr. Gaines?

9 THE WITNESS: Yes.

10 Q. (By Mr. Adams) Do you need a cleaner copy or  
11 are you all right?

12 A. I think I'm all right for the moment.

13 Q. I'm not going to ask questions for the most  
14 part that rely on specific numbers off the page.

15 As shown in your supporting pages to this  
16 exhibit, am I correct that you've increased the Aurora  
17 forecast by five percent to reflect the dispatch value  
18 of the plant?

19 A. Yes.

20 Q. In effect, you've added about 1.3 mills per  
21 kilowatt hour of dispatch or five percent of 26 mills;  
22 is that correct?

23 A. Roughly, yes.

24 Q. And that compares with the 1.7 mills added by  
25 Mr. Lazar; is that correct?

00109

1 A. I understand from Mr. Lazar's testimony that  
2 that's what he did, yes.

3 Q. Am I correct that under both of your  
4 scenarios that you then escalate those arising power  
5 costs?

6 A. It's not so much an escalation as a  
7 reflection of the forecast price line that came from  
8 the Power Planning Council.

9 Q. In other words, it becomes five percent of a  
10 larger number over time?

11 A. Yes.

12 Q. In your analysis in the last column, am I  
13 correct that it shows accumulatively on a present value  
14 basis, Centralia is cheaper than market?

15 A. Are we back on Page 2 now?

16 Q. Yes. Basically, the far right-hand column  
17 and the very bottom of that right-hand column.

18 A. Given this particular scenario of market  
19 price and other assumptions, which is one of a range  
20 that has been presented by the Company, that's what  
21 this particular analysis shows over this time period.

22 Q. Under this set of assumptions, it shows that  
23 Centralia is cheaper than market even if the rate  
24 payers get the benefit of three years of amortization;  
25 is that correct?



00110

1 A. Given all the assumptions of this scenario,  
2 which is one of many, yes.

3 Q. Could you turn to the third page of Exhibit  
4 114? Am I correct this shows the effect of using the  
5 gain on sale in all of the five years of the  
6 amortization period for the benefit of ratepayers?

7 JUDGE SCHAER: Mr. Adams, since this page  
8 isn't numbered, would you please give some further  
9 identification, perhaps the witness give some further  
10 identification?

11 MR. ADAMS: If you refer to this page at the  
12 bottom right-hand corner, there is not a label on it  
13 that's distinctive, but the bottom right-hand corner  
14 shows a total figure of a minus 1.875 million dollars.

15 THE WITNESS: Yes, I see that number.

16 Q. (By Mr. Adams) Do you want me to repeat the  
17 question?

18 A. Please.

19 Q. Am I correct that that number reflects the  
20 fact of using the total gain on sale in all five years  
21 of the amortization period for the benefit of  
22 ratepayers?

23 A. This is not intended to be indicative of  
24 benefits to the Company or benefits to ratepayers.  
25 It's just a sum of the column of numbers.

00111

1 Q. I understand that. Under the assumptions  
2 that have been made on this run, does it not show a  
3 negative value to ratepayers?

4 A. Given these assumptions and not considering  
5 the qualitative factors that are associated with them,  
6 yes.

7 Q. And the assumption on this page is that all  
8 the benefits over all five years go to ratepayers; is  
9 that not the assumption?

10 A. You could infer that, but that's not the  
11 intent of this presentation.

12 Q. Is this basically a characterization of the  
13 Staff and ICNU recommendations? Is that basically  
14 their scenario?

15 A. I have no idea.

16 Q. Is it not their position that the 100 percent  
17 of the gain should go to ratepayers?

18 A. I understand that it is, yes.

19 Q. Is that not what is reflected on this page?

20 A. This is just one scenario of many that the  
21 Company prepared. It wasn't prepared because the  
22 Company thinks that the position of the Staff and  
23 Public Counsel is correct.

24 Q. That's understood in these questions,  
25 Mr. Gaines. I'm asking, is not the assumption on this

00112

1 page that the gain on sale is attributed to ratepayers  
2 the full gain on sale?

3 JUDGE SCHAER: Mr. Gaines, what does the  
4 right-hand column of this page show, please?

5 THE WITNESS: It shows the net benefits  
6 year-by-year of a sale of Centralia compared to a  
7 particular market scenario laid out by the Power  
8 Planning Council.

9 JUDGE SCHAER: What treatment of gain does it  
10 show at the top of the column?

11 THE WITNESS: It shows that's amortized over  
12 a five-year period.

13 JUDGE SCHAER: Looking at the top of the  
14 right-hand column where it says, PV Centralia plus gain  
15 minus market; what does that mean?

16 THE WITNESS: It means that the right-most  
17 column that we are focusing on includes the effect of  
18 both power cost savings and gain amortization.

19 JUDGE SCHAER: Thank you.

20 Q. (By Mr. Adams) Am I correct, Mr. Gaines,  
21 that this is the only run that assumes the 11/29/99  
22 forecast?

23 A. I believe that it's the only scenario that we  
24 altered using the 11/29/99 forecast.

25 Q. Staying with the same page, looking at the

00113

1 last few years of this analysis, in comparing the  
2 second and third columns from 2013 to 2017, there is  
3 about a five-million-dollar per year advantage of  
4 Centralia over the market; is that correct?

5 A. Given these assumptions.

6 Q. Is that a yes?

7 A. Yes, given these assumptions.

8 Q. In the last year, do you see that it drops to  
9 two million dollars?

10 A. I have a number that's one million 465.

11 Q. That's fine. If you turn to Page 4 of  
12 Exhibit 114 in the detail, you will see on Line 39 that  
13 you have put 5.64 million dollars of plant closure  
14 costs into the last year; is that correct?

15 A. I'm sorry. I missed the number.

16 Q. 5.64 million dollars.

17 A. Yes.

18 Q. Am I correct that most of the numbers in the  
19 last few years examining plant costs in your analysis  
20 on Page 4 of Exhibit 114 just extrapolate out over the  
21 last few years?

22 A. I don't know that that's the case.

23 Q. Am I correct that the Aurora Model is only  
24 run through 2018?

25 A. I believe that's right.

00114

1 Q. Is the reason that you chose a 19-year  
2 analysis because the Aurora Model, which Puget uses,  
3 does not provide results beyond 2019?

4 A. That was a portion of it, but the other part  
5 was the understood life of the plant, which is  
6 generally thought to be about 40 years.

7 Q. So it was a combination of the two?

8 A. Uh-huh. They seem to converge fairly well.

9 Q. And you are aware that both Pacific and Water  
10 Power used higher numbers, 24 years for Pacific and 21  
11 years for Water Power?

12 A. Generally, I'm aware they used some  
13 different periods, yes.

14 Q. If the plant life were extended to 2025  
15 without major capital costs, as was assumed when the  
16 legislative package was presented by the Centralia  
17 partners to the legislature, there would be basically  
18 seven more years of benefits to Puget ratepayers; is  
19 that right?

20 A. Given that assumption, upon which I might not  
21 agree, yes.

22 JUDGE SCHAER: Excuse me. You don't agree  
23 that's what the legislature was told, or you don't  
24 agree that's appropriate?

25 THE WITNESS: I'm not sure I would agree you

00115

1 could extend the life that long without capital  
2 additions.

3 JUDGE SCHAER: But is that what the  
4 legislature was shown or not, Mr. Gaines?

5 THE WITNESS: I understand that it is.

6 Q. (By Mr. Adams) Under that assumption, the  
7 additional seven years, that would make the negative  
8 impact on ratepayers even greater, would it not,  
9 assuming everything else to be equal?

10 A. It depends on how you extrapolate all the  
11 other assumptions over that seven-year period.

12 Q. In preparing your Exhibit 114, am I correct  
13 that you used the same 7.69 discount rate that you  
14 proposed in the Colstrip proceeding?

15 A. Well, that is one scenario we ran, yes.

16 Q. Is that not the scenario that is assumed on  
17 Pages 2 and 3?

18 A. It is. There seems to be a desire to focus  
19 on this scenario, but yes, it is.

20 Q. It's stated right at the top, is it not,  
21 discount rate, 7.69 percent?

22 A. Yes.

23 Q. In the Colstrip proceeding, the Commission  
24 actually adopted a 7.16 discount rate, did it not, and  
25 I refer you to Pages 13 and 14 of the Third

00116

1 Supplemental Order, if you need that.

2 A. I don't think I recall right offhand what  
3 happened there.

4 Q. You were a witness in that proceeding, were  
5 you not?

6 A. Yes.

7 Q. Did you ever review the order in that  
8 proceeding?

9 A. Yes.

10 JUDGE SCHAER: Is that something the witness  
11 could accept subject to check, Mr. Adams?

12 THE WITNESS: I could.

13 Q. (By Mr. Adams) I would hope so, and I would  
14 be happy to show you the document, Mr. Gaines. The  
15 7.16 percent discount rate used in that docket was  
16 based on Puget's approved return on equity, Puget's  
17 updated actual cost of debt, and Puget's updated actual  
18 capital structure at that point in time; do you recall  
19 that?

20 A. No, I don't. I don't recall focusing very  
21 much on that aspect of it, so if there is a long line  
22 of questions along that, I'm going to need to take a  
23 break and review that, I think.

24 Q. I would just ask you to accept that  
25 particular question subject to check and give us that

00117

1 answer, and then that's the end of that line of  
2 questions?

3 A. I'll accept it subject to check, yes.

4 Q. Making that change to the runs that you show  
5 here on Pages 2 and 3; that is, going to the lower  
6 discount rate, the 7.16 percent, if you used that as an  
7 assumption, would that make the 8.565 million negative  
8 number larger?

9 A. I'm sorry. I'm going to have to get  
10 reoriented to find the 8.565.

11 Q. I'm sorry. Go to Page 2, lower bottom right  
12 of that page it shows 8.565 million dollars under  
13 "cumulative"; do you see that?

14 A. Yes, I have it now.

15 Q. Looking at Page 2, if you will look at the  
16 upper left-hand corner, it says, discount rate 7.69  
17 percent; that was your assumption; correct?

18 A. Yes.

19 Q. If you substituted for your 7.69 percent the  
20 number 7.16 percent, which comes from the Colstrip  
21 order, would that not make the 8.565 million dollar  
22 number in the lower right-hand corner higher?

23 A. I believe it would make it more negative.

24 JUDGE SCHAER: That actually would be lower.

25 THE WITNESS: Actually would be lower.



00118

1 CHAIRWOMAN SHOWALTER: : It's a bigger  
2 negative.

3 MR. ADAMS: I'm sorry. I guess I looked at  
4 it from a direction.

5 Q. (By Mr. Adams) Would you accept the words  
6 worse for ratepayers?

7 A. No.

8 Q. Mr. Gaines, focusing on your Exhibit 114 and  
9 Mr. Lazar's revised 501, to the best of your knowledge,  
10 I just want to ask these general questions. If you  
11 can't answer them, let me know.

12 JUDGE SCHAER: Do you have that exhibit  
13 available to you, Mr. Gaines?

14 THE WITNESS: I'll have to dig for it.

15 JUDGE SCHAER: Could you hand him a copy of  
16 that exhibit, Mr. Adams?

17 MR. ADAMS: (Complies.)

18 Q. (By Mr. Adams) I should alert you I'm going  
19 to ask you about assumptions, not about detail  
20 comparison.

21 A. I appreciate that. It will help me to get  
22 oriented if I can understand what revision of 501 this  
23 is. There has been a series of them, as I understand  
24 it.

25 Q. There has been only one revision, and that's

00119

1 the one in front of you.

2 A. This is the one we received in the last  
3 couple of days?

4 Q. That's correct; probably received it on  
5 Monday. I'm simply trying to get to a bottom line of  
6 what are the differences, and what are the different  
7 assumptions.

8 Am I correct, or would you accept subject to  
9 check if this is necessary, that you have used the  
10 11/29/99 Aurora Model results in your analysis of 114  
11 and that Mr. Lazar has also used that run in his  
12 revised 501?

13 A. I'll accept that we did, but I just haven't  
14 had any time too review this exhibit. We received it,  
15 I think, yesterday or the day before, and I just don't  
16 have much knowledge of what's in here.

17 Q. Let's me ask you a second question, which  
18 we've already covered. You've added five percent to  
19 the Aurora figures for dispatch; is that correct?

20 A. Yes.

21 Q. And you accepted that Mr. Lazar had added  
22 1.71 mills per kilowatt hour for dispatch.

23 A. At least in the first year. I'm not sure  
24 what he did beyond that.

25 Q. You used a 19-year analysis; correct?

00120

1 A. Yes.

2 Q. And Mr. Lazar used a 26-year analysis?

3 A. I don't know.

4 Q. Am I correct that you have not added any  
5 price for transmission voltage support?

6 A. Could you rephrase that, please? I'm not  
7 sure what you mean.

8 Q. Have you included in your analysis any amount  
9 for transmission voltage support capacity, anything  
10 different than what's already in Aurora?

11 A. No, I don't think we have. I guess I  
12 generally understand that Mr. Lazar has, but how that  
13 kind of a price actually would get transferred in the  
14 market, I have no idea. It's kind of a bizarre  
15 assumption, in my mind.

16 Q. The question was, you have not used such a  
17 number; is that correct?

18 A. I don't think we have, no.

19 Q. I'm changing gears, and I want to make  
20 reference to a couple of questions here from your  
21 recently filed least-cost plan; are you familiar with  
22 that document?

23 A. Generally, yes.

24 Q. If I might get that exhibit of Mr. Lazar's  
25 back, unless you wanted it.

00121

1 A. Sure.

2 Q. Mr. Gaines, am I correct that Puget was  
3 ordered in the Colstrip proceeding to file a least-cost  
4 plan by the end of 1999?

5 A. I think Puget had indicated for some time it  
6 was planning to file an LCP by the end of the year, and  
7 that was reiterated in the Colstrip proceeding, yes.

8 Q. Am I correct that it was, in fact, filed just  
9 before the end of the year?

10 A. Yes.

11 Q. We just received a copy, but I wanted to ask  
12 you some general questions about it. First off, am I  
13 correct that there was some discussion, and I point you  
14 specifically to Pages 122 and 123 in which you discuss  
15 the Aurora Model, and specifically, you point out that  
16 it's used both regionally and nationally, and it's used  
17 both by the Council and BPA?

18 A. Could you point me to where it says that?

19 Q. Just give me a moment. If you will look at  
20 Page 122, the second full paragraph, "Aurora is a  
21 nationally recognized energy market model used both in  
22 the region and nationally"; do you see that language?

23 A. Yes, I do.

24 Q. It goes on to say Aurora is used by both BPA  
25 and the Council?

00122

1 A. Yes.

2 Q. Let me just read a paragraph to you. "The  
3 use of Aurora by these other Northwest entities is  
4 important since it has provided for intensive review of  
5 the methodology and data used in Aurora for energy  
6 market analysis within the region. This regional  
7 review is especially important to the Northwest because  
8 of its reliance on hydropower from the Columbia River  
9 system for energy. Due to this review, as well as the  
10 expertise of the model's developers in power planning  
11 within the Northwest, PSE has added confidence in the  
12 model structure and methodology"; do you see that?

13 A. Yes. I think it's saying that Puget has  
14 confidence in the model. Like any model, the results  
15 of it are highly dependent upon the input assumptions.

16 Q. But in general, for the purposes of your  
17 least-cost plan, you've endorsed the use of the Aurora  
18 Model.

19 A. That's why we've chosen it because we are  
20 comfortable with the structure and logic of it.

21 Q. That is what you have used as an input in  
22 your Exhibit 114 as well as was shown in the Public  
23 Counsel 120; correct?

24 A. It's not so much what we've used as an input;  
25 it's what we've used as a tool, and really all the

00123

1 model does is convert input assumptions to results, so  
2 it is very sensitive to the input assumptions.

3 Q. But it was the Aurora Model that you employed  
4 to do this; is that correct?

5 A. Yes.

6 Q. In this least-cost plan, the companies assume  
7 that it would keep the Colstrip Plant but sell  
8 Centralia; correct?

9 A. I believe that's the assumption that's in  
10 here, yes.

11 Q. Could you refer to what has been marked as  
12 Exhibit 121. It's the second of the documents, and on  
13 the front page it shows, Response to Record Requisition  
14 No. 1; do you see that?

15 JUDGE SCHAER: Marked for identification as  
16 Exhibit 121 is a document which shows the heading of,  
17 In the matter of Puget Sound Energy, Inc., in Docket No.  
18 UE-990267, and it's entitled Response to Record  
19 Requisition No. 1, John H. Storey.

20 Q. Mr. Gaines. You will notice in the upper  
21 right-hand corner of the cover page, it says Exhibit  
22 No. 20 so it was an exhibit in the Colstrip proceeding;  
23 do you see that?

24 A. Yes.

25 Q. Turning to the attached page, to the lower

00124

1 right-hand side under, PV of difference, do you see the  
2 bottom line number of 3.648 million dollars, third  
3 column from the right?

4 A. Yes, I do.

5 Q. That's a comparable number, is it not, in  
6 terms of methodology to what you've shown in your  
7 Exhibit 114, Page 2, of a negative 1.875 million  
8 dollars number under, PV of difference?

9 A. I will accept that it is subject to check and  
10 subject to the fact that I have not reviewed this  
11 exhibit for the Colstrip proceeding, and therefore  
12 don't think I know all the assumptions that are buried  
13 in it.

14 Q. PSE in the Colstrip proceeding took the  
15 position that this 3.648 million dollar number was a  
16 benefit to the ratepayers for the sale of the plant; is  
17 that correct?

18 A. Puget took a much broader view of the  
19 analyses that it presented in the Colstrip case. There  
20 has been a great desire in that case and this one to  
21 focus on one of several scenarios, and that's not the  
22 analysis that Puget did in reaching its decision to  
23 sell either of these plants.

24 Q. Let me restate also, the 3.648 million dollar  
25 number is a benefit overall; is that not correct? If

00125

1 you look to the two numbers to the right of that, you  
2 will see there is a positive number and a negative  
3 number for shareholders.

4 A. Yes, I see that, and the 3.648 is the net of  
5 those two numbers.

6 Q. That's correct. And you show that same type  
7 of analysis on Page 2 at the bottom of Exhibit 114; do  
8 you not?

9 A. General, yes.

10 Q. It is correct that Puget has determined that  
11 it will not sell Colstrip as shown in this least-cost  
12 plan?

13 A. Puget has determined it can not sell the  
14 plant on the terms of the order that was issued in that  
15 proceeding.

16 Q. So if the terms were changed, the Company's  
17 position in its least-cost plan would change?

18 A. The least-cost plan is nothing more than a  
19 snapshot in time, a reflection of an ongoing process of  
20 analysis, and at the time this LCP was done, that was  
21 the operating assumption inside the Company.

22 Q. How many megawatts of output does Colstrip  
23 have as far as the company share?

24 A. Approximately six to seven hundred.

25 Q. How many megawatts of output is a share of



00126

1 Centralia to PSE?

2 A. Approximately 100.

3 Q. If the ratepayers get all of the gain in the  
4 sale of the Centralia plant, will Puget revise its  
5 least-cost plan to keep Centralia as well?

6 A. Probably not.

7 Q. Has the Company made that decision?

8 A. The Company doesn't have any plans currently  
9 to revise the least-cost plan until it's next required  
10 by the schedule.

11 Q. Let me rephrase the question then and not  
12 refer to the least-cost plan. If the ratepayers get  
13 all of the gain from the Centralia sale, would Puget  
14 proceed to sell the Centralia plant, assuming the  
15 authority to sell the plants is given by this  
16 Commission?

17 A. I think we've essentially responded to that  
18 question already in one of the data requests that was  
19 asked, and essentially, the response is that this is a  
20 decision that would be made by the Company's board, and  
21 it's not going to be possible for me sitting here today  
22 to guess what the board might do, but I'm sure they  
23 will value it in light of all the fine detail of what  
24 ever order is issued. All we know is that in the  
25 Colstrip proceeding, the board elected not to continue

00127

1 with the sale on those terms.

2 Q. You are saying the board has not made a  
3 determination on Centralia at this point?

4 A. It has not and really cannot.

5 Q. I want to refer you to your T-101 exhibit,  
6 Page 7, Line 11?

7 JUDGE SCHAER: Mr. Adams, I'm looking for a  
8 good place for a morning break. Would this perhaps be  
9 it?

10 MR. ADAMS: That would be fine.

11 JUDGE SCHAER: We will go ahead and continue  
12 until 11:00 and take our break then to accommodate  
13 other schedules, so please proceed.

14 Q. (By Mr. Adams) Mr. Gaines, do you find the  
15 reference, and I'll read it to you: PSE, along with  
16 the other owners and New Harbor, evaluated and compared  
17 the bids and determined that it would pursue a  
18 definitive sales agreement with TransAlta. Do you see  
19 that reference?

20 A. Yes, I think I found that.

21 Q. Would you please refer to what has been  
22 identified as Exhibit 122, the last of the three  
23 exhibits I handed you?

24 JUDGE SCHAER: Again, those were marked  
25 informally before we went on the record, but let me

00128

1 mark that at this time for identification as a  
2 multipage document headed at the top, Public Counsel  
3 Data Request No. PC-19.

4 Q. Do you have that exhibit in front of you?

5 A. Yes, I have.

6 Q. Would you note that it basically is a packet  
7 of three Public Counsel responses to 19, 20, and 21?

8 A. Yes.

9 Q. Without reading into the record what's  
10 already there in terms of the document itself,  
11 basically these ask for any documentation, studies,  
12 analysis of the various bids that have been received by  
13 the companies as far as the sale of Centralia was  
14 concerned; is that correct?

15 A. Yes.

16 Q. Looking at the very bottom of the first page  
17 where it says, No written evaluation of the bids was  
18 made by the Centralia owners, this is basically the  
19 same response that you have given for all three  
20 requests; is that correct?

21 A. Yes.

22 JUDGE SCHAER: Where are you referring to  
23 there, Mr. Adams?

24 MR. ADAMS: The face page at the very bottom  
25 of the last paragraph, it starts, No written evaluation

00129

1 of the bids was made by the Centralia owners....

2 JUDGE SCHAER: Thank you.

3 Q. (By Mr. Adams) There is a reference there to  
4 an owner's meeting held in Seattle. Could you give us  
5 the date of that meeting?

6 A. No, I can't.

7 Q. Did you attend it?

8 A. No.

9 Q. Did any of the Puget witnesses -- I guess  
10 that's only Mr. Karzmar and yourself -- attend that  
11 meeting?

12 A. No.

13 Q. Is the response, as far as you know, true and  
14 correct?

15 A. Yes.

16 Q. Do you know what was specifically presented  
17 to Puget and the other owners at this meeting?

18 A. Not specifically. I saw some summary  
19 information at the time.

20 Q. What has happened to that summary  
21 information?

22 A. We no longer have it. Most of this was being  
23 held by the investment banker, New Harbor.

24 Q. Was that decision reviewed by the board of  
25 directors of Puget?

00130

1       A.       We made a recommendation to the board that it  
2 proceed with the sale to TransAlta, and they approved  
3 that recommendation subject to a review of the file  
4 regulatory order.

5       Q.       And again, no written documentation was  
6 presented to the board of directors?

7       A.       I'd have to go back and view the minutes of  
8 the board meetings. I don't remember exactly what was  
9 presented.

10      Q.       Are you suggesting that you did not do this  
11 in terms of preparation of the Public Counsel request  
12 for information?

13      A.       Did not do what?

14      Q.       Review any of the written documentation on  
15 the evaluation of the potential sale?

16      A.       I don't personally have any written  
17 documentation of it. This auction was run primarily by  
18 PacifiCorp and its investment banker, New Harbor, so  
19 Puget had an employee who was a representative on the  
20 auction committee, so that's the group that met in  
21 Seattle to review the bids and decide to proceed.

22      Q.       Who was that employee?

23      A.       Ralph Olson.

24      Q.       Is he here today?

25      A.       No.

00131

1 Q. How long did the meeting last?

2 A. I wasn't there; I don't know.

3 Q. Is it a fair assumption that the preliminary  
4 bids were not reviewed at this meeting, or do you have  
5 any way of knowing?

6 A. No. I assume that they were reviewed.

7 Q. I said the preliminary bids, the first  
8 response before they were winnowed down to the  
9 finalists.

10 A. I don't know exactly which bids were  
11 reviewed. I think it's the entire list.

12 Q. Are you familiar with the solicitation  
13 process and the stages that it went through?

14 A. Generally, yes.

15 Q. Were there not initial requests received from  
16 a number of parties?

17 A. Yes. It was a two-stage process.

18 Q. And then after review of that first set, it  
19 was selected down to a select few who were asked to  
20 respond?

21 A. After a period of time, yes.

22 Q. Are you suggesting at this meeting that all  
23 of those bids, even the initial offerings, were  
24 reviewed?

25 A. No.

00132

1 Q. Do you know if any other bid other than the  
2 TransAlta bid was reviewed?

3 A. I'm sure it was reviewed.

4 Q. Are you aware of why the higher bid than  
5 TransAlta was rejected?

6 A. Because, as I understand it, there was a bid  
7 that did not conform to the requirements of the  
8 solicitation.

9 Q. Are you suggesting that TransAlta's bid was a  
10 quote, "conforming bid"?

11 A. It was the highest bid that conformed, yes.

12 Q. Do you know? Have you seen the documents?

13 A. I haven't seen them in quite sometime, so  
14 it's probably not going to be fruitful to pursue this  
15 too far because I really haven't. We looked at the  
16 documents at the time.

17 Q. And the documents at the time were what  
18 documents?

19 A. It was a couple of pages that were provided  
20 by the investment banker.

21 Q. And those pages have since been destroyed or  
22 whatever?

23 A. Or given back.

24 MR. ADAMS: Your Honor, I move for the  
25 admission of Exhibit 122.

00133

1 JUDGE SCHAER: Any objection?

2 MR. HARRIS: No. We wouldn't object to 121  
3 also, which I don't believe was offered.

4 MR. ADAMS: Thank you, counsel.

5 JUDGE SCHAER: Both documents are admitted.

6 Q. (By Mr. Adams) Mr. Gaines, do you know  
7 whether there is discussion of the bids in the minutes  
8 of Puget's board of directors?

9 A. I would have to go back and review them.

10 MR. ADAMS: I would like to make a record  
11 requisition that they supply the minutes of the board  
12 of directors reviewing the bids if they exist and any  
13 presentation of the board, in other words, any  
14 documentation. It was certainly our impression that  
15 data requests covered that. It sounds like there may  
16 be something that was not responded to. I don't know  
17 whether it exists and would like to make such a  
18 requisition.

19 JUDGE SCHAER: I think it is appropriate to  
20 make record requisitions in this proceeding. Because  
21 of the accelerated nature of this proceeding, it's my  
22 understanding the parties will have the transcripts  
23 available by next week Friday, and I would expect to  
24 have responses to record requisitions no later than  
25 Wednesday the following week. Mr. Adams, you can look



00134

1 up that date for me at the break, but I am concerned,  
2 Mr. Harris, that looking at these three requests, which  
3 ask for anything provided to PSE, prepared by or for  
4 PSE or any of the other owners or provided to or from  
5 PSE to Centralia owners that if there are materials  
6 that weren't provided, I would like to know which of  
7 those categories they think they don't fall into, and  
8 if there are documents that weren't provided, I would  
9 like to know why they weren't provided if Mr. Olson or  
10 the board had documents.

11 MR. HARRIS: I can only say at this time that  
12 I know Mr. Olson had these requests and made a thorough  
13 review of the PSE documentation, and we will rereview  
14 the documentation and anything that was not produced  
15 that should have been produced will be produced, but  
16 it's my understanding that the review was thorough and  
17 the responses are complete.

18 JUDGE SCHAER: So you would be checking the  
19 board minutes and any materials backing up board  
20 presentations again when you do this, or have those  
21 already been checked once, or what was the nature of  
22 the review?

23 MR. HARRIS: I believe all of those materials  
24 were checked, and we will check again and see if there  
25 is anything else at all that is responsive.

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1 JUDGE SCHAER: At a minimum, I would like the  
2 dates of a meeting referenced by Mr. Gaines.

3 MR. HARRIS: Which meeting, Your Honor?

4 JUDGE SCHAER: There was a meeting referenced  
5 by Mr. Gaines that is mentioned in PC-19. There was a  
6 board meeting mentioned. I would like the dates of any  
7 meetings held in the Company. I would like you to  
8 check who attended those meetings and see if there are  
9 any notes of those meetings, because if we have this  
10 decision being made with absolutely no documentation,  
11 the Commission needs to know that, and if we have  
12 documentation that has not been provided, we need to  
13 have it provided. Any questions?

14 MR. HARRIS: I don't have any further  
15 questions.

16 JUDGE SCHAER: Go ahead, Mr. Adams.

17 THE WITNESS: Would it be helpful if I  
18 provided my recollection of what happened here?

19 JUDGE SCHAER: Mr. Gaines, I don't think it  
20 would be at this point. If that needs to be part of  
21 the record requisition response, you can do that, and  
22 I'm going to make that record requisition also a Bench  
23 request and give it a number now because I believe the  
24 Commission would like to see it.

25 MR. ADAMS: Your Honor, I guess mechanically

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1 if you make it a Bench request, then it will come to  
2 all the parties, and that's fine. I am concerned that  
3 the request as it started out -- you may have modified  
4 it -- was for documentation, not a speech on why what  
5 was done was done. If you are asking for that, that's  
6 obviously your prerogative, but I'm concerned that not  
7 seeing the results what kind of self-serving responses  
8 we may get to my request.

9 JUDGE SCHAER: All I have asked for is, in  
10 addition to documents, the dates of any meetings. Did  
11 you have a question?

12 CHAIRWOMAN SHOWALTER: : I was just trying to  
13 follow the discussion because it seems the request was  
14 for written reports provided to PSE by New Harbor  
15 or other consultants.

16 JUDGE SCHAER: There are three requests that  
17 make up the exhibit, and my quick reading of those,  
18 they appear to be pretty complete.

19 MR. ADAMS: The intent was to ask the  
20 question about the same way from three different  
21 directions or so, so we've trying to cover any analysis  
22 done by others, by the Company, by whoever.

23 MR. HARRIS: One lass comment, Your Honor.  
24 It's my understanding that the board minutes, all of  
25 the board minutes were already provided to the

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1 Commission when the Commission was served with the  
2 FERC 203 filing, but we'll provide them again, and I  
3 don't know if they have anything relevant to this in  
4 any event.

5 JUDGE SCHAER: I would only want that  
6 provided if there is something relevant to this; that I  
7 would like anything written down and dates of meetings;  
8 anything within the scope of these requests, and if  
9 there is something you have that you don't think is  
10 governed by these requests because you think there is a  
11 narrow gap, go ahead and tell me about those too, and  
12 we would like that provided as Bench Request No. 10.

13 MR. ADAMS: That's fine. I just want to  
14 alert the Bench and the parties that we have similar  
15 responses from every single one of the companies, so we  
16 are going to ask the same request of every one of the  
17 companies. I don't know at this point if you want to  
18 make that Bench request to all of the companies, but  
19 every single company said there are no studies and we  
20 met in Seattle, so I'm going to ask for that. I just  
21 bring that up now. We could go through it each time  
22 with each company --

23 JUDGE SCHAER: I'd like to do that,  
24 Mr. Adams, especially since PacifiCorp is not here  
25 today, and we did make commitments to them that we

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1 would accommodate their schedule and the fact that they  
2 could not be here today.

3 MR. ADAMS: Fine.

4 MR. CEDARBAUM: Did you have a specific  
5 exhibit number then for that?

6 JUDGE SCHAER: The next exhibit number in  
7 order would be Exhibit 123, so Bench Request No. 10  
8 will be given Exhibit 123, and I will admit that now.  
9 We do have a procedure in the procedural rules for  
10 making objections to items that are admitted if parties  
11 believe that they are improperly admitted, and I would  
12 refer everyone here to that procedure.

13 MR. ADAMS: Thank you, Your Honor. That's  
14 all the questions we had.

15 JUDGE SCHAER: Mr. Van Cleve, did you have  
16 questions of Mr. Gaines?

17 MR. VAN CLEVE: Yes, Your Honor. Thank you.

18

19 CROSS-EXAMINATION

20 BY MR. VAN CLEVE:

21 Q. Mr. Gaines, did you sponsor any testimony in  
22 the merger proceeding of your company?

23 A. No, I did not.

24 Q. You weren't a witness in any way?

25 A. No.

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1 Q. Did the merging companies have a steering  
2 committee that was put together to implement the  
3 merger?

4 A. Yes.

5 Q. Were you on that steering committee?

6 A. No.

7 Q. Were you involved in any of the negotiations  
8 with the Staff on the terms of the rate plan?

9 A. No.

10 Q. Are you aware that in the Commission's order  
11 regarding PSE's proposal to sell the Colstrip Plant  
12 that the Commission concluded that the merger order did  
13 not grant PSE permission to sell used and useful  
14 generation assets as a power cost savings?

15 A. Could you rephrase that, please? I'm sorry.

16 Q. Let me, just so I'm accurate, read the  
17 language in that order that I'm referring to. This is  
18 on Page 18 of that order. It says, "The Commission in  
19 its order approving the merger did not grant PSE  
20 permission to sell used and useful generation assets as  
21 a power cost savings."

22 A. I'll accept that's what it says.

23 Q. Do you believe that that conclusion is  
24 incorrect?

25 A. We believe that the proposals that we've made

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1 in connection with the sales of both Colstrip and  
2 Centralia are consistent with the merger order.

3 Q. My question was whether you believe that the  
4 Commission's conclusion that I read to you was  
5 incorrect.

6 A. Yes.

7 Q. Are you familiar with the term "power stretch  
8 goals"?

9 A. Yes.

10 Q. Is it your position that the gain from the  
11 sale of Centralia is included in the term "power  
12 stretch goals" as it was used in the stipulation in the  
13 merger order?

14 A. Yes.

15 Q. Do you know who the Company's witness was in  
16 the merger proceeding on the rate plan?

17 A. We had an awful lot of witnesses. The broad  
18 policy witness on regulatory matters was Mr. Davis.

19 Q. Was Mr. Torgerson a witness on the rate plan  
20 in the merger proceeding?

21 A. I believe he provided some testimony on it,  
22 yes.

23 Q. I'd like to refer you to Page 3 of your  
24 rebuttal testimony, which is Exhibit T-113, and I'd  
25 like to refer you to Lines 3 through 5. Can you

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1 describe what you mean by "special accounting  
2 treatment"?

3 A. Yes. Our view of the merger rate plan is  
4 that the Company is charged with conducting its  
5 business as it would, if you will, absent the plan, so  
6 that any accounting proposal that we would make  
7 relative to the amortization of the gain, for example,  
8 in the sale of Centralia, would be no different under  
9 the rate plan that it would be absent the rate plan.  
10 In our view, what's being proposed by the opposition  
11 here is a different kind of an accounting treatment.

12 Q. What would be the appropriate accounting  
13 treatment for the gain in the absence of the rate plan?

14 A. We think that the five-year amortization  
15 period we've proposed is a reasonable approach to it.

16 Q. In other words, in the absence of the rate  
17 plan, would customers receive the benefit of the gain?

18 A. In the absence of the rate plan, we would  
19 amortize the gain over a five-year period just as we  
20 are proposing to do here.

21 Q. Who would receive the benefit of the gain in  
22 that case?

23 A. It would be a function of when rates were  
24 set.

25 Q. I'd like to refer you to Page 9 of your



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1 rebuttal testimony. At Lines 6 through 8, you use the  
2 term, "confiscate." Can you describe what you mean by  
3 that?

4 A. Yes, I can. Again, consistent with the  
5 merger rate plan, the Company's position is to receive  
6 benefits of savings that it realizes in connection with  
7 transactions that it does in the power supply area; so  
8 for example, if there was a power cost benefit that  
9 resulted from a transaction such as this one, the  
10 intention of the merger rate plan is that benefit  
11 accrue to the Company during the rate freeze period.

12 Q. Does your claim to a confiscation result  
13 solely from the existence of the rate plan?

14 A. I think you have to expect what might happen  
15 absent the rate plan, and you have to postulate some  
16 sort of ratemaking mechanism, and if you assume  
17 normalized ratemaking, which has been the history, then  
18 the recipient of this benefit, if you will, is sort of  
19 determined by when rates are set.

20 Q. If the rate plan did not exist and the  
21 Commission were to award the gain to customers, would  
22 you also consider that confiscation?

23 A. I'll have to think about that.

24 Q. Take your time.

25 A. I'm not sure I'm prepared to comment on it.

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1 JUDGE SCHAER: I'm not sure you've got that  
2 option. I'd like you to answer the question, please.

3 THE WITNESS: I'm not sure that I can.

4 MR. HARRIS: Your Honor, I would object. I  
5 think the witness is entitled to say, "I don't know" if  
6 he doesn't know.

7 JUDGE SCHAER: Has he said that?

8 MR. HARRIS: That was my understanding.

9 JUDGE SCHAER: Go ahead, Mr. Van Cleve.

10 Q. (By Mr. Van Cleve) I'd like to ask you a  
11 hypothetical, Mr. Gaines. If the Company had a power  
12 purchase agreement which had a levelized price, and  
13 during the term of the rate plan, the Company  
14 renegotiated the contract such that the price was  
15 decreased during the period of time until the rate plan  
16 ends and then increased following that, would you  
17 believe that that savings is something that the Company  
18 would be entitled to keep under the rate plan?

19 A. I think that probably in the strict terms of  
20 the rate plan, yes, but the Company would not do that.

21 Q. Is it your position that any transaction  
22 which shifted costs into a future time period and  
23 lowered costs during the rate plan that the Company  
24 would not do that?

25 A. I'm not saying that there isn't any

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1 transaction that the Company would enter into that  
2 wouldn't have some effect like that, but it would not  
3 enter the transaction for that purpose.

4 Q. Does the sale of Centralia in any way shift  
5 power costs from the present into the future?

6 A. I don't think we know because I don't think  
7 we know what the market is going to do in the future.

8 Q. If we did know that that was the result of  
9 the transaction, would the sale be inappropriate?

10 A. Not necessarily. I think there are a number  
11 of other factors that we would need to examine.

12 Q. Is it your position that PSE's rates are  
13 lower as a result of the rate plan?

14 A. Than they would otherwise be absent the  
15 agreement in the merger order, yes.

16 Q. Have you performed an analysis of what PSE's  
17 rates would be without the rate plan?

18 A. No, I have not.

19 Q. Do you know what the magnitude is of the  
20 savings to customers as a result of the rate plan?

21 A. I don't recall it right offhand.

22 Q. Have you made that calculation?

23 A. No.

24 JUDGE SCHAER: Mr. Van Cleve, how much more  
25 do you have?

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1 MR. VAN CLEVE: Just a couple of minutes.

2 JUDGE SCHAER: I think it would be  
3 appropriate to take our morning break at this time and  
4 come back at 11:15 and ask those questions, if you  
5 would. We are off the record until 11:15. Please be  
6 prompt in returning.

7 (Recess.)

8 JUDGE SCHAER: Mr. Van Cleve, did you have  
9 further questions for this witness?

10 MR. VAN CLEVE: Just a few, Your Honor.

11 Q. (By Mr. Van Cleve) Mr. Gaines, could you  
12 refer to Exhibit 118?

13 A. I have it.

14 Q. Do you recognize this as PSE's response to a  
15 Staff informal data request in the proceeding related  
16 to PSE's proposed sale of the Colstrip facilities?

17 A. It's been some time since I looked at this,  
18 but yes.

19 MR. VAN CLEVE: Your Honor, I'd offer Exhibit  
20 118.

21 JUDGE SCHAER: I would mark for  
22 identification a Exhibit 118, a document entitled  
23 Informal Request of Commission Staff Request No. 4a.

24 Is there any objection?

25 MR. HARRIS: It also includes 4b as the last

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1 page also.

2 JUDGE SCHAER: Thank you, Mr. Harris. That  
3 document is admitted.

4 Q. (By Mr. Van Cleve) Are you aware,  
5 Mr. Gaines, that the merger order provided that gains  
6 from the transfers of real property would be deferred?

7 A. With certain exceptions, yes.

8 Q. If you could look at Exhibit 119, is this the  
9 Stipulation and Order of Dismissal that the merger  
10 order refers to which provides a methodology related to  
11 gains on real property transfers?

12 A. Well, this document is not familiar to me.

13 JUDGE SCHAER: It's been marked for  
14 identification as Exhibit 119 is a Stipulation and  
15 Order of Dismissal in Court of Appeals Division No.  
16 29404-1, Puget Sound Power and Light Company,  
17 Appellant, versus Washington Utilities and  
18 Transportation Commission, Respondent, Office of Public  
19 Counsel, Intervenor.

20 MR. VAN CLEVE: Your Honor, I would like to  
21 offer this document.

22 JUDGE SCHAER: Is there any objection?  
23 Exhibit 119 is admitted.

24 MR. VAN CLEVE: That's all the questions I  
25 have.

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1 JUDGE SCHAER: Mr. Lavitt, did you have  
2 questions of this witness?

3 MR. LAVITT: I do not.

4 JUDGE SCHAER: Ms. Hirsh?

5 MS. HIRSH: I do.

6

7

CROSS-EXAMINATION

8 BY MS. HIRSH:

9 Q. In your testimony, you recognize the  
10 significant future environmental costs associated with  
11 the coal plant; is that right?

12 A. Yes.

13 Q. Does replacing Centralia power with market  
14 purchase reduce this regulatory risk?

15 A. I think you asked me about an environmental  
16 risk not a regulatory risk.

17 Q. Your testimony also says on Line 1 that there  
18 is a regulatory future federal and state regulatory  
19 risk?

20 A. Environmental regulation I think is what we  
21 are talking about.

22 Q. Yes.

23 A. So could I have the question again, please?

24 Q. I'll restate it a bit. Does replacing  
25 Centralia power with market purchase reduce this

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1 environmental regulatory risk?

2 A. It reduces it with respect to the electric  
3 customers at the company, yes.

4 Q. One of the future environmental regulatory  
5 risks that I believe is implied in your testimony is  
6 clean air related risk.

7 A. That's one, yes.

8 Q. And future market purchases, given that the  
9 western power market is dominated by fossil fuel  
10 resources, would that risk still not apply to market  
11 purchases?

12 A. I'm not sure that it is dominated by fossil  
13 resources, and I'm not sure that fossil resources  
14 operate at the margin, which is usually the source of  
15 pricing for market transactions, so I'm not sure I  
16 could accept that.

17 Q. Throughout your testimony, you refer to the  
18 benefits and flexibility for market-based resources  
19 that the Company will reap if they replace power from  
20 Centralia. You mention, particularly, flexibility that  
21 that gives the Company. You also mention that PSE has  
22 already had discussions with some gas fire plant  
23 developers regarding contracts. Do you believe that  
24 this enthusiasm for market purchases conflicts with  
25 your statement in your testimony which says that PSE is

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1 looking at a diverse set of replacement options,  
2 including demand site resources, energy efficiency, and  
3 cost effective distributed generation?

4 A. I hope it doesn't conflict because what we  
5 were trying to present is that by divesting this  
6 particular resource, it opens up the opportunity to do  
7 any or all of those things.

8 Q. Will PSE use its least-cost plan to decide  
9 which power placement options it will pursue?

10 A. I think that will be an element of it, sure.  
11 The least-cost planning process is intended to bring  
12 out into the public more the resource planning  
13 activities of the Company.

14 Q. Have resource planning decisions, since your  
15 least-cost plan has already been issued for the next  
16 two years, have you incorporated power replacement  
17 decisions in that plan, given that it incorporates the  
18 sale of Centralia?

19 A. In my view, the least-cost plan is not  
20 intended to be prescriptive. It's intended more to be  
21 an evaluation of a broad range of alternatives and  
22 alternative scenarios. This idea that something has to  
23 be specifically included in the least-cost plan to be a  
24 valid decision I'm not sure is consistent with our view  
25 of return of the plan.



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1 JUDGE SCHAER: Was that yes or no, sir? You  
2 were asked if the plan included certain elements, as I  
3 heard the question. Does it or does it not?

4 THE WITNESS: Which elements?

5 JUDGE SCHAER: Ms. Hirsh, could you repeat  
6 your question, please?

7 Q. (By Ms. Hirsh) Does the plan include power  
8 replacement decisions for Centralia, given that it  
9 includes in it the resource decision of the sale of  
10 Centralia?

11 A. I don't think it includes any decisions, no.  
12 I think it lays out some alternatives.

13 Q. In your rebuttal testimony, Exhibit T-113,  
14 you say that the purchase of an environmentally  
15 preferred or low carbon resource would be an imposition  
16 of additional cost on customers and the Company. If  
17 the gain on the sale is used to pay for that above  
18 market cost, would you still stand by that statement  
19 that it poses an imposition on the customers and the  
20 Company?

21 A. I'm not sure that I completely thought that  
22 through, but we're not opposed to some replacement  
23 energy which is environmentally friendly, but I'm also  
24 not sure this is the proceeding where we determine  
25 that.

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1 MS. HIRSH: That concludes my questions.

2 JUDGE SCHAER: Commissioners, did you have  
3 questions for Mr. Gaines?

4 CHAIRWOMAN SHOWALTER: : I have a couple.

5

6 E X A M I N A T I O N

7 BY CHAIRWOMAN SHOWALTER:

8 Q. One of the tables is labeled "NERC  
9 availability," and what does that mean; what is it  
10 referring to?

11 A. As you know, NERC is an acronym for the  
12 National Electric Reliability Council, and that  
13 organization maintains a database of information about  
14 all sorts of power plants, and one of the sorts of data  
15 that they maintain is availability, the percentage of  
16 time in any particular year that the plant is available  
17 for operation, and so for large coal plants, for  
18 example, like Centralia, NERC would have some data that  
19 would be an average of the availability of all plants  
20 of that sort across the country, and it's come to be  
21 recognized as kind of an industry standard of measure  
22 availability.

23 Q. On the life of the plant, did I hear you say  
24 that you had assumed it's a 40-year life?

25 A. Yes. Based on the original design life of

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1 the plant.

2 Q. So your basis for that assumption of 40 years  
3 is the assumptions that went into it when it was built;  
4 is that correct?

5 A. Yes. That was generally the design life of  
6 the plant at the time it was constructed.

7 Q. As you sit here today, is it your opinion  
8 that it is still a 40-year life; that's a reasonable  
9 assumption to make?

10 A. It is, yes, absent the replacement of some  
11 fairly major components of the plant, yes.

12 Q. And I guess I'll push a little further. Not  
13 only is it a reasonable assumption, but is it your best  
14 guess today that that's the most correct assumption on  
15 the life of the plant?

16 A. Yes.

17 Q. When you were talking about the Aurora Model,  
18 did I hear you say that you concur with the model  
19 itself but that that is separate, and it's not the same  
20 as what inputs are going into the model?

21 A. Yes. It's very sensitive to the inputs,  
22 especially assumptions about fuel prices, so the model  
23 is a very robust and, I suppose, logically correct tool  
24 for analysis, but the results are very sensitive to the  
25 input assumptions, so in our presentation, that's why

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1 we identify a number of different scenarios to show the  
2 sensitivity to the assumptions.

3 Q. Then also on your Exhibit 114, Page 2 -- this  
4 is the NERC availability table -- Mr. Adams asked you a  
5 number of questions about this table, and many of his  
6 questions asked you about benefit to the ratepayers and  
7 what this table says about benefit to the ratepayer,  
8 and when I look at your exhibit here, it doesn't relate  
9 directly or it is not directly about benefit to  
10 ratepayers or shareholders, and you can tell me if I'm  
11 wrong. It seems to me it's simply a chart that shows  
12 comparative differences in market forecasts and  
13 Centralia costs, et cetera, and that it, itself does  
14 not make any judgment about ratepayer benefits; is that  
15 correct? Are there assumptions in here that assume  
16 one way or the other that first, there is a rate holder  
17 utility relationship to begin with, and then if so, who  
18 is getting what?

19 A. You are very much correct, and that's why I  
20 was having so much confusion as I was trying to answer  
21 Mr. Adams's questions, because it really doesn't go to  
22 that.

23 Q. Then am I right in order to answer his  
24 questions about benefit to the ratepayer, you need to  
25 overlay on this chart some other assumptions.

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1 A. Yes.

2 Q. Is one of those assumptions that there is, in  
3 fact, going to be out in the future, out in the year  
4 2018, that there will be ratepayers who could capture  
5 or benefit from the relative benefits of Centralia or  
6 not?

7 A. Yes, it is. It's an important assumption  
8 that would go in to that determination, yes.

9 Q. But your exhibit itself doesn't get to those  
10 points. It's simply laying out some projected market  
11 cost and projected Centralia costs. Is that in essence  
12 what this chart is?

13 A. Yes, it is, and that's why I was have having  
14 so much confusion before.

15 CHAIRWOMAN SHOWALTER: : That's all my  
16 questions.

17

18 E X A M I N A T I O N

19 BY COMMISSIONER HEMSTAD:

20 Q. One line of inquiry, and this goes to  
21 pursuing the discussion about the five-year rate freeze  
22 period and the merger stipulation. What it would be  
23 the Company's position -- perhaps it would be better to  
24 put this into the form of a hypothetical. Assuming a  
25 sale were appropriate for a power generating asset but

00155

1 it were sold at a loss, who would bear the loss?

2 A. I think it's situation specific. I think you  
3 have to look at the other factors surrounding it.

4 Q. All other factors being equal, but if we're  
5 still for whatever reason appropriate to proceed with  
6 the sale but at a loss, would that fall within power  
7 stretch savings, therefore to be borne by the  
8 shareholders, or would that be something to be borne by  
9 ratepayers?

10 A. I'm not sure that I can answer that question.

11 Q. So it doesn't follow then that from the  
12 Company's perspective there would necessarily be a  
13 symmetrical treatment of the gain over loss?

14 A. I have not considered it. I'm sorry, but I  
15 have not thought about it.

16 COMMISSIONER HEMSTAD: Thank you.

17 JUDGE SCHAER: I have just have a couple of  
18 questions, Mr. Gaines

19

20 E X A M I N A T I O N

21 BY JUDGE SCHAER:

22 Q. In your original filing you sponsored,  
23 Exhibit WAG-4, which is now Exhibit 105 in the  
24 proceeding, and Page 1 of that exhibit summarizes PSE's  
25 Centralia Analysis Scenario 1 assuming for NERC

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1 availability; is that correct?

2 A. I'm sorry; could you give me the page number?

3 Q. Scenario 1.

4 A. All right.

5 Q. Is that correct?

6 A. Yes.

7 Q. Then in your rebuttal analysis, you provided  
8 Exhibit 114 with a comparable page on Page 1, which is  
9 the analysis run with updated Northwest Power Planning  
10 Council numbers; is that correct?

11 A. Yes.

12 Q. Is the table in your rebuttal testimony a  
13 revision of your original testimony?

14 A. At least one line of it is. We reran the  
15 midmarket scenario.

16 Q. Looking at Exhibit 114, Pages 1 and 2, did I  
17 correctly hear you tell Mr. Adams that this is the only  
18 example provided by PSE that uses the updated data from  
19 November 29th, 1999?

20 A. As I understand it, we did not rerun all the  
21 other scenarios using the 11/29 market forecast.

22 Q. So is the answer yes?

23 A. I think so.

24 Q. I'd like that to be clear. Just think about  
25 it for a minute and tell me if it is or is not correct.

00157

1 A. Could you ask the question again, please?

2 Q. Is Exhibit 114, Page 1 and 2 the only example  
3 provided by PSE that uses the November 29th, 1999 data  
4 from the Northwest Power Planning Council?

5 A. Yes.

6 Q. And finally, is there any agreement or  
7 requirement for PSE to buy power from TECWA for any  
8 period of time following the sale of Centralia?

9 A. No.

10 JUDGE SCHAER: Thank you. That's all I had.  
11 Is there any redirect, Mr. Harris?

12 MR. HARRIS: Yes.

13

14 REDIRECT EXAMINATION

15 BY MR. HARRIS:

16 Q. Mr. Gaines, you were asked a number of  
17 questions about Exhibit 114. Let's stick with 114 for  
18 right now, and particularly about power cost savings  
19 and how they are treated in 114. Do you recall those  
20 questions by ICNU and Public Counsel?

21 A. Yes, I do.

22 Q. Can you turn to Page 2 of Exhibit 114, which  
23 is the table that again says "NERC availability" at the  
24 top; are you on that page?

25 A. Yes.



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1 Q. And if you look in the years 2000 and 2001,  
2 you see the first column has market costs there?

3 A. Yes.

4 Q. Are those market costs projected costs for  
5 power?

6 A. Yes.

7 Q. And in the second column, do you see the  
8 Centralia costs there?

9 A. Yes.

10 Q. During the years 2000 and 2001, is it  
11 forecast that there will be net power cost savings or a  
12 net power cost loss in this model?

13 A. It's a loss.

14 Q. Of about how much?

15 A. It looks like it's just roughly a couple  
16 million dollars.

17 Q. Under the Company's proposal, is that loss  
18 passed on to customers, or does the Company absorb that  
19 loss?

20 A. No. It would be absorbed by the Company.

21 Q. Why do you believe that's appropriate?

22 A. It's just the way that the numbers fall out  
23 when you apply the merger rate plan.

24 Q. Do you believe that it's appropriate to pass  
25 those losses through to customers during the merger

00159

1 rate plan period?

2 A. No. That's not what we are proposing.

3 Q. You were also asked a number of questions  
4 about the analytical basis of Exhibit 114 and also of  
5 Exhibit 105, and you consistently refer to the fact  
6 that this was just a particular scenario. Are there  
7 other scenarios that you think are important for the  
8 Commission to consider?

9 A. I do, and that's why we presented a number of  
10 them. There has been in my few an inordinate focus on  
11 kind of a mid case that was presented among a range of  
12 scenarios, and there has really been an absence of  
13 focus on scenarios that include different market price  
14 assumptions, different plant life assumptions, all of  
15 those things. I think it's unfortunate because that's  
16 not the nature of the presentation we were trying to  
17 make.

18 Q. You were asked specifically about the numbers  
19 at the bottom of Page 2 on 114 that show cumulative  
20 present values. When you say that you should consider  
21 other scenarios, is early closure one of the scenarios  
22 that you are referring to?

23 A. Early closure is one, yes, and another one  
24 would be taking into account what we believe the likely  
25 life of the plant, which would not lead you to looking

00160

1 at this whole period through 2018 but rather to be more  
2 a period like 2012, which would drive you more to a  
3 15-year NPV look rather than a 20-year NPV look.

4 Q. Let's come back to early closure in just a  
5 minute, but let's stay with the life of the plant. If  
6 you assume a 40-year life of the plant -- what year was  
7 the plant put in service?

8 A. I believe it was 1972.

9 Q. So if you look then at Page 1 of Exhibit 114,  
10 you see the different net present value columns there  
11 through 2009, 2014, and 2018, are you suggesting that  
12 it's more appropriate to focus on the 2014 column or  
13 even the 2009 column?

14 A. Yes.

15 Q. And what difference does that make?

16 A. It makes a difference of a few million  
17 dollars, but it flips the situation from a loss to a  
18 benefit.

19 Q. You mentioned early closure as a scenario  
20 that should be considered. Why is that important?

21 A. One of the things we worry about in all of  
22 this is an early closure of the mine and or the plant  
23 which would accelerate the need to fund the reclamation  
24 of the mine, and that could have some very severe  
25 financial consequences for ratepayers.

00161

1 Q. Have you done any numerical analysis of what  
2 early closure -- have you done something similar to 114  
3 for an early closure scenario?

4 A. We did do that, yes.

5 Q. Did you bring that today?

6 MR. HARRIS: We would like to distribute that  
7 as a redirect exhibit, Your Honor.

8 JUDGE SCHAEER: Go ahead and distribute that.  
9 I believe this will be 124 for identification.

10 MR. HARRIS: We ask that these be marked for  
11 identification.

12 JUDGE SCHAEER: I'm going to mark this  
13 document which states at the top, Summary Table  
14 Centralia Analysis Plant and Mine Closure in 2002 for  
15 identification at Exhibit 124.

16 Q. (By Mr. Harris) Do you have before you what's  
17 been marked for identification as Exhibit 124?

18 A. Yes.

19 Q. Could you explain what this is?

20 A. We took the mid case analysis that everyone  
21 has been focusing on in this proceeding --

22 MR. ADAMS: Your Honor, I'm going to object.  
23 If my understanding is correct, this is a brand-new  
24 scenario that has not been presented to the parties,  
25 was not an issue discussed in cross-examination. We

00162

1 haven't seen it. We've had no chance to do discovery  
2 on it. This isn't, as I understand it, one of the  
3 scenarios that has been done by the Company. This is a  
4 brand-new presentation, and that seems to me totally  
5 inappropriate to bring in this scenario at this point  
6 on redirect. There is no foundation laid for it. We  
7 have had no opportunity to even look at this thing  
8 before.

9 MR. CEDARBAUM: I'll join the objection.

10 JUDGE SCHAER: Why don't you go ahead and  
11 offer this at this point before you do any further  
12 foundation and we'll have a discussion on its  
13 admissibility.

14 MR. HARRIS: I'll offer it at this time.

15 JUDGE SCHAER: We have an objection from  
16 Mr. Adams. Did you wish to add anything to the  
17 objection, Mr. Cedarbaum?

18 MR. CEDARBAUM: I'll just join it. I think  
19 Mr. Adams stated it very well.

20 JUDGE SCHAER: Any brief response?

21 MR. HARRIS: This is an exhibit that hasn't  
22 been held back in the proceeding. It was only  
23 completed this week by the Company. We received on  
24 Monday of this week for the first time a completely  
25 revised Exhibit 501 from Public Counsel, which we are

00163

1 right now scrambling to analyze and hope to finish over  
2 the weekend, part of what we have done in response to  
3 that is look at our assumptions and see if there is  
4 additional numerical analysis that we can do that would  
5 be helpful to the Commission.

6           Mr. Gaines specifically discusses in his  
7 prefiled testimony risks associated with early closure.  
8 All this does is go one step further and quantify those  
9 risks in the same form that has been presented for  
10 Exhibit 114 and 105. In addition, Mr. Gaines was asked  
11 extensive questions about whether 114 is the  
12 appropriate analysis to rely on. He was asked those  
13 questions by Public Counsel and he was asked those  
14 questions by ICNU. He stated in his testimony that it  
15 was only one scenario of many scenarios that would be  
16 considered. This exhibit gives the parties and the  
17 Commission information that is more detailed than what  
18 was given in his testimony to back up his testimony  
19 this morning that was elicited on cross-examination so  
20 I think it's appropriate.

21           JUDGE SCHAER: Do you have a page in your  
22 scenarios now, Mr. Harris, either in his direct  
23 testimony or in his rebuttal that shows a closure  
24 analysis?

25           MR. HARRIS: No, we do not.

00164

1 JUDGE SCHAER: So this is not an update with  
2 new numbers to existing analysis in this witness's  
3 testimony; is that correct?

4 MR. HARRIS: It is identical to the analyses  
5 that were submitted changing only the assumptions  
6 underlying the analyses.

7 JUDGE SCHAER: Any brief response, Mr. Adams?

8 MR. ADAMS: I would indicate that the  
9 revisions done by Mr. Lazar, the change and assumptions  
10 that were laid out were specifically addressed to all  
11 of the parties, including the Bench, in advance, saying  
12 what they were doing. The primary driver was the  
13 change in the Aurora Model forecast and several other  
14 corrections. They had nothing to do with any of the  
15 assumptions or the issues dealt with here in this  
16 exhibit. It's not responsive to anything done by  
17 Mr. Lazar. The questioning of the witness, at least  
18 from Public Counsel's standpoint, dealt with the Aurora  
19 Model and not with early closure, had nothing to do  
20 with this. This is just a blind side pulling out a  
21 brand-new study, which we have not had an opportunity  
22 to review.

23 JUDGE SCHAER: We'll take a moment.

24 (Discussion off the record.)

25 JUDGE SCHAER: That objection is sustained.

00165

1 We do not believe that the questioning of this witness  
2 has opened the door to what a scenario of closure would  
3 show. We are concerned that this is not an update to  
4 an existing scenario in the witness's testimony. This  
5 document was not predistributed. There were late  
6 corrections to testimony by Public Counsel, by  
7 PacifiCorp in this proceeding, but they were updates to  
8 numbers that were already before the parties and they  
9 were redistributed, so in addition to the ground that  
10 this does not appear to us to be responsive so the  
11 questioning of this witness and is inappropriate  
12 redirect exhibit, there is also a concern about the  
13 fairness of bringing something like this in at this  
14 stage of this proceeding when no one has had a chance  
15 previously to examine it. Go ahead, Mr. Harris.

16 MR. HARRIS: I'd like to do two things at  
17 this point, Your Honor: I'd like to make a proffer of  
18 evidence and have this included in the record in case  
19 there is an appeal.

20 JUDGE SCHAER: This will be included as an  
21 unadmitted exhibit, and you can make an offer of proof  
22 as to what this exhibit would demonstrate.

23 MR. HARRIS: My offer of proof in addition to  
24 what I said before is this exhibit shows -- it is  
25 exactly the same as Exhibit 105 and 114. The only



00166

1 difference is that certain assumptions are changed, and  
2 the assumptions underlying Exhibit 105 and 114 were  
3 challenged and were questioned on cross-examination, so  
4 it's our position and it remains our position that this  
5 is an appropriate redirect exhibit, and for that  
6 reason, we'd like it included in the record.

7 JUDGE SCHAER: So noted.

8 MR. HARRIS: Second, we'd ask that the same  
9 stringent rules about fairness to the parties be  
10 applied on Monday when Public Counsel offers its  
11 exhibit, which we have not had a chance to finish our  
12 analysis of, and we can argue that issue when we get to  
13 it on Monday.

14 JUDGE SCHAER: We will argue that if it is  
15 raised at that time.

16 Q. (By Mr. Harris) Finally, Mr. Gaines, you  
17 were asked questions by counsel for ICNU about the  
18 rates that were put in effect at the start of the rate  
19 plan period; do you recall that questioning?

20 A. Yes, I do.

21 Q. And you were asked whether you had done any  
22 specific analysis of savings that the customers  
23 received as a result of the rate plan period; do you  
24 recall that?

25 A. Yes, I recall answering that.

00167

1 Q. Do you recall at that time whether PSE had  
2 filed or had prepared to file a general rate case?

3 A. After collecting my thoughts, I do recall  
4 that we had prepared a rate filing at the same time.

5 Q. Do you recall approximately the amount of  
6 increase PSE was going to be seeking?

7 A. I think it was on the order of 70 million  
8 dollars a year.

9 Q. As a result of the implementation of the rate  
10 plan, did PSE end up receiving any of that increase?

11 A. No, it did not.

12 Q. And if PSE had received a reasonable portion  
13 of that rate increase as a result of that general rate  
14 filing, what would that have been worth to the Company  
15 during the rate plan period?

16 MR. CEDARBAUM: I'll object. It's ambiguous.  
17 A reasonable amount of a 70 million dollar request, I  
18 don't know what that means.

19 JUDGE SCHAER: I think we are getting a bit  
20 speculative, Mr. Harris. Do you want to tie that down  
21 a bit?

22 Q. (By Mr. Harris) If the Company had proceeded  
23 with its general rate filing as somebody who has been  
24 involved in proceedings before the Commission before  
25 and involved in general rate case proceedings, do you

00168

1 have any view about what a reasonable rate increase  
2 that the Company would have received?

3 MR. CEDARBAUM: Your Honor, I'm sorry. This  
4 is highly speculative to be asking a question about a  
5 rate case that wasn't filed, where other parties would  
6 certainly be chiming in as to what was appropriate, if  
7 anything. This is way beyond the type of evidence that  
8 I think adds anything to this record, and it's very  
9 speculative.

10 JUDGE SCHAER: Please respond.

11 MR. HARRIS: This witness was questioned  
12 specifically about what benefit customers received as a  
13 result of the rate plan. At the time that we entered  
14 into the rate plan, we had a 74-million-dollar filing  
15 before the Commission, general rate filing. Now,  
16 everybody is going to say, Well, you wouldn't have  
17 received the entire 74 million.

18 All I'm asking this witness to do is add up  
19 the numbers. What it would have been worth to the  
20 Company in additional revenue if instead of the rate  
21 plan, customers had had to live under traditional rate  
22 making and there had been a general rate filing and  
23 there had been an increase in rates. I think he's  
24 entitled to do that, and I think it's important  
25 evidence for the Commission when they are considering

00169

1 whether customers have received a benefit as a result  
2 of the rate plan, and that subject was specifically  
3 addressed on cross-examination.

4 JUDGE SCHAER: I'll allow you to ask this as  
5 a hypothetical question. I would like you to break  
6 down the assumptions that go into that hypothetical,  
7 including an assumption of what the outcome might have  
8 been so we know how he came up with the number he  
9 offers. Was there another objection? Go ahead,  
10 please.

11 Q. (By Mr. Harris) Let's take it step by step,  
12 Mr. Gaines. Given your experience and background and  
13 the nature of that rate filing, what do you believe  
14 would be a reasonable range of outcomes of that rate  
15 filing?

16 A. Supposing the Company were awarded somewhere  
17 in the range of 50 to 100 percent of its request. 100  
18 percent over a five-year period, you would be talking  
19 about 350 million dollars at 50 percent. 175 million,  
20 that seems like a reasonable range to me.

21 MR. HARRIS: Thank you. No further  
22 questions.

23 JUDGE SCHAER: Are there any further  
24 questions for this witness?

25 MR. CEDARBAUM: I have a few questions, Your

00170

1 Honor.

2

3

RECROSS-EXAMINATION

4 BY MR. CEDARBAUM:

5 Q. This may have been poor hearing on my part or  
6 maybe an intentional mischaracterization of the Staff  
7 case, but you were asked some questions from Mr. Adams  
8 before about, which led to, I believe, a statement  
9 where you said the Staff case involved a five-year  
10 amortization. That's not your understanding of the  
11 Staff case; is that right?

12 A. No.

13 Q. The Staff case is to defer the gain until the  
14 Company's next general rate proceeding for the benefit  
15 of ratepayers.

16 A. That's my understanding of it, yes.

17 Q. You were also asked some questions about what  
18 the Company might do if the Commission were to either  
19 reject the Centralia sale or attach conditions to the  
20 sale. You said that would be a decision for the board  
21 of directors. Does management make recommendations to  
22 the board in those types of decisions?

23 A. They do, yes.

24 Q. Was a recommendation made to the board in the  
25 Colstrip case?

00171

1 A. Yes.

2 Q. What was that recommendation?

3 A. The recommendation was not to sell the plant  
4 on the terms of the order.

5 Q. What in the Centralia case, this case, have  
6 there been any thinking by the management that you know  
7 of as to whether to proceed with the sale if conditions  
8 similar to Colstrip were attached?

9 A. The Company wants very much to sell the  
10 project, and I don't know that we've had a specific  
11 discussion of the sort that you are describing, and I  
12 think it will be hard for us to do that unless and  
13 until we get a final order, but we all now are aware of  
14 the decision that the Company reaches in the Colstrip  
15 case, given that order.

16 Q. My question is, if the Commission were to  
17 attach the same conditions to the Centralia sale as to  
18 the Colstrip sale, do you know what management's  
19 recommendation would be to the board?

20 A. I don't.

21 Q. What would your recommendation be, if you had  
22 one?

23 A. I really haven't gone there.

24 Q. You were asked a lot of questions about  
25 Exhibit 114, and specifically Page 2 of the exhibit.

00172

1 Is it your understanding that -- let me back up.  
2 You've read Mr. Elgin's direct testimony, I assume?

3 A. Yes.

4 Q. Is it correct that Page 2 of your Exhibit 114  
5 is the scenario that he's characterized as the base  
6 case?

7 A. I believe that's right, yes.

8 Q. I understand your testimony that this is a  
9 quantitative analysis, and that in addition to this,  
10 there are other qualitative factors to consider. Just  
11 focusing on this page of the exhibit, is it correct  
12 that the final two columns of Page 2 of Exhibit 114  
13 over the period of time 2000 to 2018 show a cost to  
14 ratepayers assuming traditional regulation of 8.6  
15 million and a benefit to shareholders of 6.7 million?

16 A. Given all the assumptions, which are quite  
17 variable, yes.

18 MR. CEDARBAUM: Thank you. Those are all my  
19 questions.

20 JUDGE SCHAER: Is there anything further for  
21 Mr. Gaines?

22 CHAIRWOMAN SHOWALTER: : Just a couple of  
23 follow-up.

24  
25

FURTHER EXAMINATION

00173

1 BY CHAIRWOMAN SHOWALTER:

2 Q. I think Mr. Adams' first question to you was  
3 about Page 2 of Exhibit 114, and I think he was  
4 focusing your attention on the first couple of years,  
5 and again, I think the question was something about who  
6 would bear the burden of a gain or benefit, and I think  
7 you said, Well, the Company would because of the merger  
8 plan; is that right?

9 A. Yeah.

10 Q. Am I right again that this chart itself  
11 doesn't assume anything about the merger plan or not.  
12 It's if you are looking at this chart and assuming the  
13 merger plan and maybe making some assumptions about  
14 what the company would or wouldn't do or the Commission  
15 would or wouldn't do, then you can draw the conclusions  
16 that you were asked to draw.

17 A. Yes. I think you are right about that.

18 Q. And again, I think Mr. Cedarbaum asked you  
19 about benefit to the ratepayers looking at this chart,  
20 but this chart doesn't itself make assumptions about  
21 ratepayer benefits or not. In order to make those  
22 assumptions you have to make some other assumptions.

23 A. Yes, that's right, and I should have observed  
24 that when I answered his question.

25 Q. This was characterized as a quantitative



00174

1 analysis, this Page 2. It is a projection of  
2 quantitative costs.

3 A. Yes, over a fairly long period of time.

4 Q. And there are other projections of  
5 qualitative events --

6 A. That are also implicit in all of this, yes.

7 Q. In order to draw conclusions, if you just  
8 look at the first column, which is the years, if we are  
9 looking at these years, we don't know, this chart  
10 doesn't say one way or the other whether in those years  
11 certain events might occur, such as open access  
12 mandated by the legislature.

13 A. Exactly. Open access, plant closure, any  
14 number of nonquantified things could happen.

15 Q. I think my point is that in order to make use  
16 of this chart, we also have to bring with it certain  
17 other projections or assumptions that then begin to  
18 assign further risk to the ratepayers or shareholders,  
19 but that this chart itself is just dollar approximates.

20 A. That's exactly right, and it's a big part of  
21 the point we were trying to make in our direct and  
22 rebuttal testimony; that there are a number of  
23 qualitative factors that need to be considered in  
24 addition to the quantitative things that we've  
25 presented here, and it's always difficult to quantify

00175

1 qualitative things, but we had made some attempt to try  
2 to do that with respect to early closure because it  
3 lends itself to a more crisp evaluation by people, but  
4 you are absolutely right, there are a number of  
5 qualitative things that have gone into the Company's  
6 decision to sell the plant that aren't laid out in this  
7 particular sheet.

8 CHAIRWOMAN SHOWALTER: : Thanks.

9 JUDGE SCHAER: Anything further for this  
10 witness? Thank you for your testimony, Mr. Gaines, and  
11 we will take our lunch recess at this time. I would  
12 like to be back on the record at 1:30. I would like  
13 before 1:30 to have Mr. Karzmar ready to take the stand  
14 and ready to go and to have all parties distribute  
15 their exhibits for Mr. Karzmar, and if there are going  
16 to be any preliminary matters before we go on, I would  
17 like to have parties here to discuss those, so why  
18 don't we be back and ready to deal with preliminary  
19 matters about 1:20. Thank you.

20 (Lunch recess taken an 12:00 noon.)

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AFTERNOON SESSION

(1:30 p.m.)

JUDGE SCHAER: At this time, would you like to call another witness, Mr. Harris?

MR. HARRIS: PSE calls its accounting witness, Karl Karzmar.

(Witness sworn.)

Q. Mr. Karzmar, do you have with you today Exhibits T-108, Exhibits 109 through 112 and Exhibit T-116?

A. Yes, I do.

Q. Were those prepared under your direction and control?

A. Yes, they were.

Q. Are they complete and accurate to the best of your knowledge?

A. Yes.

MR. HARRIS: At this time, we would offer Exhibits T-108, Exhibits 109 through 112, and Exhibit T-116.

JUDGE SCHAER: Are there any objections? Hearing none, those documents are admitted.

MR. HARRIS: Mr. Karzmar is available for cross-examination.

JUDGE SCHAER: Mr. Dahlke, did you have any

00177

1 questions of Mr. Karzmar?

2 MR. DAHLKE: No. Just as a point, I thought  
3 that our ground rules were that we were not going to be  
4 permitted to cross-examination other company witnesses.

5 JUDGE SCHAER: I was expecting you to say no,  
6 but I do try to check with other counsel in case there  
7 is anything you did have. Mr. Cedarbaum?

8 MR. CEDARBAUM: Yes, I do. Your Honor, have  
9 we marked for identification the exhibits I've  
10 predistributed, or do we need to do that again?

11 JUDGE SCHAER: Would you like me to do that  
12 now?

13 MR. CEDARBAUM: Yes.

14 JUDGE SCHAER: Before we went on the record,  
15 Mr. Cedarbaum, you distributed two documents. The  
16 first is a one-page document entitled at the top,  
17 Exhibit 125, and has a heading, Staff Data Request  
18 No. 1. I've marked that Exhibit 125 for  
19 identification. The second is a two-page document,  
20 which states at the top, Staff Data Request No. 3, and  
21 I've marked that as Exhibit 126 for identification. It  
22 appears to have a couple of light marks on the  
23 left-hand side by No. 2 and 3. Are those anything  
24 relevant or should we pretend those aren't there?

25 MR. CEDARBAUM: You can pretend those are not

00178

1 there. They are my little check marks, which mean  
2 nothing.

3 JUDGE SCHAER: So go ahead, please.

4

5

CROSS-EXAMINATION

6 BY MR. CEDARBAUM:

7 Q. Mr. Karzmar, is it correct that in Staff Data  
8 Request No. 1 to PSE we asked you to provide citations  
9 to the testimony and exhibits of the opposition  
10 parties, as you've called them, for what you believe is  
11 an assumption that they've made that the customer is  
12 going to plant; do you recall that?

13 A. Yes.

14 Q. Referring you to Exhibit No. 125 for  
15 identification, do you recognize this as that data  
16 request and your response?

17 A. Yes, it is.

18 MR. CEDARBAUM: Your Honor, I'd offer Exhibit  
19 125.

20 JUDGE SCHAER: Any objection? That document  
21 is ed admitted.

22 Q. (By Mr. Cedarbaum) Is it also correct that in  
23 Staff Data Request No. 3 we asked you for authoritative  
24 references and Commission rules which support your  
25 statement in your rebuttal testimony at Pages 2 and 3

00179

1 that a gain amortization upon closing of the sale is  
2 the standard normal accounting procedure and a well  
3 accepted means for accounting of the sale?

4 A. Yes.

5 Q. Do you recognize what's been marked for  
6 identification as Exhibit 126 as that Staff Data  
7 Request No. 3 with your response?

8 A. Yes. I recognize this as my response with  
9 the exception of the two little check marks.

10 Q. Did you view the research yourself that went  
11 into creating this response?

12 A. I had one of my senior rate analysts research  
13 some of these.

14 Q. Did you research these cases that you've  
15 listed on the first page of Exhibit 126?

16 A. I have not read all those cases, only  
17 portions of them, and the purpose of my response for  
18 this data request was only to show that there was some  
19 reasonable basis for amortization periods that are  
20 common of three to five years. The outcome of these  
21 proceedings is not necessarily important to what I was  
22 offering.

23 Q. Just so I understand your testimony, you  
24 asked someone to research this for you. You did not  
25 read the entirety of any of these cases. You read a

00180

1 portion of some of them.

2 A. That's correct.

3 Q. Are you aware that the three cases listed  
4 under 2, 3, and 4 occurred in the context of general  
5 rate proceedings by those three companies?

6 A. I'm aware that 2 and 3 are.

7 Q. Would you accept subject to check that No. 4  
8 was?

9 A. It's my understanding that No. 4 was not.

10 Q. Would you accept subject to check that it  
11 was?

12 A. I would accept that, yeah. My understanding  
13 is No. 4 occurred just prior to a general rate  
14 proceeding.

15 Q. Again, you can check that, and if I'm wrong  
16 and you are right, counsel will let us know. Is it  
17 correct the first case listed came in the context of a  
18 depreciation study required by the Florida Commission's  
19 rules?

20 A. Yes.

21 Q. Is it correct that none of these four cases  
22 came in the context of a rate plan such as Puget has?

23 A. That's correct.

24 Q. Do you know of any cases that were decided  
25 under a rate plan such as Puget's?

00181

1 A. I'm not aware of any case nor am I aware of  
2 any rate plan such as Puget's.

3 Q. On the second page of the exhibit, you  
4 references a CFR, a regulation of the Federal Energy  
5 Regulatory Commission, which applies to utility plant  
6 held for future use; do you see that?

7 A. Yes.

8 Q. Is Centralia a utility plant held for future  
9 use?

10 A. No. The only purpose of providing this  
11 exhibit was, once again, to show that there is plenty  
12 of evidence to support that three to five years is a  
13 reasonable period of time to amortize a gain on a plant  
14 asset, and a quote of federal regulations is, federal  
15 regulatory body that describes uniform system of  
16 accounts that this Commission has adopted, and at least  
17 for some regulatory assets, the FERC has prescribed  
18 five years as the stipulated amortization period short  
19 of something else from a regulatory Commission as being  
20 inappropriate. That's all I was trying to show.

21 Q. None of these cases or the CFR you site  
22 occurred in the context of a rate plan such as Puget's.

23 A. That I recollect. Well, I don't know if  
24 something that may have fallen under this last category  
25 could have occurred in a rate plan period, but I'm not



00182

1 aware of it.

2 Q. What last category?

3 A. The code of federal regulations category that  
4 prescribes that it should be five years. If there was  
5 such a plant that is being amortized over a five years  
6 and it happens to fall in a rate stability period of  
7 some sort, I wouldn't know whether that had occurred or  
8 not. I was only citing the rule.

9 Q. Looking at your rebuttal testimony, T-116 at  
10 Page 2, you state on Line 19 that Mr. Martin for staff,  
11 his accounting treatment is flawed because it violates  
12 the fundamental premise of the merger that PSE should  
13 continue to conduct its business during the rate plan  
14 period without applying special accounting rules or  
15 procedures; do you see that?

16 A. Yes.

17 Q. Since the merger order was issued by the  
18 Commission, is it correct that PSE has come before the  
19 Commission to request and receive an accounting order  
20 for the cost of achieving power supply savings?

21 A. That is correct.

22 Q. And we are talking in this instance about the  
23 accounting order the Company received with respect to  
24 the buyout cost associated with the Tonaska-PURPA Power  
25 contract?

00183

1 A. Yes. The Company filed a petition for that.

2 Q. And the Company has also filed and received  
3 an accounting order for the Commission with respect to  
4 the Encogen Power contract; is that right?

5 A. That is right.

6 Q. And that also occurred after the merger  
7 order.

8 A. Correct.

9 MR. CEDARBAUM: Thank you. Those are all my  
10 questions.

11 JUDGE SCHAER: Did you have questions,  
12 Mr. Adams?

13 MR. ADAMS: Yes, I have a few.

14 MR. HARRIS: Excuse me just a moment. Are  
15 you withdrawing 126?

16 MR. CEDARBAUM: I thought I had. I move the  
17 admission of 126.

18 JUDGE SCHAER: I had thought that both were  
19 offered at the same time also. As long as the record  
20 is clear then that Exhibit 126 is admitted, do you have  
21 an objection?

22 MR. HARRIS: No.

23

24 CROSS-EXAMINATION

25 BY MR. ADAMS:

00184

1 Q. I just had a couple of questions that are of  
2 a clarifying nature. Puget has kept a reclamation  
3 fund, has it not, for the Centralia plant?

4 A. A reclamation fund exists for that.

5 Q. In looking through your exhibits, I didn't  
6 see anyplace where it appeared. Am I correct that it  
7 does not appear in any of your exhibits?

8 A. I don't believe it does.

9 Q. Could you give me the year-end balance that  
10 is of 12/31/99 balance of that account, of that fund?

11 A. Of the total fund?

12 Q. Yes, for Puget's interest.

13 A. I could get that for you.

14 Q. But is there anyplace in the record where  
15 that number is shown?

16 A. I'm not sure that there is.

17 MR. HARRIS: This might help speed things  
18 along. I can state that it is not in our testimony,  
19 but we believe it is in Mr. Martin's testimony.

20 THE WITNESS: I believe that's correct.

21 JUDGE SCHAER: So it's your understanding  
22 that this number is shown in his testimony or in an  
23 exhibit, Mr. Harris?

24 MR. HARRIS: I don't know whether it's one  
25 or the other, and if not, we'd be happy to provide the

00185

1 number.

2 MR. CEDARBAUM: Your Honor, Mr. Martin didn't  
3 have an exhibit so it must be in his testimony.

4 JUDGE SCHAER: Do you know where in his  
5 testimony that could be found, Mr. Cedarbaum?

6 MR. CEDARBAUM: I've been told it's on the  
7 last page.

8 JUDGE SCHAER: Mr. Harris, perhaps you could  
9 provide a reference to Mr. Karzmar. Why don't you  
10 show him that and see if he agrees that's the  
11 appropriate number, please.

12 MR. HARRIS: Page 11.

13 THE WITNESS: Yes, I see that.

14 JUDGE SCHAER: And would you tell us what  
15 that number is, please, Mr. Karzmar?

16 THE WITNESS: In total, just that portion  
17 that pertains to PSE is 4.1 million.

18 Q. (By Mr. Adams) Just so I understand, you  
19 accept that number as accurate?

20 A. I accept that subject to check.

21 Q. Does Puget keep the reclamation fund itself,  
22 or is PacifiCorp -- who has custody, if you will, of  
23 those funds?

24 A. I would have to confirm this, but I believe  
25 that those are held by the venture.

00186

1 Q. By who?

2 A. By the venture.

3 Q. Being whom?

4 A. The project.

5 Q. So PacifiCorp has it?

6 A. In this case, I'm not certain who has those  
7 funds, but they were submitted by the partners for the  
8 project. I would have to check on that.

9 Q. And you refer to the "project," are you  
10 referring to part of the sale?

11 A. The plant itself, its operating costs that  
12 are called for.

13 Q. Correct me if I'm wrong on the understanding  
14 of this, but this amount is charged through rates  
15 virtually as a fuel cost, is it not?

16 A. That's correct.

17 Q. So it's been included in rates traditionally?

18 A. Yes, that's correct.

19 Q. So Puget receives this money in the form of  
20 bills being paid by customers, and what happens to the  
21 money once it's received?

22 A. I would have to check to see where that goes.  
23 I would have to follow through on that, but I had been  
24 under the understanding that it was submitted to the  
25 project for reclamation. It may not have been.

00187

1 Q. Is the project an organization, or are we  
2 talking about PacifiCorp, which, is it not, the  
3 operating --

4 A. I'm talking about the project itself, the  
5 plant.

6 JUDGE SCHAER: When you talk about the  
7 project, you are talking about the Centralia Power  
8 Plant; is that correct, sir?

9 THE WITNESS: Yes.

10 Q. (By Mr. Adams) This is a separate entity  
11 that you are referring to?

12 A. It's a project that all of these people have  
13 an interest in, all of the parties.

14 Q. You are talking about the current partners?

15 A. Yes.

16 Q. Is it then a cash account that is held by  
17 this entity?

18 A. I don't know exactly where it is. I can  
19 confirm where that's at.

20 Q. But it is a cash account. It is not just an  
21 accrued amount?

22 A. Yes.

23 Q. We are now beyond 12/31/99 and customers  
24 continue to pay bills, so I'm assuming that these funds  
25 continue to come into Puget and Puget transfers these

00188

1 funds to whoever this entity is that holds the funds;  
2 is that correct?

3 A. That would be reasonable.

4 Q. Do you know, is this the way each of the  
5 utilities handles the reclamation costs?

6 A. I don't know what each of the utilities does.

7 Q. Internally as far as Puget is concerned, is  
8 this just handled as a fuel cost of which a portion of  
9 this is paid into the reclamation fund?

10 A. That's my understanding.

11 Q. Is my understanding correct that if the sale  
12 with TransAlta is consummated, those funds are then  
13 transferred to TransAlta?

14 A. That would be a reasonable assumption.

15 Q. But you don't know firsthand?

16 A. No.

17 MR. ADAMS: Thank you. I have no further  
18 questions.

19 JUDGE SCHAEER: Mr. Van Cleve, did you have  
20 questions for Mr. Karzmar?

21 MR. VAN CLEVE: Just a few, Your Honor.

22

23 CROSS-EXAMINATION

24 BY MR. VAN CLEVE:

25 Q. If you could refer to Page 2 of your rebuttal

00189

1 testimony, Exhibit T-116, Lines 5 through 8, I'd like  
2 to ask you a couple of questions about the terms fair  
3 rate for service that you used. Can you define what  
4 you mean by "fair rate" for the service?

5 A. The fair rate for the service is what's been  
6 determined to be appropriate by the Commission. It  
7 includes the recovery of depreciation, recovery for  
8 operating costs as determined to be appropriate, fair.

9 Q. Isn't it true that the cost of a new plant is  
10 often above market due to the manner in which capital  
11 costs are amortized?

12 A. Would you repeat that, please?

13 Q. Isn't it true that the costs of a new  
14 generating plant are often above market due to the  
15 manner in which capital costs are amortized?

16 A. The costs are amortized generally uniformly  
17 over the life of the plant, and so when you bring a new  
18 plant on line you are suggesting that for some reason  
19 it's more expensive.

20 Q. Isn't it true that when a plant is placed in  
21 rate base, it's based on an analysis of the cost of the  
22 plant over it's life?

23 A. Over it's projected life, yes, it's expected  
24 life.

25 Q. And isn't it also true that the costs of the



00190

1 plant are higher in the early years due to the capital  
2 costs than they are later in the life of the plant?

3 A. Would you say that one more time? Is it true  
4 that the costs are higher in the earlier years; the  
5 cost of what? Operating the plant?

6 Q. Yes?

7 A. The costs of operating the plant or the costs  
8 of operating the plant including depreciation and the  
9 return of investment?

10 Q. Let me try it a different way. Has PSE ever  
11 placed a plant in rate base in which the early years  
12 the plant was expected to be more expensive than  
13 market?

14 A. Can you point to a specific?

15 Q. Well, let me point to Colstrip, for example.

16 A. Yes.

17 Q. Say the newest Colstrip Plant. When they  
18 were placed in rate base, were there fully allocated  
19 costs above market then?

20 A. It could have been. What costs are you  
21 including when you say "fully allocated costs"? Are  
22 you including costs to operate the plant, including  
23 fuel? Are you including the return on the investment?

24 Q. All the costs. Is it true that a plant like  
25 Colstrip is found to be prudent not because its initial

00191

1 costs are above market but because the expectation is  
2 over the life of the plant, it's expected to be below  
3 or at least equal to market?

4 A. It's expected to be fair value of the life of  
5 the project.

6 Q. If an asset is sold, aren't ratepayers  
7 deprived of the long-term value of that asset?

8 A. Not necessarily.

9 Q. Why not?

10 A. Why would they be? It depends on the  
11 circumstances.

12 Q. I'd like to refer you to Page 3, Lines 4  
13 through 7 of your rebuttal testimony. You say that you  
14 were well aware of the nature of the bargain struck in  
15 the rate plan.

16 A. Yes.

17 Q. How were you aware of that?

18 A. I was on the committee that worked on the  
19 merger.

20 Q. Were you involved in the negotiations of the  
21 rate plan?

22 A. Indirectly.

23 Q. But not directly?

24 A. That's correct.

25 Q. Did you submit any testimony in the merger

00192

1 proceeding?

2 A. No, I did not.

3 Q. What was your position prior to the merger?

4 A. I was the director of revenue requirements  
5 for Washington Natural Gas.

6 Q. Prior to the merger, did you have any  
7 experience in electric ratemaking issues?

8 A. No, I did not.

9 Q. I'd like to refer you to Page 3 of your  
10 rebuttal testimony, Lines 19 through 21, which states  
11 that the parties were very specific in their  
12 stipulation regarding the sales of nondepreciable  
13 property; is that correct?

14 A. That's correct.

15 Q. Do you know whether the parties to the  
16 stipulation contemplated the sale of a major generating  
17 asset at the time the stipulation was negotiated?

18 A. At the time the merger stipulation was  
19 negotiated, I'm not aware that was contemplated or not.

20 Q. Do you know if the Company had any plans to  
21 sell major generating assets at that time?

22 A. I don't know that.

23 Q. Do you know why the stipulation contains a  
24 provision regarding deferral of nondepreciable  
25 property?

00193

1           A.       The Company had an agreement, a stipulation,  
2 preceding the merger that discussed how nondepreciable  
3 property should be accounted for upon sale, and so it  
4 was specifically addressed in the merger as being  
5 something that was identified ahead of time as to what  
6 the accounting treatment would be.  If it wasn't  
7 specifically identified as such in the merger  
8 stipulation, then it was assumed it would be business  
9 as usual.

10           MR. VAN CLEVE:  That's all the questions I  
11 have.

12           JUDGE SCHAER:  Mr. Lavitt, did you have any  
13 questions for Mr. Karzmar?

14           MR. LAVITT:  I do not.

15           MS. HIRSH:  I do not.

16           JUDGE SCHAER:  Commissioners, do you have  
17 questions?

18           CHAIRWOMAN SHOWALTER:  :  I think I have a  
19 follow-up question.

20

21                           E X A M I N A T I O N

22 BY CHAIRWOMAN SHOWALTER:

23           Q.       I'm really just trying to understand the  
24 questions and the answers, but Mr. Van Cleve, I think,  
25 asked you a question that if the plant is sold, then

00194

1 aren't ratepayers deprived of the benefits. Doesn't  
2 that depend first on some calculation of whether -- and  
3 there benefits of burdens out there in the future to be  
4 either enjoyed or spared in terms of benefits and  
5 burdens.

6 A. I think that's correct, and that's why I say  
7 not necessary that were you to put a plant in service  
8 that's supposed to last for 40 years, and the  
9 ratepayers pay for it over that 40-year period of time,  
10 they can expect that there is going to be a benefit  
11 there for 40 years, but somehow things could change.  
12 Market conditions could change such that it would be  
13 more beneficial to sell that plant to the ratepayer  
14 than it would be to continue it, and so if that were  
15 the case and the plant were sold under the  
16 circumstances, were there other benefits, then the  
17 ratepayer is not necessarily deprived of the net  
18 benefit of the combined transactions.

19 Q. Part of it is an exercise, if no allocations  
20 are made, what are the relative benefits and burdens of  
21 a sale, but then, of course, there is another step,  
22 which is some of this depends on what we do at the time  
23 of sale as to whether there are or are not benefits or  
24 burdens in terms of the allocation. That is, we would  
25 be projecting some type of benefits and burdens and

00195

1 accounting for them in this transaction. That's part  
2 of what this hearing is about.

3 A. Yes.

4 Q. But isn't another aspect of this is the  
5 assumptions that these projections are making that, in  
6 fact, there are ratepayers out there in the future with  
7 a relationship to the Company to either experience  
8 benefits of a plant or not or the burdens of a plant or  
9 not, and one of the unknowns here is in the out years,  
10 beginning, two, three, four, 18 or more years away,  
11 whether there will be the same relationship we know  
12 today between ratepayers and the utilities? One of the  
13 questions for the ratepayers' point of view is, Am I  
14 going to be around to either experience the benefit or  
15 be spared the burden. Isn't that another uncertainty  
16 that we are dealing with here?

17 A. It certainly is.

18 Q. That particular uncertainty is not accounted  
19 for in these various projections and tables that we  
20 have. That's perhaps what's being referred to as one  
21 of the qualitative uncertainties; am I right there?

22 A. I believe you are.

23 Q. And I'm raising these issues, I think,  
24 because it's one thing to compare the different  
25 projections people assuming all of them that the

00196

1 ratepayers are going to be there to either feel the  
2 burden or the benefit, and an overlay of all of them is  
3 this uncertainty about what the structure of the  
4 electric environment is going to be in the out years,  
5 and doesn't that have the effect of making more tenuous  
6 the out years of any of these projections, just as the  
7 out years in market projections are also more tenuous.  
8 A. Certainly they are. The further out we go in  
9 a transaction like this, the more uncertainty there is,  
10 especially with how things have changed in the utility  
11 industry and all of the other pressures that could  
12 affect the operation of a plant like this, so further  
13 out we envision what's going to happen, the more  
14 uncertainty there is, but certainly the risks can be  
15 assessed, and all of these things need to be taken into  
16 consideration when looking at a transaction like the  
17 one we are looking at today where the plant was put  
18 into service with an expected life of 40 years, and  
19 things have changed since that plant was first put into  
20 service, and now it's believed that it would be  
21 beneficial to the parties involved, given the  
22 uncertainties of the future and where we are today,  
23 that there is a benefit to be provided here, so we  
24 believe it's still in the best interest of the  
25 ratepayers and the public interest in this case with

00197

1 regard to Centralia.

2 CHAIRWOMAN SHOWALTER: : I don't have anymore  
3 questions.

4

5 E X A M I N A T I O N

6 BY COMMISSIONER HEMSTAD:

7 Q. Pursuing that line of questions and answers,  
8 I assume the participants in the project, as it is  
9 referred to, at a time that the plant was built would  
10 factor into whether it was a worthwhile project or not,  
11 and those future uncertainties whether positive or  
12 negative, and that translates into the run on equity,  
13 really, or the cost of capital for undertaking that  
14 venture; isn't that right?

15 A. Certainly that needs to be taken into  
16 consideration.

17 Q. In other words, if the project has greater  
18 risk, yet it's still a prudent undertaking, then that  
19 would be reflected in the capital costs.

20 A. Yes.

21 Q. So those unknown, unanticipated future  
22 events, positive or negative, really are accounted for  
23 initially, and doesn't it then follow that as though  
24 events become known, adjustments can be made in the  
25 ongoing rate cases either in the form of a change in



00198

1 the return and equity or in depreciation?

2 A. As the events come known, if they are allowed  
3 to occur, then adjustments can be made.

4 Q. So it is both an initial assessment as to the  
5 nature of the risk and then ongoing adjustments as  
6 risks become better identified during the life of the  
7 project.

8 A. Correct.

9 Q. I'd like to ask a question along the same  
10 lines that I asked Mr. Gaines. What is your view, in  
11 the form of a hypothetical, of the arrangement of the  
12 rate freeze where the position of the Company is that  
13 the gain from a sale should be for the benefit of the  
14 shareholder during that period of time when in a  
15 different transaction, it was not a gain but a loss.  
16 How should that be treated?

17 A. First of all, I think every transaction has  
18 to be looked at individually to assess how it should be  
19 treated. In the case of this transaction, you are  
20 looking at a situation where there is a gain with  
21 respect to the sale of the plant, yet there are  
22 projected shortfalls in terms of power costs in the  
23 first couple of years that somewhat offset that gain.  
24 Then there are some ongoing benefits and there are some  
25 huge risks that Mr. Gaines referred to as risks that

00199

1 could have severe financial consequences that also need  
2 to be taken into consideration.

3           When you look at everything in balance,  
4 including all of those huge risks and you assess that  
5 it's still in the best interest and that you should  
6 somehow fairly account for all this; that there is a  
7 benefit that's being provided here and reduced risk in  
8 the future that's potentially a severe financial risk  
9 for the ratepayer that what the Company has proposed,  
10 which includes amortization of the gain during the rate  
11 stability period, also includes gain amortization that  
12 is outside the rate stability period that provides a  
13 balanced and shared principle benefit on both sides of  
14 that transaction, and it's certainly reasonable to  
15 amortize that gain. In this case, it's a gain. As you  
16 speculated, if it were a loss -- I don't know what  
17 situation would occur that the Company would want to  
18 create a loss, and certainly if there was some sort of  
19 a loss created, there must be some benefit or a net  
20 attraction that in order to do something like that, but  
21 certainly if there was a loss or an amortization of the  
22 loss, which would be the proper accounting for the  
23 transaction, it very well could have an amortization of  
24 the loss which would include what would be a portion in  
25 the rate stability period. It could work both ways.

00200

1 Q. Let me give you a hypothetical. Assume a  
2 company in the evolving current environment has a  
3 strategy to sell all of its generating assets,  
4 disaggregating and getting out of the generation  
5 business entirely, and there is such a period of a rate  
6 freeze and the provisions of the merger stipulation,  
7 and assume there were half a dozen generating assets,  
8 and sequentially the Company brings to a Commission the  
9 first three where there are gains, taking the position  
10 that the gains are for the benefit of the shareholders,  
11 apparently the defining benefits as a result of  
12 management practices, and the last three are losses, so  
13 in that kind of a situation, how should the Commission  
14 respond?

15 A. Again, this is highly speculative what would  
16 occur. First of all, the Company, to my knowledge,  
17 doesn't have any intention to get rid of all its  
18 generating asset --

19 Q. That's why I posed it as a hypothetical?

20 A. As I said to begin with, you have to look at  
21 each transaction with its own merit and study what the  
22 appropriate accounting should be for that transaction,  
23 and that should determine how it should go forward;  
24 that yes, very indeed could result in just what you  
25 speculate. It has to go both ways or it could go both

00201

1 ways, and it just depends on whether it's in the rate  
2 stability period or outside the rate stability period,  
3 you are suggesting is a barrier.

4 Q. Then I was going to modify the hypothetical  
5 to say the first three occurred within the rate  
6 stability period and the last three with losses  
7 occurred outside of the rate stability period, but as  
8 part of an overall strategy to get out of the  
9 generating business.

10 A. That's a possibility that something like that  
11 could happen. The proper accounting has to be looked  
12 at in each transaction individually, and as you just  
13 stated in that hypothetical situation, should the same  
14 accounting treatment be avoided, then there would be an  
15 amortization of the loss outside the rate stability  
16 period in a case that you suggested. If that's what  
17 happened, the gain would go to the shareholder and the  
18 loss would go to the ratepayer.

19 COMMISSIONER HEMSTAD: Thank you.

20 CHAIRWOMAN SHOWALTER: Can I follow-up?

21

22 FURTHER EXAMINATION

23 BY CHAIRWOMAN SHOWALTER:

24 Q. Another hypothetical. Forget about the rate  
25 plan period. Let's assume we are after that so that's

00202

1 not at issue. Assume two scenarios: One is a company  
2 selling off different plants in sequence over some  
3 period of time. Some might produce gain and some might  
4 produce stranded cost. The other scenario is all six  
5 are sold at the same time. Should the accounting or  
6 the allocation of benefits and burdens be different?  
7 Is it justified that they be different if it's over  
8 time versus all at one time. All other things being  
9 static, all else being equal.

10 A. I'm not sure I'm clear on what you are  
11 asking.

12 Q. I guess what I'm trying to get at is, should  
13 the Commission be looking at these questions of those  
14 sales of plants such that whatever we determine would  
15 produce the same result to a company and its ratepayers  
16 if plants were sold sequentially over a period of time  
17 as if they were sold all together, or is that either  
18 not a desirable goal or realistic one for some reason?

19 A. I think under ordinary circumstances, you  
20 would have to take all of those things into  
21 consideration. If you were going to sell them  
22 sequentially, somehow you would want some sort of  
23 parity and balance in terms of how they were all  
24 handled, and they should all have symmetry, or if you  
25 did all the transactions at one time, then you could

00203

1 look at the whole situation at one time and deal with  
2 them all at once.

3 In this case, it is much different because  
4 we're in the middle of a rate stability period, and  
5 business as usually would call for us to ask for  
6 amortization on the netted gain on a plant like this,  
7 and that's what the Company has asked for.

8 Q. I understand that your position is that the  
9 rate plants could interject and cut off really the  
10 hypothetical I posed, but that's why I posed the  
11 hypothetical after the rate period. I'm just trying to  
12 get a sense of how you view treatment of sequential  
13 sales versus a package.

14 A. It would make sense to me that absent a rate  
15 stability period that it wouldn't be unreasonable to  
16 expect similar treatment for each transaction, but each  
17 one still would have to be looked at individually. In  
18 this case, things were different because we are in the  
19 middle of a rate stability period, and the Company was  
20 challenged with having to achieve all sorts of savings  
21 in addition to power cost savings and stretch goal  
22 savings. It was challenged to find other operating  
23 efficiencies and other savings in order to be able to  
24 recover what it had already passed on to the ratepayer  
25 in the form of reduced rates, so in this particular

00204

1 case, we believe that this is a very balanced and fair  
2 approach, and the timing should be within the rate  
3 stability period for the amortization and gain.

4 CHAIRWOMAN SHOWALTER: That's all I have.

5

6

E X A M I N A T I O N

7 BY JUDGE SCHAER:

8 Q. Mr. Karzmar are you familiar with Bench  
9 Request No. 2 and the Company's response to that  
10 request?

11 A. Yes.

12 Q. I would propose putting that request and  
13 response into the record as Exhibit 127. Is there any  
14 concern about that by any party?

15 THE WITNESS: Can I point something out on  
16 this exhibit?

17 JUDGE SCHAER: I'm first waiting to hear from  
18 counsel.

19 MR. HARRIS: I have no objection.

20 JUDGE SCHAER: I don't think so right now,  
21 but if your counsel wants to ask you on redirect, he  
22 may do so. Bench Request 2, which reads, Please  
23 provide the complete Exhibit KRK-4. Supplied exhibit  
24 includes Entries 1 through 6 with reference on Page 9  
25 of your testimony includes an Entry No. 9 and then the

00205

1 response provides a spreadsheet showing Entries 1  
2 through 10.

3 (Discussion off the record.)

4 THE WITNESS: Did you mark this 127?

5 JUDGE SCHAER: Yes, and that document is  
6 admitted.

7 Q. (By Judge Schaer) Mr. Karzmar, you were  
8 asked some questions by Mr. Van Cleve, and I got lost  
9 in some of your answers, so for clarification for me,  
10 is it true that when a generating plant such as  
11 Colstrip is put into rates, and you look at all of the  
12 costs that go into rates, including depreciation and  
13 including capital costs, that those costs are higher in  
14 the earlier years than the later years?

15 A. That's correct. Generally, when you put a  
16 new plant into service, because you have depreciation  
17 is uniform over the life, your operating costs  
18 generally increase over the life of the plant, but the  
19 Company generally is able to charge a return on that  
20 investment which would be higher in the earlier years  
21 because the rate base and service would be higher in  
22 the earlier years, so generally speaking, the cost of  
23 the plant would be higher in the early years. That  
24 doesn't mean necessarily that it's higher in the  
25 market. It just means it's higher in the earlier years



00206

1 than the later years.

2 Q. And that's because the rate of return is  
3 being earned on a balance that hasn't been depreciated  
4 as much in the first year as it would have been, say,  
5 in the 20th years; is that correct?

6 A. That's correct.

7 Q. So the rate base goes down over time.

8 A. That's correct. The cost of financing that  
9 project was higher in the earlier years than it is in  
10 the latter years, so as a result, yes.

11 JUDGE SCHAER: Thank you. Is there any  
12 redirect for this witness?

13 MR. HARRIS: No.

14 JUDGE SCHAER: Anything further?

15 MR. CEDARBAUM: I have just one clarification  
16 question

17

18 RE CROSS-EXAMINATION

19 BY MR. CEDARBAUM:

20 Q. Mr. Karzmar, during the rate plan on the  
21 electric side, rates have gone up every year on an  
22 annual basis; is that right?

23 A. Categorically, I can't say that. Initially,  
24 during the rate plan period, there was a big rate  
25 reduction that went into effect. Since then, there

00207

1 have been increases on the electric side, only each  
2 year small increases on the electric side.

3 MR. CEDARBAUM: Thank you.

4 JUDGE SCHAER: Mr. Adams.

5 MR. ADAMS: Just a couple of brief questions  
6 concerning the issue discussed with the Bench relating  
7 to risk.

8

9

CROSS-EXAMINATION

10 BY MR. ADAMS:

11 Q. Is it your understanding that TransAlta is an  
12 experienced operator in coal generating plants?

13 A. I know very little about TransAlta.

14 Q. So you have no knowledge about their  
15 experience in operating coal plants?

16 A. No real knowledge. Nothing that wouldn't be  
17 hearsay.

18 Q. Recognizing that there are always risks in  
19 operating a generating plant, it is true, isn't it,  
20 that TransAlta is willing to buy Centralia at a value  
21 substantially above the book value of the plant?

22 A. That's true.

23 Q. Would you agree that it is not logical for  
24 TransAlta to pay that much for Centralia if it only  
25 expects to operate it for a few years?

00208

1 A. I don't know what they are thinking.

2 Q. Just one more question. This relates to the  
3 follow-up to a qualification made by Mr. Karzmar to  
4 Mr. Cedarbaum. Mr. Karzmar, you indicated there have  
5 been only increases on the electric side. In making  
6 that response, did you consider the recent tracker  
7 increase on the gas side?

8 A. The tracker increase you refer to is the PGA  
9 increase?

10 Q. Yes.

11 A. There have been increases and decreases in  
12 gas costs which, of course, have no impact on earnings,  
13 and they've gone both ways. There is also a decrease  
14 on the gas side.

15 Q. Could you give the amount of the most recent  
16 one? I believe it was just approved by the Commission  
17 a month ago, the PGA adjustment?

18 A. I don't know off the top of my head what the  
19 dollar amount is. We can get that for you.

20 Q. Could you accept subject to check that it was  
21 about five cents per therm increase?

22 A. Are you talking about five cents a therm to  
23 our average customer, residential customer?

24 Q. Yes, average customer.

25 A. I'd accept that subject to check. I really

00209

1 don't know.

2 MR. ADAMS: That's all.

3

4 REDIRECT EXAMINATION

5 BY MR. HARRIS:

6 Q. You were asked about if it made sense, Mr.  
7 Karzmar, for TransAlta to be paying a large sum of  
8 money for a plant if they thought it was only going to  
9 operate for a few years. Do you have any opinion about  
10 whether the risk of early closure is higher for  
11 TransAlta or higher for the current owners of the  
12 plant?

13 MR. ADAMS: I'm going to object to the  
14 question because the witness gave me a nonanswer, and  
15 now he's being asked to make a distinction between the  
16 buyer and the seller here when he's already indicated  
17 he doesn't know about the buyer.

18 JUDGE SCHAER: I'm going go overrule that  
19 objection.

20 MR. HARRIS: I can put the question in much  
21 simpler terms.

22 JUDGE SCHAER: I would just like Mr. Karzmar  
23 to answer the question as asked.

24 THE WITNESS: I would have rather have it in  
25 simpler terms.

00210

1 JUDGE SCHAER: I've already said no to  
2 that, Mr. Karzmar. Go ahead, please.

3 THE WITNESS: There certainly seems to be a  
4 huge risk posed to the ratepayer of early closure, and  
5 I don't know how that compares to the risk that  
6 TransAlta would have.

7 MR. HARRIS: Nothing further

8

9

RECROSS-EXAMINATION

10 BY MR. VAN CLEVE:

11 Q. I have just have one follow-up on  
12 Commissioner Hemstad's question about who should bear  
13 the loss if there is a loss of a sale on an asset. Are  
14 you aware of whether PSE has a position on the recovery  
15 of stranded costs at the retail level?

16 A. I don't think that there is an official  
17 Company position on stranded costs.

18 Q. Are you aware that the Company filed comments  
19 with FERC in the RTO rule making, which advocated the  
20 full recovery of stranded costs at the retail level?

21 MR. HARRIS: Object to the question as beyond  
22 the scope of these proceedings.

23 JUDGE SCHAER: Sustained.

24 MR. VAN CLEVE: No further questions.

25 JUDGE SCHAER: Thank you for your testimony,

00211

1 Mr. Karzmar.

2 (Discussion off the record.)

3 JUDGE SCHAER: We are back on the record  
4 after a brief recess in which we changed witnesses.  
5 While we were off the record, Mr. Ely has taken the  
6 stand, and Mr. Adams has distributed a document which I  
7 will mark for identification at Exhibit 323.

8 Mr. Dahlke, did you wish to call your witness?

9 MR. DAHLKE: Yes. Avista Corporation calls  
10 as its policy witness in this proceeding Mr. Gary Ely,  
11 executive vice president of the Avista Corporation.

12 (Witness sworn.)

13

14 DIRECT EXAMINATION

15 BY MR. DAHLKE:

16 Q. Mr. Ely, have you caused to be prepared for  
17 this proceeding direct testimony which is marked as  
18 Exhibit T-301?

19 A. Yes, I have.

20 Q. And you have that testimony with you?

21 A. Yes, I do.

22 Q. Do you have any corrections to that  
23 testimony?

24 A. No, I do not.

25 Q. Subsequent to the filing of that testimony,

00212

1 can you tell us what has transpired with regard to the  
2 transaction between Portland General Electric and the  
3 Avista Corporation concerning Portland General  
4 Electric's two-and-one-half-percent share of the  
5 Centralia Steam Plant?

6 A. Yes. Since we have filed my testimony, we  
7 have closed the purchase of the Portland General  
8 Electric two-and-a-half-percent share.

9 Q. What was the date of closing?

10 A. The date of closing was December 31st, 1999.

11 Q. What would be the disposition of that  
12 two-and-a-half-percent share if the sale to TECWA,  
13 which is the subject of this proceeding, were to close?

14 A. Our intent is to sell it to TECWA.

15 Q. Would that sale result in a gain?

16 A. Yes, it would.

17 Q. Can you tell us the approximate amount of  
18 that gain?

19 A. The approximate amount of that gain is 3.5  
20 million. There is an additional 1.1 million. That's  
21 not correct. What we paid TECWA was 3.5 million, and  
22 there is an additional 1.1 million of cost that would  
23 be paid at closing to TECWA plus all scrubber costs.

24 Q. And pending the closing of the TECWA sale,  
25 what is the disposition that is being made of the power

00213

1 that is generated by Portland's two-and-a-half-percent  
2 share?

3 A. I'm sorry, counsel.

4 Q. Pending the closing of the sale with TECWA,  
5 were that to occur, what is the current disposition of  
6 the two-and-a-half-percent share of power that is  
7 produced by that share?

8 A. Portland General currently has maintained  
9 operation responsibility for that plant as well as coal  
10 supply and such and continued to operate it. It has  
11 not and does not come into our jurisdictional  
12 activities.

13 Q. One final question on that, can you tell us  
14 what Avista Corporation's position is with regard to  
15 the gain that would be created at the time of closing  
16 of the sale with TECWA, were that to occur?

17 A. On Page 3 of the application, we stated that  
18 it would not be a part of this application, and that it  
19 would be our intent that the gain go to the  
20 shareholders.

21 MR. DAHLKE: With those additions, I would  
22 move the admission of Mr. Ely's testimony, Exhibit  
23 T-301.

24 JUDGE SCHAER: Any objections?

25 MR. CEDARBAUM: I have no objection. As I



00214

1 stated earlier this morning, I think we had agreement  
2 with counsel and the Bench that the latest series of  
3 questions that Mr. Ely just gave, answers he gave with  
4 respect to the PGE portion of Centralia, I think the  
5 agreement was that Mr. Elgin would be allowed to, when  
6 he takes the stand on Monday, that he can provide a  
7 short response for Commission staff on that subject  
8 matter so with that understanding, we don't have any  
9 objection.

10 JUDGE SCHAER: Mr. Dahlke, would you ask  
11 Mr. Ely just to summarize what we just discussed about  
12 the purchase plants, please.

13 Q. (By Mr. Dahlke) Mr. Ely, could you again  
14 summarize for the Commissioners what you just indicated  
15 with regard to the purchase of the Portland General  
16 Electric two-and-a-half-percent share of Centralia?

17 A. Yes. Since he filed my testimony, we have  
18 closed the purchase of the PG and E  
19 two-and-a-half-percent share. That plant remains in PG  
20 and E's control, and they were using it for their  
21 facilities. We do not operate it. It does not come  
22 into our facilities.

23 We do intend to sell it to TECWA with the  
24 closing, and it has not been used to serve our  
25 customers, and we would anticipate that that gain would

00215

1 go to the shareholders when we sell it. The only other  
2 thing I added is it did close on December 31, 1999.

3 JUDGE SCHAER: Mr. Harris, did you have  
4 questions of this witness?

5 MR. HARRIS: No.

6 MR. CEDARBAUM: No questions.

7 JUDGE SCHAER: Mr. Adams?

8 MR. ADAMS: Yes.

9

10 CROSS-EXAMINATION

11 BY MR. ADAMS:

12 Q. Mr. Ely, I want to ask you a few further  
13 follow-up questions concerning the PGE transaction. Am  
14 I correct I heard you say you paid 3.5 million for  
15 PGE's 2.5 percent share?

16 A. That's what I said, yes.

17 Q. In addition, you paid an additional 1.1  
18 million dollars for what?

19 A. In addition, if the sale is consummated, we  
20 will pay an additional 1.1 million at the closing to  
21 TECWA.

22 Q. For what? Is that transfer, clean up costs?

23 A. No. It is an additional incentive. It's an  
24 additional or sharing of the gain on the sale.

25 Q. So you are sharing it with the purchaser?

00216

1 A. No. The dollars go to PG and E.

2 Q. I'm sorry. I thought you were sharing with

3 TECWA.

4 A. Excuse me. I was not very clear on that.

5 Q. Was the purchase of the 3.5 million dollars,

6 is that book value for the 2.5 percent that PG and E

7 has?

8 A. Yes.

9 Q. At what price would you then be selling it to

10 TECWA?

11 A. I don't think I have those numbers in front

12 of me. One of the other witnesses will actually have

13 the numbers.

14 Q. Just as long as we find out what that number

15 is.

16 A. We do have those numbers.

17 Q. Is the sale from PG and E going to Avista, or

18 is it going to a subsidiary of Avista.

19 A. It's not going to a subsidiary. It's going

20 to Avista Corps.

21 Q. Which is not the regulated portion of Avista;

22 is that correct?

23 A. Technically it is. Technically, Avista Corps

24 is the utility, because under the Public Utility

25 Holding Company Act, we cannot have subsidiaries

00217

1 holding utility property.

2 Q. Can you quantify in a general sense,  
3 recognizing I'll be giving the right number later on,  
4 what the approximate amount of gain is?

5 A. I think it's about 4.6 million, 3.6.

6 Q. Hand signals say 3.6. So effectively, almost  
7 the same amount as you are purchasing it for above that  
8 in gain; is that correct?

9 A. That's correct.

10 Q. What would happen if the sale with TECWA does  
11 not proceed?

12 A. What would happen if the sale with TECWA does  
13 not proceed?

14 Q. Yes, as far as your 2.5 percent new ownership  
15 here?

16 A. Then we would have to make a decision at that  
17 time, since it does not and probably a partial plant  
18 could not get EWG status. We would probably look to  
19 see if that would fill part of the resource needs we  
20 have at the utility.

21 Q. And assume for the moment that it does not.  
22 Have you made that determination yet in terms of  
23 whether it would fill a resource?

24 A. We are currently in our resource plan short,  
25 and so if we sell Centralia to TECWA, we will be

00218

1 looking at additional generation. If it's not sold,  
2 then depending on -- two-and-a-half percent is a very  
3 small piece, so it's kind of immaterial in the  
4 rounding, but we would looking at other pieces. In my  
5 testimony, you will see where we have an option for an  
6 additional eight percent if it's not sold. Neither one  
7 of those together would fulfill our needs going forward  
8 as far as resource requirements.

9 Q. So are you suggesting that it would be  
10 brought in as a regulated part of your operations?

11 A. That would be something that we would  
12 explore, certainly, with Commission staff, if that made  
13 appropriate sense.

14 Q. Is there also the possibility that it would  
15 be kept in an unregulated subsidiary?

16 A. I'm not sure that technically we could. We  
17 would be required, I think, to restructure the Company  
18 into a holding company in order to do that.

19 Q. Would it be your desire to do that? Not to  
20 restructure the Company, but to bring it in as an  
21 unregulated?

22 A. Since I also have responsibility for our  
23 Avista capital companies, which includes our  
24 unregulated businesses, and we do have a power  
25 marketing company, we would like to have additional

00219

1 assets in that unregulated company to provide support  
2 for our marketing function.

3 Q. Maybe I've inadvertently stated my question.  
4 Am I correct that it doesn't really have to be in an  
5 unregulated subsidiary in order to be unregulated; is  
6 that a fair statement?

7 A. That would probably be a fair statement.

8 Q. I'd like to then ask a couple of questions  
9 about the Snohomish purchase. Is that basically an  
10 option to purchase?

11 A. Yes, that is an option to purchase.

12 Q. Is that also at book value?

13 A. No, it's not.

14 Q. At what value is that option?

15 A. I don't know that I'm at liberty to disclose  
16 that. I would have to check the agreement to see -- I  
17 think we have to because I think it's a public agency,  
18 and they did get approval to sign the agreement with  
19 us. They do not have to sell, but we have the right to  
20 purchase, and it's basically at the cost -- I'll go  
21 ahead and tell you. It's at the cost of whatever  
22 additional capital they put in between when we signed  
23 and when the plant is determined that -- if it's sold,  
24 we have no right, but if it isn't sold, then it's  
25 whatever capital costs they put in on the scrubbers and

00220

1 stuff up until we make that determination.

2 Q. Is the starting point the book value of the  
3 investment?

4 A. No. In a meeting where the sale was about to  
5 fall apart, I made the offer that if individuals wanted  
6 to walk away from their plan, I would be willing to  
7 take on the liability of the reclamation, the scrubbers  
8 and the other things. The corporation would be willing  
9 to take on that liability. In other words, we would  
10 take all future costs and future liabilities for it.

11 Q. I'm not trying to tie you down to a specific  
12 price, but I'm trying to determine in terms of  
13 generalities, the purchase price of this option would  
14 be what? Would it be at the level of the sale  
15 TransAlta, or would it be something in between the book  
16 and the TransAlta sale?

17 A. I guess I'm not being very clear. Let me try  
18 it again. For legal reasons, it would be a dollar plus  
19 whatever capital they put in the project between when  
20 we signed the deal and when we determined that the sale  
21 would not go to TECWA. They basically would walk away  
22 from the plan, absent the stuff that -- we would pick  
23 up all the current costs.

24 Q. So basically, their book value they are  
25 willing to write off.

00221

1 A. That is correct.

2 Q. In the process of these various negotiations,  
3 correct me if I'm wrong, but both Seattle City Light  
4 and Grays Harbor have indicated an interest in selling,  
5 have they not?

6 A. I made the offer to each of the individual  
7 companies, and some said they expressed an interest  
8 that they might be interested later in talking. We  
9 have not followed up on that because the intent is to  
10 sell to TECWA; however, Snohomish came forward that  
11 very day I made the offer and indicated they would be  
12 interested. They would have to clear it with their  
13 board, which they did the next week, and we signed the  
14 papers, I think, by the end of the following week or  
15 thereabouts.

16 Q. Assuming for purposes of this question that  
17 the TransAlta sale does not go through, do you have the  
18 unilateral right to exercise the option?

19 A. No, we do not.

20 Q. Does that mean it has to be renegotiated?

21 A. No. They have the right to keep it. If they  
22 sell it, it goes to us, but if it doesn't go through,  
23 we can't require them to give it to us.

24 Q. Is Avista interested in picking up the shares  
25 of Seattle City Light and Grays Harbor if the deal does



00222

1 not go through and those are on the market?

2 A. If the deal does not go through and they are  
3 on the market and depending on the economics of the  
4 individual deals, what they would want for them,  
5 certainly we would be interested in looking at those  
6 shares, yes.

7 Q. If something of that type happened, then you  
8 basically have consolidated the ownership of the plant  
9 down to about three owners; is that correct?

10 A. It depends on how many went out, but that's  
11 true, yes.

12 Q. I'm sorry if I haven't been hearing you well  
13 in terms of receiving input in my brain today. If that  
14 Snohomish PUD purchase went through, it may or may not  
15 be regulated; is that a correct statement?

16 A. If the plant does not sell to TECWA and we  
17 exercise the option and Snohomish is willing to allow  
18 us to exercise the option, it may or may not be  
19 regulated property.

20 Q. So the issue of if there is a gain and so  
21 forth, all of those issues are in the future to be  
22 looked at if and when that happens?

23 A. That would be correct.

24 Q. We've been kind of going forward in time.  
25 I'd like to go back in time for just a short moment.

00223

1 Am I correct that up until July of 1990, Avista owned  
2 half of the coal mine at Centralia?

3 A. That is correct. We also were the operator  
4 of that coal mine.

5 Q. Was that 50/50 ownership between WIDCO, a  
6 subsidiary of Avista, and Pacific Power and light; is  
7 that correct?

8 A. That is correct.

9 Q. In the end of July 1990, then WIDCO sold  
10 50-percent interest to PacifiCorp; is that correct?

11 A. That is correct.

12 Q. If I understand it, there was an after-tax  
13 gain on that sale of thirteen-and-a-half million  
14 dollars, and I can show you the reference in your  
15 Public Counsel No. 1 you responded with that  
16 documentation.

17 A. I would accept that subject to check.

18 Q. Am I also correct that the Company did not  
19 seek approval of that transaction from this Commission?

20 A. I believe that is correct.

21 Q. Were the profits from that sale kept below  
22 the line?

23 A. I believe that is correct.

24 Q. Am I correct that Avista currently owns a  
25 minority share of the Colstrip Plant?

00224

1 A. Yes, we do.

2 Q. Could you indicate which plants you have  
3 ownership in and what your percentages are, please?

4 MR. DAHLKE: Which units?

5 MR. ADAMS: Which units and what percentages  
6 of those units.

7 MR. DAHLKE: If you would address that  
8 question to Mr. Perks he would be able to answer.

9 THE WITNESS: Mr. Perks is our owner operator  
10 of those so he can give you the right numbers, and  
11 probably the dates they were turned on and shut off.

12 Q. (By Mr. Adams) Am I correct though that  
13 Avista has chosen not to sell its Colstrip ownership?

14 A. That is correct.

15 Q. Mr. Ely, in your testimony at Page 4 at the  
16 very bottom of the page, you indicate that the  
17 Company's analysis shows that power costs to customers  
18 will be reduced by approximately 7.7 million; do you  
19 see that reference?

20 A. Yes, I do.

21 Q. Am I correct that subsequent to the  
22 preparation of this testimony, the Company has supplied  
23 at least Public Counsel with revised, updated power  
24 cost numbers?

25 A. That is correct.

00225

1 Q. And am I correct that they have chosen not to  
2 modify any of their exhibits?

3 A. That is corrects.

4 Q. Do you have a, if you will, an updated number  
5 for that 7.7 million dollars in light of the more  
6 recent forecast?

7 A. Probably that would be best directed to Bill  
8 Johnson because Mr. Johnson has prepared those exhibits  
9 and has run the models to take the numbers.

10 Q. Would it be your understanding that that  
11 number should be updated, or do you know?

12 A. I probably should say I don't know. I know  
13 that the prices in today's markets have changed from  
14 when the original studies and when the testimony was  
15 written.

16 Q. Turning your attention, if you would, to what  
17 has been identified as Exhibit 323, Mr. Ely, have you  
18 had a chance to review that series of data responses to  
19 Public Counsel?

20 A. Yes.

21 Q. Are they true and correct, to the best of  
22 your knowledge?

23 A. That is correct.

24 MR. ADAMS: I would move the admission of  
25 Exhibit 323, which consists of the responses to Public

00226

1 Counsel requests to Avista 27, 28, and 29.

2 JUDGE SCHAER: Any objection? That document  
3 is admitted.

4 Q. (By Mr. Adams) Mr. Ely, I believe you've  
5 been here the entire day, so you heard some of these  
6 similar questions to Mr. Gaines; is that correct?

7 A. That is correct.

8 Q. And again, based upon these responses to our  
9 data requests, am I correct then that there are no  
10 evaluations prepared either for or by Avista on the  
11 Centralia sale?

12 MR. DAHLKE: I would object to the question.  
13 The data request is a longer statement than counsel  
14 just read, and I think part of our problem this  
15 morning, at least that we had in listening to the  
16 dialogue, was a confusion between whether we were  
17 talking about documents that were produced by New  
18 Harbor or exchanged between the owners at owners'  
19 meetings versus evaluations, and I'd like to request  
20 that counsel not paraphrase them but either ask a  
21 separate question that he could answer or read the  
22 whole question.

23 JUDGE SCHAER: Mr. Adams?

24 MR. ADAMS: The documents will speak for  
25 themselves so I won't trudge into that ground at this

00227

1 point. I've got other questions on the subject, so I  
2 would withdraw that if that's a problem.

3 Q. (By Mr. Adams) I understand, Mr. Ely, that  
4 you are one of the few select that got to attend the  
5 meeting in Seattle.

6 A. Yes, I was at the meeting in Seattle.

7 Q. Could you give us a date?

8 A. It was May 6th, 1999. As I look back in my  
9 planner, I believe that's correct, subject to my  
10 checking it.

11 Q. That was the same date that -- and I can't  
12 cite you the exhibit, but it was on the sale agreement,  
13 was it not?

14 A. That is correct.

15 Q. Had you participated in prior meetings  
16 reviewing bids?

17 A. No, I had not. Actually, there had been no  
18 prior meetings reviewing bids. That was bid opening.

19 Q. I want you to think about this, because we've  
20 been supplied documents that come from earlier than  
21 that. Were there not bids solicited at earlier times  
22 and then a final set of bids accepted for review?

23 A. There were preliminary bids. I'm talking  
24 about the final opening of the final bids.

25 Q. I just want to make sure we are clear on the

00228

1 record. How long did the meeting take?

2 A. We spent most of the day. I know it was dark  
3 when we left.

4 Q. Was there a representative there from  
5 everyone of the owners?

6 A. Yes. I believe there was representatives  
7 there from all the owners, including the public's.

8 Q. Was there an analysis done of the multiple  
9 bid responses?

10 A. Maybe you could define analysis for me.

11 Q. Let me ask you this: Was there more than one  
12 bid on the table that you were reviewing?

13 A. Yes, there was.

14 Q. How many bids on table?

15 A. Since that is under protective order, I'm not  
16 sure that I can disclose the number of bids or anything  
17 about the bids.

18 MR. ADAMS: Your Honor, I'm sensitive to the  
19 confidentiality. I'm not trying to avoid that, but on  
20 the other hand, I'm entitled to ask these questions, so  
21 I would like to be permitted to proceed in a  
22 confidential mode.

23 The problem we may have is that my  
24 understanding is that not all of the companies are  
25 willing to share all of this information. I'm not

00229

1 trying to go into great detail on the specifics of  
2 given contracts, but we ran into PacifiCorp an  
3 objection to some of this material being shared in any  
4 way or responded to Puget or Avista, so I honestly  
5 don't know what the ground rules are in terms of  
6 proceeding, and I want to be careful.

7 JUDGE SCHAER: Mr. Adams, is there a data  
8 response or some other document that contains that  
9 number?

10 MR. ADAMS: We have been supplied just two  
11 days ago by PacifiCorp -- at last. We've been asking  
12 for two months -- the bids, the final bids. We have  
13 them under a confidentiality agreement and a return  
14 basis. Initially, we were not even allowed to take  
15 notes, so I don't know what other parties have seen,  
16 what other owners have seen, but they are not  
17 documents. They've been accepted from PacifiCorp with  
18 the understanding that they would not be put into this  
19 record unless it was cleared in advance with them, so I  
20 certainly want to respect that agreement.

21 JUDGE SCHAER: Is there anything you have  
22 from Avista that shows how many bids there were?

23 MR. ADAMS: Your Honor, you have in this  
24 exhibit what we have received from Avista as it relates  
25 to any documentation relating to that sale.



00230

1                   JUDGE SCHAER:  What I'm going to ask you to  
2 do is to take this up with Mr. Dahlke at the next  
3 break, talk about the information you think needs to be  
4 in the record, try to come up with him with a way you  
5 can get that presented into the record without us  
6 having to seal a part of this hearing or a part of the  
7 transcript.  If that is not possible, then we'll talk  
8 at that point, but I would prefer to keep this hearing  
9 open, and if there is not information -- I am not  
10 certain, Mr. Dahlke, what you were referring to when  
11 you objected in terms of confidentiality.  Is there  
12 some order outside of this proceeding that bars Mr. Ely  
13 from talking about this meeting, or what occurred  
14 there?

15                   MR. DAHLKE:  As far as I'm aware, everything  
16 in terms of confidentiality requirements regarding the  
17 sale is a part of the record and the application here.  
18 I thought that the bids and any evaluation of the bids  
19 was something that would be subject to the protective  
20 order, and as we had indicated in our response to the  
21 data requests, we don't have evaluations of bids that  
22 were discussed by New Harbor at the meeting that is  
23 under question, so I don't believe that it is  
24 productive to pursue Mr. Ely or Avista witnesses to  
25 obtain copies of any of that material, and if what we

00231

1 are trying to do then is if there are no copies, can we  
2 ask about it, I think that does put us under trying to  
3 find some process to respect the integrity of the  
4 auction process and the rights of the bidders who bid  
5 into that process to attempt to keep their bids and  
6 information about their bids confidential.

7 JUDGE SCHAER: It's my understanding that the  
8 question pending is how many bids were there, and  
9 perhaps I'm not imaginative enough because I can't  
10 imagine why answering that would be a particular  
11 problem.

12 MR. DAHLKE: It might not be, but I would  
13 like to be on the safe side to have a break to find out  
14 if we feel that's within the limitation of  
15 confidentiality or not.

16 JUDGE SCHAER: My inclination is we can't ask  
17 you who was the bidder or what did they bid and things  
18 of that nature, but we can ask how many bids were  
19 there; were they higher and lower; how many were  
20 conforming; how many not. I'm just letting you know  
21 kind of where I am so you can have that in mind as you  
22 discuss this, and Mr. Ely, I'm just going to let you  
23 talk to your counsel at this point. Do you have  
24 another area of questioning, Mr. Adams?

25 MR. ADAMS: No, Your Honor. This is where I

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1 was going to end. I was also going to ask some other  
2 questions that nibble around the outside of the issues  
3 that counsel is concerned about, but it may be more  
4 appropriate to just let them consult first and maybe we  
5 can be involved and see just what might be a reasonable  
6 level. I don't know if that would be satisfactory or  
7 not so we can proceed.

8 JUDGE SCHAER: I think we'll take our  
9 afternoon break at this time. I'd ask you to have this  
10 conversation we've discussed during the break, and  
11 let's be back at 20 minutes after three by the clock in  
12 this room. We're off the record.

13 (Recess.)

14 JUDGE SCHAER: Let's be back on the record  
15 after our afternoon recess. Mr. Adams, did you have  
16 additional questions for Mr. Ely?

17 MR. ADAMS: Yes, I did, but I do want to  
18 case that the counsel and Mr. Ely had conversed at the  
19 break, and I do want to inform the Bench that it's my  
20 understanding there is two different confidentiality  
21 agreements we are talking about here. One is the  
22 typical Commission confidentiality agreement, but there  
23 is another confidentiality agreement, as I understand  
24 it, between the various sellers who are involved in the  
25 document, and Mr. Ely is concerned about breaching of

00233

1 that confidentiality agreement; is that correct?

2 THE WITNESS: That is correct, and it's from  
3 New Harbor, the one who issued that confidentiality  
4 agreement.

5 Q. (By Mr. Adams) Am I correct that the owners  
6 hired New Harbor to conduct this auction?

7 A. Basically, PacifiCorp took the lead in this,  
8 and they are the ones that hired New Harbor for the  
9 owner's committee.

10 Q. Again, I think I can stay far enough around  
11 the edges here, but I think you had indicated you did  
12 not see the preliminary rounds of bids; is that  
13 correct?

14 A. I can't speak for Pacific, but I don't  
15 believe any of the other owners saw the preliminary  
16 rounds. We did not see in our company -- I can speak  
17 for it -- any bids until the final bid of the day of  
18 opening on the 6th of May.

19 Q. So who did, if you will, the screening in  
20 before you got to that final meeting? Was that New  
21 Harbor that did all of this analysis?

22 A. That is correct.

23 Q. And I think you've indicated that you do not  
24 have any documentation from New Harbor or any of the  
25 other owners or generated internally as far as

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1 analyzing the various bids?

2 A. No. On the meeting in Seattle on the 6th of  
3 May, we met at Stoel Rives, and in the bid openings, we  
4 had pressured New Harbor. Originally, they were not  
5 going to give us any of the other bids other than the  
6 bid they recommended as the appropriate one.

7 All the owners pressured to take and see some  
8 of the other bids. We don't know whether we saw all of  
9 them or not. We saw some of the other bids. They did  
10 hand those out in the confidentiality order and then  
11 recollected those at that meeting, so there was no  
12 paper left.

13 Q. Did they disperse any papers analyzing, if  
14 you will, the plus and minuses of each bid?

15 A. Most of that was done orally by New Harbor as  
16 far as there was a discussion that lasted most of the  
17 day around the various bids and whether they were  
18 conforming or nonconforming.

19 Q. I've agreed, at least at this juncture, not  
20 to ask you specifics about conforming and  
21 nonconforming, so I'm saving that.

22 At the conclusion of that meeting, was there  
23 then like a vote taken by the members, the owners?

24 A. There was not a vote. There was, I would  
25 say, a consensus that was taken that we would proceed

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1 with the final negotiations with TECWA.

2 Q. This was the recommendation of New Harbor?

3 A. That is correct.

4 Q. From there, did you make any presentations to  
5 your boards of director or upper management?

6 A. Maybe I could go back and tell you the  
7 process we went through with the board, since I am in  
8 those board meetings.

9 Approximately two years ago or thereabouts,  
10 we had in the process of updating the board on Colstrip  
11 and other things, also updated on Centralia, talked  
12 about the reclamation liability, the issues around  
13 adding the equipment to provide air quality equipment  
14 on the plant, rewind of the turbine and what those  
15 costs at the time was estimated to be and had received  
16 from the board approval to see if we could take and  
17 sell our share of Centralia. We went out, and I don't  
18 think it was quite a year, but we were out for some  
19 period of months, and in fact, there was at least two  
20 companies that came and looked at Centralia to see  
21 whether or not they wanted to buy our portion, and what  
22 we found was a 15-percent share was not large enough  
23 for them to buy. They just weren't interested in  
24 taking it on.

25 One of the big issues around Centralia was we

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1 had eight owners, and you had to have unanimous  
2 agreement on any capital expenditures, so we chose that  
3 we could better manage our resources independently if  
4 we got out of the plant. We weren't able to do that  
5 but I know that some of the other owners came to that  
6 same conclusion, and with Pacific's lead, decided to  
7 put the plant up for sale as a total unit, and with  
8 that, they went out and hired New Harbor.

9 I continued to give updates to the board at  
10 the various quarterly board meetings as new  
11 developments occurred that had been authorized some two  
12 years ago to explore the possibility of selling that  
13 plant and was authorized to do whatever was necessary  
14 to do that. When I had the thing done, it has to go  
15 back to the board for a final decision.

16 Q. Getting you back to that meeting on May 6th,  
17 at the end of the day, was there board action required  
18 or was there an update that you provided to the board?

19 A. There was no board action required because  
20 that's what I'm saying. Two years ago, I had received  
21 permission to explore the sale of the plant, and we  
22 still had final negotiations with TECWA to come to an  
23 agreement.

24 Q. Subsequent to that meeting in Seattle, did  
25 you or anyone else in the Company make any kinds of

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1 internal analysis of the, if you will, the pluses and  
2 minuses of the sale to present it to the board?

3 A. I'm going to direct part of those questions  
4 to Mr. Perks because he is our owner's representative  
5 and has looked at a lot of the studies, including the  
6 cost of reclamation, plant closure, and all of that,  
7 which are numbers that go into looking at the balance  
8 between keeping the plant and selling the plant, and I  
9 would refer those to him, but suffice it to say that we  
10 continue to look at, did it make sense or not make  
11 sense, and it appeared that based on what we knew as  
12 far as future liabilities versus current costs, it made  
13 sense to go ahead and sell that plant.

14 Q. My question was, did you make any  
15 presentations to the board of any analysis, any written  
16 documents that looked at the plant?

17 A. No. I did not make any presentations of  
18 written analysis to the board.

19 Q. So to the best of your knowledge, no  
20 documentation was provided to the board or internal to  
21 the Company relating to the sale terms?

22 MR. DAHLKE: I'd object to the portion of the  
23 question that that's internal to the Company as being a  
24 little too broad and vague to be easily responded to or  
25 at least ask Mr. Adams to separate those questions so



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1 we don't get confusion in the answer.

2 JUDGE SCHAER: Mr. Adams?

3 Q. (By Mr. Adams) First, forget the board for a  
4 moment, Mr. Ely. Was there any analysis done reduced  
5 to writing within the Company evaluating either the  
6 bids or the final bid of the sale to TECWA?

7 A. There were no analysis relating to the bids  
8 because there were only two people that saw those bids  
9 and were not allowed to disclose them. We did have the  
10 numbers that TECWA had proposed, and that was disclosed  
11 to internal to evaluate whether or not it met the  
12 criteria as far as selling that plant.

13 Q. Is that information simply the sale place  
14 that is contained in your notes?

15 A. Yes.

16 Q. The various exhibits that are provided in  
17 your presentation here today and by other Avista  
18 employees, these are all done separate and subsequent  
19 to the sale of the plant, was it not?

20 A. I believe they were formalized separate and  
21 subsequent, yes.

22 Q. In other words, they were not generated as an  
23 analysis to be done at the time of decision of whether  
24 to sell or not sell; is that correct?

25 A. In the form that they are in, no.

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1 Q. Are there documents in other form that exist?

2 A. As various parts of our staff worked on  
3 various analysis, such as the cost of reclamation, the  
4 additional turbines, putting in the air quality  
5 equipment. For instance, as an example, when we  
6 originally looked at selling this some two years ago,  
7 it was estimated before preliminary engineering was  
8 done on the scrubbers and the low nox burners that it  
9 could be upwards of 500 million dollars for the air  
10 quality equipment. After preliminary engineering has  
11 been done, those costs have dropped to 190 million for  
12 the scrubbers and, I think, about 20 million dollars  
13 for the low nox equipment, so there is a substantial  
14 difference from what was driving us originally to look  
15 at getting out of this or selling it to where now the  
16 plant looks like it is a reasonable plant going  
17 forward.

18 Q. If you were sitting in the bid room today,  
19 does that mean that you might not except that bid,  
20 knowing what you know?

21 A. No. I knew the lower cost when we did it,  
22 but sitting in the bid room, I did what I did because I  
23 still think it's in the best interest to consolidate  
24 ownership, and I also think there is a large liability  
25 long-term around reclamation and whether that plant

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1 stays open and can operate, so from a prudence  
2 standpoint, I think the bid is sufficient that would  
3 probably even with the lower cost cause you to take a  
4 move forward, but there is enough, I think, that the  
5 plant is enough into the market that you would take --  
6 and one of the reasons I made the offer to Snohomish  
7 and also to Portland General. Portland General is a  
8 little different because they were going to kill the  
9 deal if someone did not take them out because they were  
10 not going to put anymore in, and one of the  
11 requirements is that the equipment continue to be  
12 installed at the plant, so we stepped forward and took  
13 them out of the deal so it at least there was an  
14 opportunity to sell. If we were able to take and  
15 consolidate that and get it into the hands of, as you  
16 suggested earlier, two to three owners, it certainly  
17 makes it a lot more effective to operate. I think it's  
18 best operated in the hands of one owner.

19 Q. What was presented to the board in terms of  
20 update? Were any written documents provided to the  
21 board of directors?

22 A. No. Originally, I can't remember. It's been  
23 two years ago when we were talking about Colstrip and  
24 looking at the cost of the scrubbers and stuff, but  
25 most of my updates to the board are -- we have not

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1 hundreds but tens of things that we report on, and  
2 usually, I'll go through and talk about -- it will be  
3 an item agenda so it will show on the agenda that I may  
4 be updating various things or maybe updating on  
5 Colstrip or Centralia or whatever, and I will just take  
6 a few minutes and do an overview of where it's at or  
7 what's occurred or what's happened to date.

8 MR. ADAMS: Your Honor, I would like to  
9 follow-up with another record requisition for any of  
10 the minutes of the board, directors of Avista, that  
11 relate to the issue of Centralia and its sale.

12 THE WITNESS: I think we filed those,  
13 Mr. Adams, with FERC, any that related, but I'm not  
14 sure. We will be glad to do it.

15 JUDGE SCHAER: Do you just want to have that  
16 provided to you, or do you want to offer it?

17 MR. ADAMS: When you make it a Bench  
18 request, I have no choice, but I don't know what we are  
19 going to see, so I would rather make it as a record  
20 requisition that is provided to us that if there  
21 appears to be anything relevant -- there may be just  
22 not entries saying, Discussion of Centralia.

23 THE WITNESS: If it's in there, that's what  
24 will probably show up. A lot of times we cover things  
25 that have no mention. I may have an hour and a half of

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1 discussion points, and other than the ones we take  
2 action on would be in the minutes.

3 MR. ADAMS: I guess for consistency  
4 purposes, it could be treated as a prior Bench request.  
5 We're happy to have it as a record requisition with an  
6 opportunity to review and then if necessary, make a  
7 motion to move to put in as a late-filed exhibit.

8 We've not seen the documents so I have no  
9 idea what they say or purported to say.

10 JUDGE SCHAER: I'm going to treat this then  
11 as Record Requisition No. 1 and let you determine what  
12 you may want to offer.

13 MR. ADAMS: Could you give us some sort of  
14 turnaround time?

15 JUDGE SCHAER: Mr. Ely, how quickly could  
16 that be provided?

17 THE WITNESS: It depends over what period of  
18 time you would like to have our folks look.

19 MR. ADAMS: I would say basically last year,  
20 1999.

21 THE WITNESS: We had four board meeting. We  
22 should be able to respond fairly quickly to that.

23 JUDGE SCHAER: Do you think you would be able  
24 to respond by next Monday evening so Mr. Adams could  
25 decide whether or not too offer this Tuesday during the

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1 hearing?

2 THE WITNESS: I think so. Let's try and do  
3 that.

4 MR. DAHLKE: For that purpose, could I  
5 request some limits on what we are looking for? I  
6 believe Mr. Adams said that related to the sale of  
7 Centralia, so can this be bracketed by a time period?

8 MR. ADAMS: 1999 solely, and as he indicated,  
9 it's only four meetings.

10 MR. DAHLKE: Thank you.

11 JUDGE SCHAER: Let me ask you, Mr. Harris,  
12 looking back on Bench Request No. 10 to your company,  
13 do you think you would be able to respond to that by  
14 Monday evening of next week?

15 MR. HARRIS: If it's the same, the same  
16 limitations, certainly.

17 JUDGE SCHAER: Mr. Adams?

18 MR. ADAMS: That would be fine, Your Honor.  
19 I just want to make sure we're talking not only  
20 the minutes but if there were documents presented as  
21 parts of that presentation so we are not too narrow.

22 JUDGE SCHAER: Then I'm going to cancel that  
23 as a Bench request and turn that into Records  
24 Requisition No. 2 and ask you to respond to Public  
25 Counsel by next Monday evening so they may decide

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1 whether or not they want to offer that response into  
2 evidence on Tuesday, and I'm asking each company to  
3 either have someone here who could sponsor that  
4 response or waive any objection, that there is no one  
5 here to sponsor the response so that if there is a  
6 desire to have it put into the record, it may be done.

7 MR. ADAMS: To speed the process also -- I  
8 don't know how you want to approach this, but I would  
9 ask the same of PacifiCorp. They are going to be here  
10 Monday. If they could come with the same information,  
11 we will get it out of the way at the same time.

12 JUDGE SCHAER: I'm going to require you to  
13 put that in writing and mail it to PacifiCorp. You may  
14 talk to their rich representative today or however you  
15 wanted to deal with that, but I will indicate to the  
16 representative from PacifiCorp if you could have that  
17 prepared by Monday evening so it could be available at  
18 Tuesday's hearing under the same guidelines just  
19 discussed by the other two companies, which would mean  
20 that you would either have someone here to sponsor it  
21 or that you agree to let it go into the record without  
22 a sponsor. Just to let you know that's coming so you  
23 can let Mr. Galloway know.

24 MR. ADAMS: No further questions. Thank  
25 you, Mr. Ely.

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1 JUDGE SCHAER: Mr. Van Cleve, did you have  
2 questions of this witness?

3 MR. VAN CLEVE: No, Your Honor.

4 JUDGE SCHAER: Commissioners, do you have  
5 questions for Mr. Ely?

6

7

E X A M I N A T I O N

8 BY CHAIRWOMAN SHOWALTER:

9 Q. Was New Harbor hired by PacifiCorp or by all  
10 of the owners?

11 A. PacifiCorp was the one that took the lead in  
12 selecting, and I believe that we are all responsible  
13 and signed the agreements to basically hire them, if  
14 you want to look it at that way, yes.

15 CHAIRWOMAN SHOWALTER: Thanks.

16

17

E X A M I N A T I O N

18 BY COMMISSIONER HEMSTAD:

19 Q. Mr. Ely, it's Avista's position that all of  
20 the gains that flow through to shareholders. Do you  
21 see that as a generic response to all future asset  
22 sales of the Company?

23 A. Well, I think that from the standpoint of all  
24 your future asset sales, I would probably say yes to  
25 that. So far, on those assets we've sold at a loss,



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1 we've also written those off to the shareholders, such  
2 as the Meyer's Falls that we sold just a short time  
3 ago.

4 Q. So it would be your view that the Company  
5 would bear any future stranded costs from sales?

6 A. Yes, and I think that's probably a little  
7 easier for us to say since we don't anticipate having a  
8 lot of stranded cost, but it's like our Kettle Falls  
9 plant; we have written it down.

10 Q. I take it from your response to the questions  
11 about possibly buying additional portions of the asset  
12 here, or in turn selling, that the Company doesn't have  
13 an overall strategy, for example, to get out of the  
14 generation business.

15 A. No. Its not our intent to get out of the  
16 generation business. In fact, if we were successful in  
17 selling TECWA, we would probably rebuild new utility  
18 assets. We believe that there is a need for power  
19 going forward, and we believe that a single owner in  
20 some of the new design equipment provide a better  
21 opportunity for our customers than continuing in the  
22 Centralia plant, and the reason Centralia is  
23 interesting to us if the deal does not go through is  
24 because at the cost we acquire the additional pieces,  
25 if we were to put that into the utility, would tend to

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1 average down the total cost of that plant to the point  
2 where it would also be in market, even with the new  
3 scrubbers.

4 Q. So at the present time with projected current  
5 costs of scrubbers, the plant itself would seem to be  
6 on a going-forward basis a viable market competitive  
7 operation.

8 A. Well, it wouldn't be market competitive as a  
9 stand-alone plant. Well, I shouldn't say that. It  
10 would appear that it wouldn't because if you look at  
11 30-dollar power, our current average cost is about 22  
12 dollars, so it would be above our average cost.  
13 Originally, we were looking at that when the scrubbers  
14 were estimated to be upwards of 500 thousand and were  
15 going to almost 40 dollars, which means it puts it well  
16 out of range of anything we would want to keep in our  
17 resource portfolio.

18 COMMISSIONER HEMSTAD: That's all I have.

19

20 E X A M I N A T I O N

21 BY JUDGE SCHAER:

22 Q. Mr. Ely, you state on Page 3 of your  
23 testimony that PGE as well as some co-owner's did not  
24 support the installation of the scrubbers at the  
25 plants; is that correct?

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1 A. That is correct.

2 Q. Could you list for us who the other co-owners  
3 were?

4 A. Maybe. Can I direct that to George Perks,  
5 because he's the owner rep on that and knows all of  
6 them intimately. I would probably miss one.

7 Q. Do you believe there is a plausible  
8 possibility that the Centralia Plant will cease  
9 operation if the sale does not close as proposed?

10 A. I would like to hope that it did not close  
11 because there were all the reclamation costs. Not only  
12 reclamation costs you will have to deal with, you will  
13 have mine closure costs, and then you will have plant  
14 demolition costs, not to mention the impact on the  
15 economy and the people that are there. So it would be  
16 my hope that they didn't, but I think that there are a  
17 number of parties then that would probably exit that  
18 business, and the question is, can you put together a  
19 group as Mr. Adams is talking about of two or three  
20 people that would pick up the pieces and run the plant.

21 Q. What would your expectation be, given what  
22 you know today, on the prospects for an ownership  
23 consolidation if the sale were not to close?

24 A. I think the prospects of an owner  
25 consolidation are very good if it did not close. I'm

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1 not sure who that would be at this point. Certainly,  
2 we would have an interest, but we're not large enough,  
3 necessarily to take and run the entire plant. I would  
4 assume that it probably would be at least a couple of  
5 individuals, maybe Pacific and ourselves, and I don't  
6 know whether Puget or others would stay in it. I can't  
7 speak for them.

8           One of the issues that you have with the  
9 Centralia Plant is because of its location in relative  
10 position to the loads and the I-5 corridor. It's  
11 almost a must-run plant, so you need for voltage  
12 stability reasons, you need a plant in that area to  
13 support it, which is another reason why I don't believe  
14 it would close.

15       Q.     So would it be reasonable to assume that if  
16 Avista required the ownership shares of PGE and  
17 Snohomish PUD that most if not all of the problems of  
18 multiple ownership would be eliminated?

19       A.     No. I think there would probably need to be  
20 additional consolidation because that would cut it from  
21 eight to six. Six in today's environment is still a  
22 lot to try and make decisions around capital, and I  
23 believe some of the other publics have indicated --  
24 certainly I think Seattle has indicated and others have  
25 indicated that they would prefer not owning it going

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1 forward, and the only reason they are putting capital  
2 in it today is to make sure it meets the commitments we  
3 made and the sale to TECWA that the air quality  
4 equipment is in place or in the process of being put in  
5 place at the conclusion of the sale.

6 JUDGE SCHAER: Is there any redirect for this  
7 witness?

8 MR. DAHLKE: Yes, Your Honor.

9

10 REDIRECT EXAMINATION

11 BY MR. DAHLKE:

12 Q. Mr. Ely, you were asked some questions about  
13 WIDCO, which is an acronym for Washington Irrigation  
14 and Development Company. Was this a subsidiary of the  
15 Washington Water Power Company as it was formally named  
16 before the name change to do Avista Corporation?

17 A. Yes. WIDCO was an unregulated subsidiary.

18 Q. You made reference to the mine sale. Was the  
19 ownership of the Centralia mine 50 percent in WIDCO?

20 A. I'm not following that question, counselor.

21 Q. Did the Washington Irrigation and Development  
22 Company own a share of the Centralia mine up until the  
23 sale to PacifiCorp in 1990 that you testified to?

24 A. Yes. We own 50 percent of it.

25 Q. Was it your understanding that the Company

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1 was required to seek approval from the Commission for  
2 the sale of that mine to PacifiCorp?

3 A. No, we were not.

4 Q. Can you tell us if you have any knowledge  
5 about the ratemaking treatment that Washington Water  
6 Power Company received for the cost of coal from  
7 WIDCO's portion of the mine prior to 1990?

8 A. I was involved with that at sometime back in  
9 the '80's because we were looking at possibly bringing  
10 in gas to coal fire, and at that time, the coal that  
11 was burned for our 15-percent share was transferred at,  
12 I believe, at cost from the mine to the plant. For all  
13 others, we made a return on.

14 MR. DAHLKE: Thank you. That's all I have.

15 JUDGE SCHAER: Anything further for this  
16 witness?

17 MR. ADAMS: Just one question, Mr. Ely

18

19 RE-CROSS-EXAMINATION

20 BY MR. ADAMS:

21 Q. I think you made reference to it in your  
22 response just a minutes ago. Am I correct that the  
23 major upgrades are being made to the Centralia Plant  
24 currently, which include both the scrubbers but also  
25 the basic plant, the rewind of generators and so forth?

00252

1       A.       Some of those upgrades have been in the  
2 process of being planned. They would be installed at  
3 some point in the future probably after the scrubbers  
4 are done. You can only do so much work on the site at  
5 a time. Mr. Perks would be better able to answer the  
6 scheduling on that.

7               I would say though that in reference to some  
8 questions that were asked of Puget earlier about the  
9 declining cost of plant, et cetera, there is always  
10 additional capital put into those plants, and as far as  
11 it being cheaper in the beginning or the end, actually  
12 in that plant, it will probably be much more expensive  
13 in the end than it was in the beginning.

14       Q.       Just to follow-up on that line -- those  
15 weren't my questions, but it again will show a  
16 depreciating cost because of the capital costs over  
17 time as those new costs are depreciated, will they not?

18       A.       That is correct. They would then be  
19 depreciated straight line over time.

20       Q.       The effect of these improvements, the rewind  
21 and so forth along with the scrubbers, will have the  
22 result of extending the life of the Centralia Coal  
23 Plant.

24       A.       That is correct. It will extend the life of  
25 the plant.

00253

1 JUDGE SCHAER: Anything else for Mr. Ely?  
2 Thank you for your testimony. Would you like to call  
3 your next witness, Mr. Dahlke?

4 MR. DAHLKE: The Company calls Mr. George  
5 Perks.

6 (Witness sworn.)  
7

8 DIRECT EXAMINATION

9 BY MR. DAHLKE:

10 Q. State your name, please?

11 A. George Perks.

12 Q. Mr. Perks, have you cause to be prepared  
13 direct testimony in this proceeding that has been  
14 marked as Exhibit T-302?

15 A. Yes.

16 Q. Do you have that testimony with you?

17 A. I do.

18 Q. Do you have any corrections or additions to  
19 your prefiled testimony?

20 A. No, sir.

21 Q. Are the answers contained therein true to the  
22 best of your knowledge?

23 A. Yes.

24 MR. DAHLKE: Mr. Perks is available for  
25 cross-examination, and we move the admission of



00254

1 testimony T-302.

2 JUDGE SCHAER: Any objections of T-302?

3 Hearing none, that document is admitted.

4 Mr. Cedarbaum, did you have questions of this witness?

5 MR. CEDARBAUM: No.

6 MR. ADAMS: Your Honor, I just have a couple,  
7 but we just went out of the room to make copies of an  
8 exhibit, and can I pass for the moment?

9 JUDGE SCHAER: You are the only person with a  
10 time estimate for Mr. Perks, so no, you need to kind of  
11 get going, if you could.

12 (Discussion off the record.)

13 JUDGE SCHAER: While we were off the record,  
14 Mr. Adams passed out copies of a document, and I don't  
15 have a copy of it, apparently.

16 MR. ADAMS: There will be more here in just a  
17 moment, Your Honor. Why don't I ask a couple of the  
18 other questions first.

19 JUDGE SCHAER: Why don't you describe what  
20 it is. I'm going to mark this for identification as  
21 Exhibit 324. You've handed me a one-page document  
22 which says, Centralia Plant, 1999 five-year capital  
23 plan, 100 percent direct cost at the top. Mark that  
24 for identification as Exhibit 324.

25

00255

CROSS-EXAMINATION

1

2 BY MR. ADAMS:

3 Q. Mr. Perks, are you familiar with the  
4 five-year capital budget for Centralia?

5 A. Yes, I am.

6 Q. Mr. Perks, you have had a chance to look at  
7 Exhibit 324; is that correct?

8 A. Yes.

9 Q. Do you recognize that as the five-year  
10 capital improvement plan?

11 A. I do. This document was prepared by  
12 PacifiCorp and then submitted to the owners.

13 Q. I understood from Mr. Ely that you are on the  
14 owner's committee; is that correct?

15 A. That's correct.

16 Q. So just in terms of the way that normally  
17 proceed, the upcoming budgeted items come up for  
18 discussion among the owners, and you decide whether to  
19 proceed or not proceed?

20 A. That's correct.

21 Q. Is this five-year plan basically approved by  
22 the current owners, and the reason I say "current  
23 owners," I'm not including PG and E?

24 A. It's not.

25 Q. Is this a budgeted?

00256

1 A. It's a look ahead.

2 Q. At least some of the major items, such as the  
3 scrubbers, have been approved, have they not?

4 A. With conditions.

5 Q. And how about rewire of the generators?

6 A. Some have not.

7 Q. Excluding the scrubbers, which are shown  
8 about four lines from the bottom, the 48 million 500  
9 thousand dollar total right above the scrubber amount  
10 in the right column, these are basically upgrades and  
11 maintenance that need to be done over the next five  
12 years?

13 A. That is correct. The major issue is the  
14 generator rewinds, which we deferred until we could do  
15 that simultaneous with the scrubber installation.

16 Q. So that would be done at the same time?

17 A. That is correct.

18 Q. When is that program to start?

19 A. The first unit will begin, actually, next  
20 year when we tie in the first scrubber, and then the  
21 second one the following year.

22 Q. So when you say next year, you mean 2001 and  
23 2002?

24 A. That is correct.

25 Q. With these improvements, will this result in

00257

1 an upgrade of the life of the Centralia Plant?

2 A. Yes.

3 MR. ADAMS: Your Honor, I move the admission  
4 of Exhibit 324.

5 JUDGE SCHAER: Is there any objection to this  
6 document?

7 MR. DAHLKE: No objection.

8 JUDGE SCHAER: This document is admitted.

9 Q. (By Mr. Adams) You reminded me a question of  
10 what I'd asked, and that is the ownership Avista has in  
11 the Colstrip 1 through 4 units, could you give me the  
12 percentages that Avista owns?

13 A. Avista own 15 percent of Units 3 and 4.

14 Q. 15?

15 A. 15.

16 Q. And as I understand from Mr. Ely, the Company  
17 has no intention of selling its Colstrip units.

18 A. That is correct.

19 MR. ADAMS: That's all the questions I have.

20 JUDGE SCHAER: Did you have any questions,  
21 Mr. Van Cleve?

22 MR. VAN CLEVE: No, Your Honor.

23 JUDGE SCHAER: Commissioners?  
24  
25

E X A M I N A T I O N

00258

1 BY JUDGE SCHAER:

2 Q. Then I did have one question which was there  
3 is a reference on Page 3 of Mr. Ely's testimony  
4 indicating that PGE as well as some other co-owners did  
5 not support the installation of the scrubbers at the  
6 plant, and I had asked him if he could list other  
7 co-owners, and he had indicated that you would be able  
8 to do so, sir. Can you do that for me now, please?

9 A. Yes, when the vote was taken to approve the  
10 budget, Puget Sound Energy approved the scrubber  
11 contracts only to support the sale. The contract  
12 offers off-ramps that could be exercised prior to  
13 completion of the scrubber project, and those  
14 contractual off-ramps were written into that agreement  
15 at the request of Puget Sound Energy.

16 Q. Is there any other party other than Puget  
17 Sound Energy? He had mentioned co-owners, plural.

18 A. From time to time, Tacoma has indicated that  
19 they may not want to move too far into the scrubber  
20 project.

21 Q. Any others?

22 A. Not that I recall.

23 JUDGE SCHAER: Is there anything further for  
24 this witness?

25 MR. DAHLKE: No redirect.

00259

1 JUDGE SCHAER: Thank you for your testimony,  
2 sir. Would you call your next witness please,  
3 Mr. Dahlke, and any parties having exhibits for  
4 Mr. Johnson would you distribute those now please.

5 MR. DAHLKE: Avista Corporation calls  
6 Mr. William Johnson.

7 MR. ADAMS: Your Honor, we have a series of  
8 documents.

9 JUDGE SCHAER: You've handed me a document  
10 entitled, Avista Utilities' response to Data Request  
11 No. 18. I'll mark that for identification as Exhibit  
12 325.

13 (Witness sworn.)

14 MR. DAHLKE: Were we going to mark the other  
15 exhibits?

16 JUDGE SCHAER: I'll either mark them after  
17 you ask your preliminary questions or now, whichever  
18 you would prefer

19

20 DIRECT EXAMINATION

21 BY MR. DAHLKE:

22 Q. Mr. Johnson, have you cause to be prefiled in  
23 this proceeding direct testimony marked and identified  
24 as Exhibit T-303?

25 A. Yes, I have.

00260

1 Q. And you also two exhibits to that testimony,  
2 Exhibits 304 and 305?

3 A. Yes.

4 Q. And have you also cause to be prepared and  
5 submitted rebuttal testimony identified as Exhibit  
6 T-314?

7 A. Yes.

8 Q. And are there three exhibits to that rebuttal  
9 testimony, Exhibits 315, 316 and 317?

10 A. Yes, there are.

11 Q. One preliminary?

12 MR. DAHLKE: One preliminary matter, Your  
13 Honor, Mr. Johnson's testimony has some figures in it  
14 that were based upon the previous testimony of  
15 Mr. Lazar, which he submitted the Revised Exhibit 501,  
16 I think was the number of the exhibit, and if that 501  
17 were to be admitted, the numbers in Mr. Johnson's  
18 testimony would be changed, but at this time, we don't  
19 know whether that exhibit will be admitted or not.  
20 Mr. Johnson could give corrections to his testimony,  
21 and then we could see which is pertinent .

22 JUDGE SCHAER: Does this make any difference  
23 to the cross questions of any of the counsel at this  
24 time?

25 MR. ADAMS: Obviously, we are going to be

00261

1 asking questions about any updates, so it could be  
2 pertinent to our questions.

3 JUDGE SCHAER: I think what I'd like you to  
4 do is go through those now and just deposit them as  
5 alternatives rather than replacements, so let's look at  
6 Mr. Johnson's testimony.

7 Q. (By Mr. Dahlke) Mr. Johnson, could you  
8 indicate any corrections that you would make to your  
9 testimony if Mr. Lazar's corrected exhibits were  
10 received into evidence?

11 A. Yes. On Page 5 of my rebuttal testimony,  
12 Exhibit T-314, Line 24, change the number 10.8 to 7.9.

13 JUDGE SCHAER: You are going to need to do  
14 this much more slowly because we need to turn there.

15 THE WITNESS: Exhibit T-314. It's rebuttal  
16 bullets testimony. Page 5, Line 24 the number 10.8  
17 would become 7.9. Then on Page 6 --

18 JUDGE SCHAER: Of the same exhibit?

19 THE WITNESS: Of the same exhibit. Line 22,  
20 10.8 would become 7.9. The numbers up above in Line 2  
21 the number would change to 1,030,300,000; one billion,  
22 30 million, three hundred thousand. Then it would be  
23 down to Line 4, suggested sale price for the plant,  
24 would be 923 million, 100 thousand. Line 6, Avista's  
25 share of sale price, 138 million, 465 thousand; and



00262

1 finally, Line 8, the ratio of sale price is 7.9 in  
2 place of 10.8.

3 JUDGE SCHAER: Is that all?

4 THE WITNESS: That's all.

5 Q. Is there one also on Page 5, Line 21 of that  
6 same exhibit, the 1 billion 361 million, would that  
7 also have the alternative changed to 1 billion and 30  
8 million?

9 A. Yes, that would be correct. It would be one  
10 billion, 30 million, so Line 21 of Page 5 should be  
11 1.030.

12 Q. With those potential corrections to your  
13 testimony, do you have any other corrections or  
14 additions to your testimony?

15 A. No, I do not.

16 Q. Are the answers contained therein true to the  
17 best of your knowledge?

18 A. Yes, they are.

19 MR. DAHLKE: We would move the admission of  
20 Mr. Johnson's direct testimony, T-303, and his rebuttal  
21 testimony, T-314, as well as the Exhibits 304, 305, and  
22 315 through 317.

23 JUDGE SCHAER: Is there any objection to any  
24 of those documents? Hearing none, those documents are  
25 admitted. I'm going to ask you, Mr. Dahlke, when you

00263

1 are sitting around with nothing to do this weekend to  
2 put together a short errata sheet that shows the  
3 changes that were just given by Mr. Johnson so if  
4 Exhibit 501 is admitted, we may put that in the record  
5 so there is an easy reference for those changes.

6 MR. DAHLKE: Very well.

7 JUDGE SCHAER: Mr. Cedarbaum, do you have any  
8 questions for this witness?

9 MR. CEDARBAUM: No, Your Honor.

10 JUDGE SCHAER: Mr. Adams?

11 MR. ADAMS: Yes, Your Honor. It would speed  
12 the process if you could just run through very briefly  
13 all the exhibits, give the numbers we just handed out,  
14 because I was in the process of handing them out so I  
15 want to make sure I have the correct references.

16 JUDGE SCHAER: I've marked for  
17 identification as Exhibit 325 a single-page document  
18 entitled at the top, Data Request No. 18. It indicates  
19 that it is the request and the response.

20 I've marked for identification as Exhibit 326  
21 a two-page document headed at the top, Data Request No.  
22 9, again a request and response. I've marked for  
23 identification as Exhibit 327 a document which states,  
24 Data Request No. 19, two-page document indicating  
25 request and response.

00264

1 I have marked for identification as Exhibit  
2 328 a document entitled Data Request No. 3, request and  
3 response, and that again is a multiple page document,  
4 and marked for identification as Exhibit 329, a  
5 document headed at the top Data Request No. 7, which  
6 indicates it's a request and response, and again, it's  
7 a multi-page document.

8 MR. ADAMS: Your Honor, to try to move the  
9 admission along, I'm going to ask the witness if he is  
10 familiar with Exhibits 325 through 329.

11 THE WITNESS: Yes, I am.

12 MR. ADAMS: And are they true and correct, to  
13 the best of your knowledge?

14 THE WITNESS: Yes, they are.

15 MR. ADAMS: I'd move the admission of all  
16 these exhibits.

17 JUDGE SCHAER: Any objections?

18 MR. DAHLKE: No objection.

19 JUDGE SCHAER: Those documents are admitted.

20

21

CROSS-EXAMINATION

22 BY MR. ADAMS:

23 Q. Mr. Johnson, your Exhibit 305 presents your  
24 estimate of the cost of power from Centralia compared  
25 to projected market energy prices as of the time when

00265

1 you filed your direct testimony; is that correct?

2 A. That is correct.

3 Q. When was this exhibit prepared, that is 305?

4 A. I don't know the precise date, but it was  
5 sometime in the summer, early summer, mid summer.

6 Q. And when was the forecast prepared upon which  
7 Exhibit 305 relied?

8 A. I'm not positive what the date was, but I  
9 believe it was probably May or June's forecast.

10 Q. So that we all understand, there is a medium  
11 market rate line, and that is based upon the forecast;  
12 correct?

13 A. It's based on my forecast at the time.

14 Q. And the high and low are based on basically  
15 20 percent above and below the forecast baseline; would  
16 that be approximately correct?

17 A. I didn't prepare it as 20 percent below or  
18 above, but subject to check, that might be fairly  
19 accurate.

20 Q. Has that exhibit been updated or amended in  
21 your rebuttal testimony?

22 A. No, it has not.

23 Q. In response to Exhibits 327 and 328, you  
24 provided more recent forecasts prepared by the Company,  
25 did you not?

00266

1 A. Yes, I did.

2 Q. Would you agree that these newer forecasts  
3 pretty uniformly forecast higher market prices than the  
4 forecasts you relied on in preparing Exhibit 305?

5 A. The forecasts I provided are higher than the  
6 forecasts I used for the medium case in Exhibit 305.

7 Q. When you refer to the forecast, you are  
8 referring to Exhibits 327 and 328; correct?

9 A. Yes. They are not directly comparable to  
10 what's in the exhibit and what's in these forecasts  
11 because there are some other factors that are added and  
12 then subtracted out, but the baseline forecast that's  
13 behind Exhibit 305 is different than what's in Exhibits  
14 327 and 328.

15 Q. And 327 and 328 represent higher market  
16 prices; correct?

17 A. They are higher.

18 Q. Each of the estimates contained in Exhibits  
19 327 and 328 are estimates for flat power; is that  
20 correct?

21 A. I believe if you look, there is on-peak and  
22 off-peak and flat prices in those exhibits, forecasts  
23 in those exhibits.

24 Q. Your Exhibit 305 is flat power, is it not?

25 A. No. 305 is power shaped. It's shaped power

00267

1 as if it was a replacement for Centralia.

2 Q. So would an adjustment to Exhibits 327 and  
3 328 be necessary to convert them so they are similar to  
4 your Exhibit 305?

5 A. I would make some adjustment. I wouldn't  
6 necessarily make the exact adjustments I made to the  
7 forecast in Exhibit 305 of my testimony.

8 Q. Would you look at the Exhibit 325 that has  
9 been admitted? Do you have that document?

10 A. Yes, I do.

11 Q. Would you look at the last paragraph in your  
12 response where it makes reference -- where you say, The  
13 Company's analysis includes a capacity value of around  
14 one dollar per megawatt hour and a dispatch value of  
15 1.71 dollars per megawatt hour; do you see that?

16 A. Yes.

17 Q. Is that an adjustment that you would have to  
18 make?

19 A. When I reran our numbers using November  
20 forecast, I added adjustments, but they don't come out  
21 to be the same because the shapes of the power across  
22 months tends to change with the new forecasts, so I do  
23 make adjustments but they are not exactly this amount  
24 anymore with the new forecast. These adjustments were  
25 based on the forecast that was used to produce Exhibit

00268

1 305. They don't say consistent across all new  
2 forecasts.

3 Q. What would the equivalent numbers be for  
4 Exhibits 327 and 328 for those shown in Exhibit 325?

5 A. I haven't rerun the capacity numbers so I  
6 don't know. It's probably still something around a  
7 dollar. The shaping number has been reduced to around  
8 25 cents. The other numbers are numbers related to  
9 Centralia Plant costs, so they wouldn't change with the  
10 forecast.

11 Q. One issue that Pacific and Puget clearly  
12 identified in their analysis was the so-called sulfur  
13 credits; that is, the sale of excess rights to emit  
14 sulfur dioxide, which the Centralia owner will have  
15 once the scrubbers are installed. Are you familiar  
16 with that issue?

17 A. Yes.

18 Q. Did you include the value of the sulfur  
19 credits in your analysis?

20 A. No, I didn't.

21 Q. Do you have any basis to disagree with the  
22 analysis of Pacific, Puget, and Mr. Lazar that there  
23 will be about 30 thousand tons per year of excess  
24 sulfur credits available for sale?

25 A. Subject to check. I guess I don't disagree

00269

1 with what they've done.

2 Q. Do you agree that the current market price  
3 for these is about \$200 per ton?

4 A. I really have no knowledge what the price is  
5 for the sulfur credits.

6 Q. Avista would get 15 percent of the benefit of  
7 any sale of sulfur credits; is that correct?

8 A. I presume it's in ratio to the plant  
9 ownership, but I'm not certain of that.

10 Q. Similar to that response, that would increase  
11 to 17.5 percent if you include the PG and E share; is  
12 that correct?

13 A. If we get it as a ratio of plant ownership.

14 Q. That would amount to about a million dollars  
15 per year in additional benefits over the period 2002 to  
16 the end of the plant life. Would you agree to that  
17 subject to check?

18 A. I haven't done that, so subject to check.

19 JUDGE SCHAER: Do you have the information  
20 you would need to make that calculation to do the  
21 check, Mr. Johnson?

22 THE WITNESS: I could that do, Your Honor.

23 MR. ADAMS: We would be happy to provide  
24 that computation to he could review that as well. I  
25 can indicate right on the record, it's 15 percent, if



00270

1 we assume that is Avista's share, times 30 thousand  
2 tons times \$200.

3 THE WITNESS: Okay.

4 Q. (By Mr. Adams) Referring you to Exhibit 326,  
5 am I correct that this exhibit is the Company's  
6 provision of a table of monthly average and secondary  
7 market prices since 1986?

8 A. Yes, that's what it is.

9 Q. Would you agree that over the past couple of  
10 years the trend in prices has been up?

11 A. Yes, I would.

12 Q. Your forecast, which is now Exhibit 327, that  
13 also reflects that the trend is continuing, does it  
14 not?

15 A. 327 reflects my estimation of what prices  
16 would be given the market quotes and other information  
17 that's available to me.

18 Q. Right, but does it not also show that  
19 increasing trend in prices?

20 A. It shows an increase in trend.

21 Q. In response to Public Counsel Data Request  
22 No. 7, which is Exhibit 329, the Company provided a  
23 table of historical and projected natural gas prices;  
24 is that correct?

25 A. That's correct.

00271

1 Q. Am I correct that the general trend in gas  
2 prices has been up for the past few years now?

3 A. If you go back from like '95, it's gone up,  
4 but it's kind of drifted down again recently also.

5 Q. Turn to the last page that shows the graph.  
6 The trend has been upwards, has it not, recognizing  
7 their ups and downs along the way?

8 A. I guess you would need to define what time  
9 period you are applying your assumption to.

10 Q. For the time period shown on that page of the  
11 exhibit.

12 A. From the lowest point to the base point in  
13 '99, the trend is up, given that there was some big  
14 spikes in between and then subsequent decreases.

15 Q. Would I be correct that gas prices and power  
16 prices have a pretty good correlation?

17 A. My understanding is that the correlation is  
18 not that significant.

19 Q. I want to turn to your mathematical analysis  
20 presented in Exhibit 304. This analysis looks at the  
21 cost and value of power from Centralia over the period  
22 1999 through 2020; correct?

23 A. That is correct.

24 Q. And looking forward from today, it's about a  
25 21-year period of analysis; is that correct?

00272

1 A. That is correct.

2 Q. Turn to Exhibit 304, which was prepared using  
3 the old lower forecast, by the later years of the  
4 period, would you agree that, and I put in quotations,  
5 "medium market rates," closed quotes, were  
6 significantly higher than the quote, "total delivered  
7 plant cost," closed quote, of Centralia?

8 A. Are you referring to Exhibit 305 now?

9 Q. 304, Page 1.

10 JUDGE SCHAER: By putting items in quotes,  
11 are you referring to column headings, Mr. Adams?

12 MR. ADAMS: The total delivered cost is the  
13 far right-hand column, Your Honor, on Page 1.

14 JUDGE SCHAER: So that was the purpose of  
15 your quotes was to reference that column?

16 MR. ADAMS: Yes.

17 JUDGE SCHAER: What was the other column  
18 heading?

19 MR. ADAMS: The first reference was on Page 2  
20 of 2 where it says, market rate projections, and it's  
21 the middle column of the three, Your Honor.

22 JUDGE SCHAER: Thank you. Your question  
23 again was....

24 Q. (By Mr. Adams) By the later years of the  
25 period, would you agree that the medium market rates

00273

1 were significantly higher than the total delivered  
2 plant cost of Centralia?

3 A. I would agree that by the year 2020, the  
4 medium rate projection is higher than the delivered  
5 plant cost projection.

6 Q. With a higher forecast, that would even be  
7 truer, would it not?

8 A. If you put that a higher forecast is for the  
9 whole 20 years.

10 Q. I'm just referring to your new update.

11 A. I've never provided an update past 2010, so  
12 you have make assumptions while escalation is past  
13 2010.

14 Q. Are you indicating that you have not made any  
15 kind of update beyond the 10-year period?

16 A. I'm saying that I've never provided any  
17 forecasts beyond 2010, period. I don't prepare  
18 forecasts beyond 2010, period.

19 Q. So you have not prepared such an update?

20 A. I have looked at November forecast, which I  
21 provided in one of the data responses, and I simply  
22 plugged in the two-and-a-half projection, ran it  
23 through, reshaped it, got a new shaping benefit, a new  
24 capacity benefit, and plugged it into my analysis.

25 Q. So looking at Page 1 of 305 and Page 2 of 305

00274

1 or Page 2 of 304, any of those pages, you have not  
2 extended it out beyond 10 years?

3 A. Yes. I just explained that what I did was I  
4 took the November forecast that I provided as a data  
5 request, and I simply escalated it out at the standard  
6 two-and-a-half percent that we've been using and ran a  
7 similar analysis to the analysis that I've done from my  
8 testimony.

9 Q. And you did not provide that in response to  
10 our Data Request No. 30?

11 A. You would have to refresh me what was Data  
12 Request No. 30.

13 Q. Hold on a second. We'll get the specific  
14 request. It's basically asking for an update of your  
15 exhibits. I'll read the request to you:

16 Provide any updated figures or analysis which  
17 would update or modify the following exhibits in light  
18 of the market price forecast provided in response to  
19 Public Counsel Data Request 19 and 23, and it  
20 specifically lists Exhibit T-303, Page 4, Lines 7  
21 through 14; Exhibit 304, Page 2, and Exhibit 305.

22 MR. DAHLKE: I'd interpose an objection at  
23 this point. If the point of this line of cross is to  
24 attempt to draw from the witness answers as to what a  
25 different study would look like based upon the one

00275

1 change in market prices between the time that his  
2 original testimony was prepared and the later study, I  
3 think that's something that counsel should work through  
4 counsel's own expert witness on and present either as a  
5 cross-examination exhibit, but it would be very  
6 difficult to do this on the stand live, if that's what  
7 the effort is going to be.

8 JUDGE SCHAER: My understanding, Mr. Dahlke,  
9 of the question pending is whether Mr. Johnson provided  
10 certain information in response to Data Request No. 30,  
11 and I think he can answer that yes or no. I think that  
12 you are getting a little bit ahead of yourself at this  
13 point. If the answer is no and the next question is,  
14 Have you produced such a document, there may be a  
15 discussion of why or why not on delivery of the  
16 document, if there has been no document, then I think  
17 that will solve itself as well, so why don't you answer  
18 the question pending, Mr. Johnson. Did you provide any  
19 document to Mr. Adams as a response of his Data  
20 Request No. 30?

21 THE WITNESS: No, I didn't. I guess the  
22 questions I read was provide any updated figures or  
23 analysis and to update or modify the following  
24 exhibits, and I didn't update or modify any of my  
25 exhibits. I ran the analysis for my own benefit.

00276

1 Q. (By Mr. Adams) And you did not provide that  
2 to us in response --

3 A. I did not modify my exhibits because the  
4 analysis was still in the range that I presented in my  
5 Exhibit 304 and 305, so I didn't see a need to update  
6 it since it was within the range I had already  
7 provided.

8 Q. Would you turn to Page 1 of Exhibit 305?

9 JUDGE SCHAER: That reminds me, Mr. Adams, is  
10 there more than one page to Exhibit 305?

11 MR. ADAMS: No, there is not.

12 JUDGE SCHAER: Because you had earlier  
13 referenced Page 2 of Exhibit 305. This is just the one  
14 page; is that correct?

15 MR. ADAMS: Yes.

16 JUDGE SCHAER: Go ahead, sir. Do you have  
17 the page?

18 THE WITNESS: Yes, I have 305.

19 Q. (By Mr. Adams) Looking at the graph, in  
20 looking at the high line, that is, the high market  
21 rates -- do you see that line that's labeled?

22 A. Yes.

23 Q. -- where would your revised numbers or your  
24 newer numbers, where would the new medium numbers show  
25 on this exhibit, if you were to draw it in? Would it

00277

1 be up close to the top line, the high market rates?

2 A. It would be between the medium market rates  
3 and the high market rates.

4 Q. Do you know where it would cross over the  
5 total delivered plant cost line?

6 A. No. I don't know the exact year.

7 Q. But it would move it a number of years  
8 earlier, would it not, than what is depicted on this  
9 page?

10 A. I don't know how you would define "a number  
11 of years." It may be a few years.

12 Q. Currently, using the medium market range, you  
13 would cross over at about 2010; is that correct?

14 A. That's correct in this exhibit.

15 Q. And the effect of the higher market rates  
16 would move it earlier in the time frame, would it not?

17 A. Yes, it would.

18 Q. Are you saying you cannot quantify where it  
19 would cross over?

20 A. I could, but I haven't. I didn't look at  
21 that.

22 Q. I'm a little confused. Is there a document  
23 that you have produced that shows this analysis or  
24 these new numbers, a spreadsheet, anything?

25 A. There is nothing put into print, no.



00278

1 Q. Does that mean it's sitting on your computer?

2 A. It's sitting on my computer.

3 MR. ADAMS: Your Honor, we would like this  
4 provided as requested in Data Request 30 as originally  
5 asked. I don't think we need a new number because I  
6 think it was already asked.

7 JUDGE SCHAER: Are you then moving that this  
8 be their response be ruled to be insufficient and that  
9 they be ordered to provide this as part of Request No.  
10 30, because I don't have request No. 30 in front of me.

11 MR. ADAMS: That's the essence of my request,  
12 Your Honor, because it appears there is material and  
13 it's on a computer instead of being printed out.

14 MR. DAHLKE: I guess my response is, and this  
15 may be just a problem of interpreting these written  
16 requests that bounce back and forth, but I think the  
17 witness indicated that he was asked whether he had any  
18 figures or analysis to update the exhibits, and he  
19 answered that he did not, but now the question is,  
20 Well, whether you can move numbers around within the  
21 range and based upon some information that's on a  
22 computer, and we have no objection to providing that  
23 information.

24 I do object to the inference that it was  
25 supposed to be provided but not provided. There can be

00279

1 honest differences between these, but we certainly did  
2 not read the request the way that counsel is now  
3 indicating it was intended.

4 JUDGE SCHAER: I'll note that for the record,  
5 Mr. Dahlke, but if you have no objection to providing  
6 the information, could that be done?

7 MR. DAHLKE: You'll have to ask the witness.

8 JUDGE SCHAER: Do you have that computer with  
9 you?

10 THE WITNESS: No, I don't.

11 JUDGE SCHAER: So you need to go back to  
12 Spokane and press the print button, or is there more to  
13 it?

14 THE WITNESS: Are you saying update the  
15 exhibits or print out the analysis?

16 JUDGE SCHAER: I believe what you are being  
17 asked to do is print out the analysis here. I don't  
18 believe you are being asked to create anything that  
19 doesn't exhibit; is that correct, Mr. Adams?

20 MR. ADAMS: That's correct.

21 JUDGE SCHAER: Is that your understanding,  
22 Mr. Dahlke?

23 MR. DAHLKE: Yes.

24 JUDGE SCHAER: How quickly could you get  
25 that, sir?

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1 THE WITNESS: I guess we could have it ready  
2 by Monday.

3 JUDGE SCHAER: Would you please provide that  
4 to Mr. Adams first thing Monday morning?

5 THE WITNESS: Okay.

6 MR. ADAMS: If it is prepared Sunday, could  
7 they could e-mail it or fax it to us? We will be  
8 there.

9 JUDGE SCHAER: Do what you can, Mr. Johnson  
10 and Mr. Dahlke, to make this work.

11 MR. DAHLKE: Sure.

12 JUDGE SCHAER: Anything else, Mr. Adams?

13 MR. ADAMS: Yes.

14 Q. (By Mr. Adams) Could you indicate what  
15 capacity factor was assumed in the Centralia part of  
16 the calculation in Exhibit 305?

17 A. I believe it's around a seven percent. I  
18 didn't calculate it from a capacity factor but from a  
19 generation.

20 Q. Could we use 70 percent as an approximate?

21 A. Subject to check, I believe that's around 70  
22 percent.

23 Q. So this reflects some maintenance in the  
24 spring, some unexpected outages throughout the year,  
25 and some economic dispatch; is that correct?

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1 A. Generally, that's correct.

2 MR. ADAMS: Your Honor, that's all the  
3 questions we had. Thank you.

4 JUDGE SCHAER: Ms. Hirsh, I believe you had  
5 questions for Mr. Johnson; is that correct?

6 MS. HIRSH: Yes.

7

8

CROSS-EXAMINATION

9 BY MS. HIRSH:

10 Q. Mr. Johnson, did you include any estimated  
11 costs of future environmental regulatory risks in your  
12 power replacement projections?

13 A. No, not that I can think of, unless  
14 environmental risk is reflected in the marketplace  
15 power from marked quotes.

16 Q. So no future potential for carbon tax or  
17 scenarios like that?

18 A. I didn't explicitly add anything, but I'm  
19 saying that the market may perceive that there is some  
20 risk there, and that might be priced into the market.

21 Q. On Page 2 of your direct testimony, Exhibit  
22 303, Page 2, Line 18 to 24, you mention that in the  
23 short-term will come from either power market or short  
24 term power purchases or from TransAlta. Has the  
25 Company solidified a short-term power replacement plan

00282

1 at this time?

2 A. Yes. We have made a replacement purchase.

3 Q. Can you tell us who that's with?

4 MR. DAHLKE: At this point, I need to make  
5 another objection. The short-term -- because we've  
6 discussed this possibility, this question before coming  
7 over, the short-term power purchase that the Avista  
8 Corporation has made is subject to a claim of  
9 confidentiality under the agreement by the seller. So  
10 if the identity and the prices for that short-term  
11 purchase are needed in terms of the records here, then  
12 we would have to seek to provide those under the  
13 protective order.

14 JUDGE SCHAER: Okay. Ms. Hirsh, did you have  
15 any other line of questioning for this witness?

16 MS. HIRSH: Yes.

17 Q. (By Ms. Hirsh) Has the Company evaluated  
18 long-term power replacement options other than market  
19 purchases?

20 A. We are in the process of evaluating other  
21 long-term options.

22 Q. And what is your time line in making those  
23 decisions?

24 A. I don't know if there is an exact time line  
25 for making the decision, but realistically, you need a

00283

1 few years before you can really put anything into  
2 place.

3 Q. Has the Company explored a low carbon power  
4 replacement option?

5 A. I'm not sure what the definition is of "low  
6 carbon option."

7 Q. How about along the lines submitted in your  
8 testimony?

9 A. I think we are going to look at everything  
10 that's feasible. We are not eliminating anything, so  
11 from the standpoint we haven't eliminated any options.

12 MS. HIRSH: That's all the questions I had.

13 JUDGE SCHAER: Mr. Dahlke, I'm going to ask  
14 you and Ms. Hirsh to talk briefly after this witness's  
15 testimony is done to see if you can provide her the  
16 information that you discussed as being confidential,  
17 and she can come up with some set of questions that  
18 would allow her to get the information she needs to get  
19 into the record perhaps could be written down and  
20 submitted as a confidential exhibit.

21 You have the right to have that information  
22 and to have it in the record, Ms. Hirsh, and if you  
23 have signed the confidentiality agreement, which I  
24 believe you have, but we would prefer to do it in that  
25 manner than orally, if we could. Commissioners, did

00284

1 you have questions of Mr. Johnson?

2 CHAIRWOMAN SHOWALTER: I have one.

3

4 E X A M I N A T I O N

5 BY CHAIRWOMAN SHOWALTER:

6 Q. In your Exhibit 305, and this probably  
7 pertains to a few other exhibits as well, but these  
8 forecasts of the market rates, were they your own from  
9 scratch, or are they based on someone else's forecast?

10 A. They are our internal company forecasts that  
11 I produce every month. They go to our wholesale  
12 marketers, our long-term marketers, our risk management  
13 committee and our internal auditors.

14 Q. So you don't necessarily heavily rely on some  
15 other company or firm's forecast?

16 A. No. We rely primarily on the market price  
17 quotes that we get from brokers every day and other  
18 information that we gather, and we usually only look  
19 out five years. I extrapolate this out to 10 years.  
20 We really never look beyond 10 years unless we're doing  
21 some kind of analysis due to the high degree of  
22 uncertainty to what there is. There is really no  
23 market quotes beyond 2010, so it's all speculation of  
24 what it would be past 2010.

25 Q. Then I was a little confused on that

00285

1 discussion. You went out 10 years, but then the graph  
2 itself goes out 2018, so you did some automatic  
3 adjustment to that point?

4 A. I simply escalated out that an assumed rate  
5 of inflation at two-and-a-half percent.

6 Q. I guess we could use Exhibit 304, probably  
7 Page 2. Are these figures here, are these real  
8 dollars, nominal dollars, what?

9 A. Those are nominal dollars.

10 Q. And then these forecasts are going out to  
11 2020, and I take it that's because the Company has  
12 assumed a 20-year life of the Centralia Plant,  
13 remaining life, that is?

14 A. I believe we just performed a 20-year  
15 analysis. I don't think there is necessarily an  
16 assumption about a plant life.

17 Q. So for your part, anyway, you are just doing  
18 the analysis through 2020?

19 A. It's a stretch to get a forecast to 20 years,  
20 much less beyond that. You can apply an escalation,  
21 but you have no basis to know if that's really what's  
22 going to happen. The only reliable information in  
23 market pricing out that I've seen at any time in the  
24 last few years is through 2010, so beyond 2010, it's  
25 just a mathematical manipulation and speculation what



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1 the prices will be.

2 CHAIRWOMAN SHOWALTER: Thanks.

3

4 E X A M I N A T I O N

5 BY JUDGE SCHAER:

6 Q. Mr. Johnson, will you please confirm what  
7 discount rate you used in converting future power costs  
8 to present value?

9 A. 8.16.

10 Q. Thank you. On Page 3, Line 19 of your direct  
11 testimony, Exhibit T-303, you offer that purchases of  
12 market power are not dispatchable in the sense that  
13 plant ownership is. Could you expand on that thought a  
14 little bit, please?

15 A. Owning a plant gives you a little more  
16 flexibility in market purchases. Even though Centralia  
17 is primarily a base load plant, it still has a little  
18 bit of ability to ramp up and down during the hours.  
19 Plus during low price periods, you can chose not to run  
20 it, so it's not a highly flexible resource, but there  
21 is some flexibility to Centralia.

22 Q. Does your discussion mean that Avista  
23 believes that strategies to purchase power in the  
24 market cannot give the Company as much flexibility for  
25 meeting load as plant ownership can?

00287

1       A.       It kind of ends up being financial. We try  
2 to arrange the purchases to match what we need, and if  
3 you make a purchase, say, that's a flat purchase where  
4 as you would have ramped the plant down at night, it  
5 means you would have to sell more off-peak energy, so  
6 it has financial impacts, but you can still run your  
7 system.

8       Q.       Does the market only offer take or pay power  
9 contracts?

10      A.       I guess I don't know quite what you are  
11 thinking of by "take or pay."

12      Q.       That you must purchase this power now or you  
13 have to pay for it even if you don't take it?

14      A.       If you purchase power, you are obligated to  
15 take it, yes.

16      Q.       So you think the only tool available in the  
17 market for purchase power is a take or pay agreement?

18      A.       Typically, when I think we purchase power  
19 when we purchase financial firm energy, which basically  
20 it's a physical arrangement and financial arrangement.  
21 If we've scheduled to pay for 100 megawatts, we're  
22 going to take the 100 megawatts.

23      Q.       Looking at Page 4 of your testimony, Lines 7  
24 through 9, you state there that the present value  
25 benefit of replacement value is 7.7 million, and that

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1 the total plant cost is around 380 million; do you see  
2 those figures?

3 A. Yes, I do.

4 Q. Did those figures represent an analysis of  
5 the total Centralia Plant or an analysis of Avista's 15  
6 percent share, please?

7 A. That's Avista's 15 percent share.

8 JUDGE SCHAER: Is there any redirect for this  
9 witness?

10 MR. DAHLKE: Just one question, Your Honor.  
11 I wanted to follow-up or maybe clarify a question that  
12 you had asked. I thought maybe the witness might not  
13 have understood the question, so I'll try once, and if  
14 I fail, then I'll stop

15

16 REDIRECT EXAMINATION

17 BY MR. DAHLKE:

18 Q. Isn't it the case that there are other power  
19 products available on the market that provide  
20 flexibility other than a firm energy contract; for  
21 example, couldn't you buy a naked capacity or couldn't  
22 you buy a contract that would allow you to back down  
23 the energy requirement?

24 A. Yes. There is other products. We buy other  
25 products. We buy capacity products that we can take in

00289

1 a day and return tonight, so it gives us a lot of  
2 flexibility.

3 Q. But for purposes of the market forecast that  
4 you were using here, what kind of number do you go out  
5 and look for as far as a market price forecast is  
6 concerned?

7 A. If I'm understanding what you are asking, we  
8 always start with just looking for basically on-peak  
9 prices and flat prices is our general starting point,  
10 and to compare apples and apples, we do what we need to  
11 do to compare apples and apples.

12 Q. But there are other types of products  
13 available besides that?

14 A. There are, yes.

15 MR. DAHLKE: That's all.

16 JUDGE SCHAER: Is there anything else for  
17 Mr. Johnson?

18 MR. ADAMS: Your Honor, I just have one  
19 clarifying question to clarify a term. If the witness  
20 could define "flat power," as it's being referred to.

21 THE WITNESS: That's 16 hours a day, Monday  
22 through Saturday, eight hours Monday through Saturday  
23 and all day Sunday. Flat power is basically 24 hours a  
24 day. It's 24 hours a day, all year for whatever your  
25 period is.

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1 MR. ADAMS: Thank you.

2 JUDGE SCHAER: Let's go off the record for a  
3 moment to discuss scheduling.

4 (Discussion off the record.)

5 (Recess.)

6 MR. DAHLKE: We call Mr. Ronald McKenzie.

7 JUDGE SCHAER: Mr. McKenzie, would you please  
8 raise your right hand.

9 (Witness sworn.)

10

11 DIRECT EXAMINATION

12 BY MR. DAHLKE:

13 Q. Mr. McKenzie, have you cause to be prepared  
14 direct and rebuttal testimony in this proceeding?

15 A. Yes, I have.

16 Q. And your direct testimony has been marked as  
17 Exhibit T-311; is that correct?

18 A. Yes.

19 Q. It has two exhibits, Exhibit 312 and 313?

20 A. Yes.

21 Q. Then you've also submitted rebuttal testimony  
22 which was marked as Exhibit T-322; is that correct?

23 A. Yes.

24 Q. Do you have any corrections or additions to  
25 that testimony?

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1 A. No, I do not.

2 Q. Are the answers that you've given there true  
3 to the best of your knowledge?

4 A. Yes.

5 MR. DAHLKE: We would move the admission of  
6 direct testimony for Mr. McKenzie, Exhibit T-311,  
7 rebuttal testimony, Exhibit T-322, together with  
8 Exhibits 312 and 313.

9 JUDGE SCHAER: Is there an objection to any  
10 of those documents? Hearing none, those are admitted.  
11 Go ahead, please. Is Mr. McKenzie available for cross?

12 MR. DAHLKE: Yes, he is.

13 JUDGE SCHAER: Mr. Cedarbaum, did you have  
14 cross for this witness?

15 MR. CEDARBAUM: Yes. During the break, I  
16 distributed a one-page exhibit that I'd like to mark  
17 for identification, please.

18 JUDGE SCHAER: I'm going to mark for  
19 identification as Exhibit 330 a single-page document  
20 headings at the top for two sections, one being book  
21 basis, the other being tax basis. The hole in the  
22 middle looks like Centralia, and on it quite a bit of  
23 handwritten information on this page. Go ahead,  
24 Mr. Cedarbaum.

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CROSS-EXAMINATION

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BY MR. CEDARBAUM:

Q. If you could turn to your rebuttal testimony on Page 2, that's Exhibit 322, and beginning at Line 2, you discuss the direct assignment of federal income taxes associated with the sale of Centralia.

A. Yes.

Q. Line 10, there is reference to a 93.88 percent. That's the direct assignment of the tax burden to customers; is that correct?

A. Yes, that's correct.

Q. And that's premised on the idea that that 93.88 percent of the benefit from the tax depreciation is presumed to have been passed on to the customers at December 31st, 1999.

A. Correct.

Q. You show an amount on Line 13 of 958 thousand 914 dollars; do you see that?

A. Yes.

Q. That's assigned a shareholders representing 6.12 percent of the tax on the depreciation related to the gain; is that right?

A. Correct.

Q. And that's also premised on the notion that the tax deferred benefit balance is presumed not to be

00293

1 passed on to customers at December 31st, 1999?

2 A. Correct.

3 Q. Can you explain the basis for that assumption  
4 that the deferred tax benefit balance is not passed on  
5 to customers but is rather passed on to shareholders as  
6 of December 31st, 1999?

7 A. It hasn't been directly passed on to  
8 shareholders as of December 31st, 1999, unless the sale  
9 goes through, but assuming that the account balances  
10 were to stop at the end of the year, that would be the  
11 remaining portion that had not been passed on to  
12 customers.

13 Q. And my question is, what is the basis of your  
14 assumption for that December 31st, 1999, point in time?

15 A. All the calculations on the gain on the sale  
16 were at December 31st, 1999. The plants balances, the  
17 accumulated depreciation, deferred tax balances, all  
18 balances were at December 31st, 1999.

19 Q. Do you know of any precedence in ratemaking  
20 where the benefits of accelerated tax depreciation and  
21 utility property are flowed to shareholders?

22 A. Well, prior to them being flowed through to  
23 customers, they are in a deferred income tax account  
24 that is normally triggered as a rate base reduction so  
25 that customers get the time value of the timing



00294

1 difference on the tax, but the deferred tax balance  
2 that hasn't been flowed through the customers, I'm  
3 arguing out of the given shareholders.

4 Q. Do you have any ratemaking precedent in mind  
5 or any examples of ratemaking precedent where that type  
6 of treatment has been allowed?

7 A. I can't think of any offhand.

8 Q. Referring to you Exhibit 330 for  
9 identification, do you recognize this as a work paper  
10 you submitted to Staff which shows the derivation of  
11 the 93.88 percent we've been discussing?

12 A. Yes.

13 Q. Just for clarification purposes, the  
14 handwriting on the page is your own handwriting?

15 A. Yes, it is.

16 Q. Can you just briefly describe what this work  
17 paper shows and how it was put together?

18 A. Certainly. At the end of 1999, there is a  
19 deferred tax balance of 993 thousand dollars, I made an  
20 adjustment to that balance because a portion of  
21 deferred tax is above the 35-percent current statutory  
22 rate, so I adjusted the balance downwards to 958  
23 thousand dollars, divided by 35 percent to get the  
24 estimated tax depreciation that has not yet been passed  
25 on to customers, and then I used that result, the 2.7

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1 million dollars, to arrive at the ratio of 93.88  
2 percent by calculating the amount passed on to  
3 customers as a percent of total tax depreciation.

4 MR. CEDARBAUM: I would move the admission of  
5 Exhibit 330.

6 JUDGE SCHAER: Any objection? Exhibit 330  
7 is admitted.

8 MR. CEDARBAUM: Those are all my questions.

9 JUDGE SCHAER: Mr. Adams, did you have  
10 questions of Mr. McKenzie?

11 MR. ADAMS: I just have a few, Your Honor.  
12

13 CROSS-EXAMINATION

14 BY MR. ADAMS:

15 Q. Mr. McKenzie, I want to direct your attention  
16 to Exhibits 312 and 313, and specifically Page 1 of 312  
17 and Page 1 of 313. I just want to ask on 312, looking  
18 at the box that's got the label, estimated income tax  
19 calculation; do you see that reference?

20 A. Yes.

21 Q. Starting at the top of that section where it  
22 says, gain on sale of plant of 40 billion 375 thousand  
23 dollars; do you see it tracks down to the three lines  
24 from the bottom that say, taxable gain 50.9 million  
25 dollars. At that point, as I understand it, you apply

00296

1 had a 37.5-percent tax rate to come up with the tax  
2 liability on that gain; is that correct?

3 A. Correct.

4 Q. And then that 19 million 90 thousand dollar  
5 taxable amount carries over onto Page 1 of 313. I'm  
6 sorry, let me strike that and go back again. Going  
7 back to Page 1 of 312, the very bottom line, current  
8 income statement effect, where you have subtracted out  
9 the taxes that you have calculated above along with  
10 certain other items, gives you the current income  
11 statement effect of 29 million 605 thousand; do you see  
12 that number?

13 A. Yes.

14 Q. Then that number tracks over to Line 6 of  
15 Exhibit 313, Page 1; correct?

16 A. Correct.

17 Q. And this scenario, as I understand it, is the  
18 depreciation method; is that correct?

19 A. Yes.

20 Q. As proposed by PacifiCorp?

21 A. Page 313 addresses the depreciation method,  
22 correct.

23 Q. So therefore, at Line 7, that's where you  
24 come up with the 69.7-percent factor, the customer  
25 percentage of the gain?

00297

1 A. That's calculated on Line 4.

2 Q. And then finally going down to Lines 9 and 10  
3 on that page, you then allocate between Washington and  
4 Idaho that 20 million 635 thousand dollars; is that  
5 correct?

6 A. Yes.

7 Q. Just so I understand how you've progressed.  
8 Now let's go back to Exhibit 312, Page 1 to the  
9 37.5-percent tax rate; do you see that item?

10 A. Yes.

11 Q. Am I correct that this tax rate is a  
12 combination of the tax rates for both the state of  
13 Washington and the state of Idaho?

14 A. That's combined federal and stated income tax  
15 estimate.

16 Q. And what would be the state of Washington and  
17 federal tax rate; in other words, the combination of  
18 the state of Washington and the federal tax rate?

19 A. The state of Washington doesn't have a state  
20 income tax rate. This is a combined rate for the  
21 states of Idaho, Montana, Oregon, and California, those  
22 income state tax rates, an estimate added to the  
23 federal income tax.

24 Q. So this number is a higher tax rate than  
25 would be applied to Washington only; correct?

00298

1       A.       Well, a portion of the state income tax needs  
2 to be allocated between jurisdictions. Montana,  
3 Oregon, and California income taxes will all be  
4 impacted by the gain on Centralia because the states  
5 use an apportionment factor in arriving at income  
6 that's taxable in each state, so even though we don't  
7 have electric operations in Oregon and California,  
8 state income taxes in those states will go up.

9               We do have electric operations in the state  
10 of Montana, and Montana income taxes in our electric  
11 general rate cases are allocated between Washington and  
12 Idaho. So to sum up, Montana, Oregon and California  
13 state income taxes would be allocated between  
14 Washington and Idaho. The Idaho jurisdiction is  
15 willing to take a direct assignment of their state  
16 income tax.

17       Q.       Let's go back again. The state of Washington  
18 does not have an income tax; correct?

19       A.       Correct.

20       Q.       So the only tax, if you are looking at  
21 Washington's only, is the federal income tax; is that  
22 not correct? The only tax that would apply in the  
23 state of Washington. There is no other tax here.

24       A.       Yes. There is no state income tax in the  
25 state of Washington.

00299

1 Q. The federal tax rate is 34 percent; is it  
2 not?

3 A. No.

4 Q. What is the federal tax rate?

5 A. 35 percent.

6 Q. Under the scenario that we just walked  
7 through here, you are charging Washington ratepayers  
8 37.5 percent tax rate; is that correct?

9 A. That is correct. This was an estimate of the  
10 gain on sale. It includes an estimate of state income  
11 taxes. When we actually true up state income taxes, we  
12 would be directly assigning Idaho to Idaho because they  
13 are agreeing to take a direct assignment, but the state  
14 income taxes associated with Oregon, Montana, and  
15 California we would be allocating to jurisdictions.

16 Q. If you were to apply the tax effect on your  
17 page Page 1 of 313, would that not get closer to the  
18 number that Washington should be responsible for; in  
19 other words, wait until end of the equation before you  
20 apply the taxes?

21 A. Yes. That's what we would do in an actual  
22 calculation for the actual journal entry on the gain.

23 Q. So am I correct that for instance, if the  
24 Commission were to agree with the scenarios that you  
25 are showing here in Exhibits 312 and 313, you will true

00300

1 those numbers up so that Washington does not takes pay  
2 taxes that are the responsibility of other states?

3 A. No. What I said is they will be trued-up,  
4 and Washington will get an allocation of Montana,  
5 Oregon, and California state income taxes because there  
6 are taxes associated with the sale that will have to be  
7 paid.

8 Q. So the Company proposes to charge Washington  
9 ratepayers for taxes that are attributable to other  
10 jurisdictions; is that correct?

11 A. That's correct because the apportionment  
12 factors cause an increase in state income taxes in  
13 those states, even though we don't have electric  
14 operations in those states, and the Montana state  
15 income taxes that we do pay currently, regardless of  
16 this transaction, are allocated to Washington  
17 operations in our rate files.

18 Q. Are those not associated with generation that  
19 comes from the state of Montana?

20 A. Both state income tax and state kilowatt hour  
21 generation tax. The state income tax is allocated;  
22 both taxes are allocated.

23 MR. ADAMS: Thank you. Nothing further.

24 JUDGE SCHAER: Commissioners, did you have  
25 questions for Mr. McKenzie?

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E X A M I N A T I O N

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BY CHAIRWOMAN SHOWALTER:

4

Q. I'm trying to understand the tax issue. I'm not even sure I can articulate. I guess I'm trying to get at what is the rationale for why Washington ratepayers would be apportioned a part of the other states taxes?

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A. The state income tax is determined on apportionment factors for each state that has a state income tax, and they are mutually agreed on between the states. There is a free factor apportionment that is used based on sales, plant, and -- I can't remember the other one right now, but as the corporate income is allocated to each jurisdiction, those apportionment factors are applied and state income taxes are calculated.

Normally, the state income taxes stay in the state and are applied to the utility operations of that state, so California gas customers pay for their California state income tax. Oregon gas customers pay for their Oregon state income tax. The Montana state income tax is allocated to Washington and Idaho currently. The gain on the sale is going to cause corporate net income to increase. When the



00302

1 apportionment are applied, that will cause the Montana,  
2 Oregon, and California income taxes to increase, and it  
3 isn't appropriate to charge California gas customers a  
4 state income tax associated with the sale on Centralia,  
5 so what we are doing is netting the state income taxes  
6 against the gain, and for those three states there will  
7 would be an allocation to the state of Washington.

8 CHAIRWOMAN SHOWALTER: I'll study your  
9 testimony.

10

11 E X A M I N A T I O N

12 BY COMMISSIONER HEMSTAD:

13 Q. -- treated as cost?

14 A. Correct.

15 Q. And because of apparently how those states  
16 deal with allocations, it ended up being a general cost  
17 that the Company looks at to be apportioned among the  
18 various states.

19 A. Right.

20 Q. Whether we think that's right or not is  
21 another matter, but that's what the Company is doing.

22 A. Correct.

23

24 E X A M I N A T I O N

25 BY CHAIRWOMAN SHOWALTER:

00303

1 Q. Normally, you would assume an apportionment  
2 in general would be apportioned in proportion to the  
3 income made in a state or load in a state depending on  
4 what you are apportioning, so I guess I'm trying to  
5 understand why the apportionment may be that you have  
6 chosen.

7 A. The states don't look at an allocation of  
8 income the way you would look at an allocation of  
9 Washington income. They take the total corporate  
10 income and apply these factors to allocate the  
11 corporate income to the state and then apply the state  
12 tax root.

13

14 E X A M I N A T I O N

15 BY JUDGE SCHAER:

16 Q. So Mr. McKenzie, if I can just see if I  
17 understand this. Looking at the amount of 2.5 percent  
18 above the federal tax rate shown at the tax rate line  
19 on Page 1 of 3 in Exhibit No. 312, that 2.5 percent is  
20 made up of state income taxes from Montana, Oregon, and  
21 California, but not Idaho.

22 A. No. It includes Idaho, and it was just an  
23 estimate that was used at the time this exhibit was  
24 prepared, but the state of Idaho is willing to take a  
25 direct assignment of Idaho income taxes because they

00304

1 have electric operations.

2 Q. So they take 100 percent of the Idaho income  
3 taxes, and then they split with Washington the two  
4 states where you have electrical operations the income  
5 taxes that would be tied to your electrical operations  
6 in Montana, Oregon, and California; is that correct?

7 A. Correct.

8 Q. Based on the allocation factors between  
9 Washington and Idaho that you all use?

10 A. Yes.

11 Q. We would like to enter into the record the  
12 response to Bench Request No. 1 made to Avista, and I  
13 believe that you were the witness that was discussing  
14 the topics covered by that; is that correct?

15 A. Actually, on Bench Request No. 1, Mr. Dukich  
16 is listed as the witness.

17 JUDGE SCHAER: I want to put it in now  
18 because I want to ask you some questions. Is that  
19 going to cause problems for anyone? I'm going to mark  
20 as Exhibit 331, the response to Bench Request No. 1,  
21 and unless there is some concern expressed about it,  
22 I'm going to enter it into the record at this point.

23 Q. Mr. McKenzie, you state on Page 5 of your  
24 testimony that Avista proposes to offset any gain on  
25 the sale by offsetting storm damage costs from the 1996

00305

1 ice storm and by using any additional amount for  
2 post-retirement benefits; is that correct?

3 A. Yes.

4 Q. What is the nature of the storm damage costs?

5 A. In November of 1996, there was a major ice  
6 storm, and Avista's service territory in Eastern  
7 Washington and Northern Idaho causing a lot of damage,  
8 a lot of necessary business operating expense that  
9 needed to be incurred to restore power to the system as  
10 well as significant capital expenditures in addition.

11 Q. Is the dollar amount of the proposed offset  
12 that you are talking about here the undepreciated  
13 balance of capital costs associated with the ice storm  
14 damage?

15 A. The ice storm damages weren't depreciated.  
16 It represents the amount of net of tax storm damages  
17 that were incurred in 1996.

18 Q. At the time of the ice storm, Avista stated  
19 officially that, quote, "the Company does not expect to  
20 raise electric prices as a result of the storm damage  
21 costs," closed quote; is that correct?

22 A. That's the quote out of the press release.  
23 Mr. Dukich can offer some further testimony on that  
24 quote because he was involved directly with the  
25 meetings, but I can represent, based on the meetings

00306

1 we've had associated that, that the intent of the  
2 message there was that we wouldn't expect a surcharge.  
3 In fact, later when you look at the ice storm report on  
4 Page 14, the last paragraph -- it's attached to Bench  
5 Request No. 1 -- it talked precisely about what the  
6 ratemaking and accounting treatment was proposed to be.

7 Q. What is that reference again?

8 A. It's the Ice Storm '96 Overview Report two  
9 months later, Page 14. It's the last attachment to  
10 Bench Request No. 1.

11 Q. Looking at your official statement from your  
12 1996 SEC form 8K, what did you state about your  
13 financial treatment of the storm costs? I'm looking at  
14 the page of that document that has Mr. John Eliason's  
15 signature on it. That's in Bench Request No. 1, which  
16 is Exhibit 331.

17 A. That indicator was to report a significant  
18 event estimating costs in the range of 10 to 15 million  
19 dollars with 80 to 90 percent of the cost applicable to  
20 operations and maintenance and expense, and then it  
21 goes on to talk about the method of using estimated  
22 injuries and damage and the fact that there is a  
23 reserve being accrued of 1.3 million, and that would be  
24 used to partially offset the storm damage costs, and  
25 then it goes into the estimated effect on fourth

00307

1 quarter earnings.

2 Q. And does the last line of that text read, The  
3 capital expenditures related to the storms will be  
4 depreciated under normal accounting procedures?

5 A. Yes, that's correct, but there were both  
6 operation and maintenance expense and capital  
7 expenditures.

8 Q. Which of those costs are you looking to  
9 recover?

10 A. The operation and maintenance expense.

11 Q. In this proceeding?

12 A. We are requesting that if the customer  
13 portion of the gain is determined that it first be used  
14 to offset the ice storm operation maintenance expense  
15 in this proceeding.

16 Q. Is it Avista's position that any remaining  
17 storm damage costs will be included in the rate  
18 calculation of the current rate filing?

19 A. The capital expenditures are in-plant and  
20 would be included. If the Commission were to adopt the  
21 Company's approach on ice storm costs, one of the  
22 Company's adjustments could be reduced because it  
23 reflects an amortization of ice storm costs.

24 Q. Do you recall if there was ever a prior  
25 request made to the Commission for approval to include

00308

1 any storm damage costs in future rates?

2 A. No. We haven't been in for a rate proceeding  
3 since 1990, so there haven't been any requests for  
4 increased rates since that time.

5 Q. Then moving to another subject, in your  
6 rebuttal testimony, you state that the shortened  
7 depreciation life was the result of the filing with the  
8 Utah Public Service Commission; is that correct?

9 A. Could you provide a reference?

10 JUDGE SCHAER: I'm going to withdraw that  
11 question. Is there redirect for this witness?

12 MR. DAHLKE: Yes, Your Honor.

13

14 REDIRECT EXAMINATION

15 BY MR. DAHLKE:

16 Q. Can you tell us in regard to the income tax  
17 portion that was referenced on the two exhibits to your  
18 direct testimony, if, to your knowledge, whether that  
19 method of apportionment is consistent with prior  
20 ratemaking treatment that the company Avista has  
21 received in this jurisdiction?

22 A. The only state income taxes that have been  
23 addressed are the Montana taxes as an operating expense  
24 reflected in that income. This is kind of a peculiar  
25 situation where others state's income tax increase as a

00309

1 result of the Centralia sale.

2 Q. But with regard to the Montana taxes, have  
3 they previously been apportioned to Washington since  
4 there isn't an electric jurisdiction in the state of  
5 Montana?

6 A. Correct.

7 Q. And a share of them also to the state of  
8 Idaho.

9 A. Yes.

10 Q. Do the departments of revenue get involved in  
11 determining what the income tax allocation factors are  
12 between the states; do you know?

13 A. It's my understanding that it's a formula  
14 that's been agreed to by all the states, and they all  
15 use the same formula.

16 MR. DAHLKE: Thank you.

17 JUDGE SCHAER: Is there anything further for  
18 this witness?

19

20 FURTHER EXAMINATION

21 BY CHAIRWOMAN SHOWALTER:

22 Q. I have just have a follow-up question on the  
23 ice storm. You propose under certain conditions that  
24 the customer share be used to offset the ice storm  
25 costs, and press releases aside, I take it that means



00310

1 that you feel that the ice storm costs are a legitimate  
2 cost for the customers to incur.

3 A. Correct.

4 Q. And that if this gain is not applied to that,  
5 that you would probably or maybe be asking that the  
6 customers incur those costs in some other form, such as  
7 rates case; am I right on that?

8 A. We are currently asking in our general rate  
9 case for recovery of ice storm costs on a six-year  
10 average as explained in the Company's response to Bench  
11 Request No. 1 of the storm overview report, and if the  
12 Commission were to offset a portion of the customer  
13 gain against the ice storm, we could remove that  
14 request in our general rate case, which would reduce  
15 our revenue requirement in the rate case.

16 Q. What's the underlying rationale why  
17 ratepayers should pay for storm costs?

18 A. It was an extraordinary event that caused the  
19 Company to incur operation and maintenance expense that  
20 was necessary to restore power.

21 CHAIRWOMAN SHOWALTER: Thanks.

22

23

RECROSS-EXAMINATION

24 BY MR. CEDARBAUM:

25 Q. I just had a few questions about Exhibit 331,

00311

1 which was the response to the Bench Request that you've  
2 answered questions about. The first attachment is the  
3 Company's form 8K to the SEC; do you see that?

4 A. Yes.

5 Q. That's dated December 1st, 1996.

6 A. Yes. On the first page?

7 Q. Yes. And on the second page of the form in  
8 about the middle of the page, it says, the Company does  
9 not expect to raise electric prices as a result of the  
10 storm damage cost; is that right?

11 A. Yes. That's what it says.

12 Q. Turning to the next page in the Bench  
13 request, there is a press release; is that right?

14 A. Yes.

15 Q. That's dated December 5th, 1996.

16 A. Correct.

17 Q. And about a little bit below the middle of  
18 the page, Mr. Redmond, who was the chairman at the  
19 time, was quoted as saying, "Our customers will see no  
20 change in electric prices as a result of the storm  
21 damage costs"; do you see that?

22 A. Yes.

23 Q. The reference that you made about not seeking  
24 a surcharge comes in the ice storm '96 overview report;  
25 is that right?

00312

1 A. Correct, but I also explained that the press  
2 releases weren't that accurate. They should have  
3 explained that we weren't going to request an immediate  
4 surcharge, and I also stated that Mr. Dukich could  
5 respond to those questions because he was involved in  
6 the decision at that point in time.

7 Q. So when Mr. Redmond said, Our customers will  
8 see no change in electric prices as a result of the  
9 storm damage costs, he meant to say, but only not  
10 through the surcharge?

11 A. I'd prefer you asked those questions of  
12 Mr. Dukich.

13 Q. The ice storm '96 overview report is dated  
14 January 28th, 1997; is that right?

15 A. Yes.

16 Q. Who was that prepared for?

17 A. It was prepared for the commission, but it  
18 was submitted to other parties, and the Bench request  
19 asks for all the documents that are submitted by the  
20 other parties.

21 Q. Are you familiar with the Company's 1996  
22 annual report to shareholders?

23 A. I don't have a copy of it. I've looked at it  
24 from time to time.

25 Q. That would have been published sometime at

00313

1 the beginning of 1997?

2 A. Correct.

3 Q. Would you accept subject to your check that  
4 in the appendix of that report to shareholders, the  
5 document states on Page 1, No increase in rates will  
6 occur as a result of these costs, referring back to the  
7 ice storm costs?

8 A. Again, I've responded to that. Please ask  
9 Mr. Dukich.

10 Q. You would accept it subject to your check?

11 A. Sure. I will accept that quite.

12 Q. Would you also accept subject to your check  
13 that there is no reference anywhere in the report or  
14 the appendix as to any contingencies that the Company  
15 would be seeking recovery of those costs?

16 A. I'll accept that subject to check.

17 MR. CEDARBAUM: Thank you. Those are all my  
18 questions.

19 JUDGE SCHAER: At this point then this  
20 hearing will adjourn, and we will take up again at 9:00  
21 a.m. on Monday morning and ask counsel to be here,  
22 again, a few minutes early so we can discuss any  
23 matters that are pending. We can have predistribution  
24 of exhibits, and we can proceed with Mr. Dukich's  
25 testimony.

00314

1 MR. DAHLKE: I believe Ms. Hirsh had  
2 indicated she had signed the confidentiality agreement  
3 but had not yet submitted it, so it's my understanding  
4 she's going to submit that; is that correct?

5 MS. HIRSH: That's correct.

6 JUDGE SCHAER: Is the Company going to waive  
7 its opportunity to wait 10 days before deciding whether  
8 to object, make that decision now?

9 MR. DAHLKE: As to....

10 JUDGE SCHAER: You would have an opportunity  
11 to object since she is not of counsel.

12 MR. DAHLKE: We would waive that.

13 JUDGE SCHAER: Thank you for your testimony,  
14 Mr. McKenzie, and we are off the record.

15 (Hearing recessed at 6:00 p.m.)

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