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1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION

2 COMMISSION

3 In the Matter of the) DOCKET NO. UE-991262
Application of PACIFICORP) Volume 4
4 For an Order Approving the) Pages 551 - 801
Sale of Its Interest in)
5 (1) The Centralia Steam)
Electric Generating Plant,)
6 (2) The Ratebased Portion of)
the Centralia Coal Mine, and)
7 (3) Related Facilities, for)
a Determination of the Amount)
8 of and the Proper Ratemaking)
Treatment of the Gain)
9 Associated with the sale; and)
for an EWG Determination.)

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

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

18
19 A hearing in the above matter was held on
20 January 11, 2000, at 8:30 a.m., at 1300 South Evergreen
21 Park Drive Southwest, Olympia, Washington, before
22 Administrative Law Judge MARJORIE R. SCHAER,
23 Commissioners RICHARD HEMSTAD and Chairwoman
24 MARILYN SHOWALTER.

25 Kathryn T. Wilson, CCR
Court Reporter

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1 The parties were present as follows:

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

2 JUDGE SCHAER: Let's be on the record. This
3 is the third day of hearing in Dockets No. UE-991262,
4 UE-991255, and UE-991409, which are three applications
5 for permission to sell each company's portion of the
6 Centralia Plant, and at this stage in the hearing, we
7 are taking the cross-examination of Staff witness, Ken
8 Elgin, and Mr. Elgin, I remind you that you are still
9 under oath.

10 At the end of the hearing yesterday, I said
11 that we would start up with redirect, but we do have
12 some more questions from the Bench, so we are going to
13 take those, and then we will proceed with redirect and
14 then questions from other parties.

15
16 E X A M I N A T I O N

17 BY CHAIRWOMAN SHOWALTER:

18 Q. Good morning. I have to get my thoughts
19 together here. Let's see where I left off in my
20 thinking last night. I think we were talking yesterday
21 about essentially how to balance a number of
22 considerations both, quote, quantitative and
23 qualitative; although, as I think I said, all of them
24 were to a degree speculation, and by "speculation" I
25 mean informed speculation, whether it's predicting

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1 numbers or predicting other events.

2 Here's my question: If the Commission were
3 to adopt your recommendation and award all of the gain
4 to the ratepayers, and the companies decided not to
5 sell for whatever their reasons are, do you think the
6 ratepayers would be just as well off with the not-sell
7 decision as to the to-sell decision? Would the
8 ratepayers be at least as well off without the sale?

9 A. Yes.

10 Q. So that's your break-even point?

11 A. Well, I guess I would say yes, but it's not
12 as precise as, for example, the kind of questions
13 Mr. Galloway asked me yesterday afternoon. I think
14 what I'm trying to say is that there are some risks to
15 ratepayers of swapping a known cost resource for what
16 might be new resources in the future, and the analyses
17 prepared by the companies all show a cross-over point
18 somewhere in the 2004 to 2005 time range. The Power
19 Planning Council's analysis that was updated in
20 November of 1999 show even higher market prices,
21 particularly in the near term, so to the extent that
22 you lend credence to those numbers, it says that it's
23 pushing the break-even point up further.

24 Q. I don't need you to go into all the pros and
25 cons. I'm trying to get into a bottom line.

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1 A. Unless the ratepayers get the gain, it's not
2 worth the risk of trying to sell Centralia.

3 Q. As I read your testimony, you thought that
4 awarding them the gain is a push, or probably a push,
5 or you may have used the words "at best push," but
6 supposing it is a push, then doesn't those other
7 qualitative factors push it over into the positive
8 category that yes, this is a good idea. That yes, the
9 ratepayers are better off with a sale, assuming year
10 conditions.

11 A. Right, and when I drafted my testimony, I
12 think there is some merits to what Mr. Lazar is saying
13 in terms of some of the other benefits he has attempted
14 to quantify, so there are other things out there that I
15 couldn't put a value on. I didn't have the expertise,
16 but I think there is some merits to what he's saying
17 regarding the transaction, and the other thing that
18 strikes me a little odd is that particularly Avista's
19 testimony in this proceeding, it's kind of like -- it's
20 okay to sell if the shareholders get the gain, but if
21 the shareholders don't get the gain, we are going to
22 keep it and buy some more --

23 Q. Right now, I'm trying to keep my eye on the
24 ratepayers. I think public interest is a broader test
25 than just the ratepayers, but from the ratepayers'

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1 point of view, are you indifferent from the ratepayers,
2 as opposed to the general public interest or other
3 parties, are you indifferent whether the sale takes
4 place or not under your recommendation, or do you think
5 under your recommendation the ratepayers are better off
6 if there is a sale?

7 A. I think with how the gain going to ratepayers
8 --

9 Q. Assuming they have the gain, are they better
10 off with the sale? If the Commission adopts your
11 recommendation completely and issues an order; then you
12 are waiting to see what the companies will do, would
13 you say, I hope they sell it?

14 A. No. I think if all things in terms of what I
15 expect to happen, I think that they are probably better
16 off to keep Centralia, if that's your question.

17 Q. That's the specific question. I think my
18 more theoretical question is shouldn't the Commission
19 be structuring it's recommendation such that it
20 generally is indifferent as to whether the companies
21 accept the recommendation or not, and whatever the
22 content of those conditions might be, and that could
23 vary, but at a theoretical level, shouldn't we be
24 structuring this such that if the companies go forward
25 with the sale it's in the public interest, but it's

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1 whether the appropriate line is the line at which it's
2 still in the ratepayers' interest and probably the sale
3 will go through, assuming there is such an intersection
4 of those lines. I think Mr. Lazar might say that's not
5 anywhere on the graph, because in his view, there just
6 isn't a situation unless the price is up in the 1.4
7 billion, but in your scenario, I think you were in a
8 different zone of where this is just about touch and go
9 from the ratepayers' point of view, and I think my
10 question is, isn't it right at that balance point that
11 is the right point. Otherwise, we've possibly
12 structured it too stringently for the companies to go
13 through.

14 A. Let me try it in a little different twist.
15 The first thing I did was look at Colstrip and look
16 what you did there in your order, and try to analyze
17 the Centralia action in the context of what you did in
18 Colstrip, and the economics and the power supply
19 estimates and all those cost things, Centralia and
20 Colstrip are pretty close. They are not that much
21 different, other than the main thing you get in
22 Centralia is you get more -- it's two-and-a-half times
23 book, approximately, so there is more gain; however,
24 the other thing in Centralia that you do have is you
25 have these intangible things about this resource that

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1 make it valuable, that make it difficult to quantify in
2 terms of what this future might be, and then the other
3 thing that I found that independent of what you did in
4 Colstrip, as a fair analysis in terms of balancing the
5 public interest is this notion that utilities are
6 entitled to a fair rate of return, whatever that is, as
7 it changes from time to time on their investment and
8 nothing more. That's the model we've set up. It's not
9 stringent. I wouldn't ascribe it as saying that's a
10 stringent test, because if the utilities have made a
11 conscious decision to sell this resource that it's in
12 the shareholders' and ratepayers' best interest they
13 are not harmed by receiving book value --

14 Q. You are back to what is fair to the
15 companies. I think where my thinking has been
16 clarified overnight is that supposing you are in a
17 situation which may not have been Colstrip. Supposing
18 you were in a situation where it is in the public
19 interest, and actually, in a broader sense, to
20 effectuate a sale, but that to achieve that balance,
21 all of these interests and the transaction, you, in
22 fact, have to give companies more than is, quote,
23 "fair."

24 In other words, if the test is simply what's
25 sufficient for the Company, that doesn't take into

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1 account what overall may cause a good transaction to go
2 forward, assuming it's good. That's why it seems that
3 if there may not be a perfect identity between the rate
4 of return and achieving a transaction that's in the
5 public interest, so doesn't the Commission have to look
6 at what overall transaction structured with various
7 allocations of the gain will or won't be in the public
8 interest and get to the point where it is largely
9 indifferent as to whether it occurs or not occurs
10 because we can't control whether, in fact, it will
11 occur?

12 A. No, you can't protect ratepayers. If you
13 believe that this transaction is structured such that
14 everybody is treated fairly, and it should go forward,
15 then the Commission, in terms of the rate setting
16 process, can hold ratepayers indifferent to that
17 decision. You can treat Centralia as if it were sold.
18 You have that flexibility in the context of
19 establishing rates that are fair, just, reasonable and
20 sufficient under the statutory standard, and the Staff
21 can make the appropriate ratemaking adjustments to
22 effectuate the Centralia transaction, even if it
23 doesn't occur.

24 Q. So you are saying so long we structure
25 something that we think is appropriate, if the

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1 companies happen not to go forward with it, we say, In
2 our view, we are at that break-even point, and at that
3 break-even point, the ratepayers would have experienced
4 X, so we'll hold the ratepayers to no more harm than X
5 was.

6 A. That's correct.

7 CHAIRWOMAN SHOWALTER: Thanks.

8 JUDGE SCHAER: Mr. Cedarbaum, do you have
9 redirect for this witness?

10 MR. CEDARBAUM: Yes, Your Honor, a couple of
11 areas.

12

13

REDIRECT EXAMINATION

14 BY MR. CEDARBAUM:

15 Q. Mr. Elgin, you were asked questions by
16 Mr. Galloway whether Staff would be supportive of
17 recovery of environmental remediation costs; do you
18 recall that line?

19 A. Yes, I do.

20 Q. I think you indicated that Staff -- the
21 general philosophy would be to be supportive of a
22 recovery of reasonable and prudent expenses; do you
23 remember that?

24 A. Yes, I do.

25 Q. Would there be any other factors that would

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1 go into the Staff's thinking whether or not and what
2 level of recovery would be afforded with those types of
3 costs?

4 A. Yes. One of the critical things that I did
5 forget to include was the fact that these companies do
6 carry insurance for these kinds of events, so to the
7 extent that insurance proceeds are insufficient to
8 cover those contingencies and the materiality of those,
9 the Staff has provided for deferred accounting so that
10 these companies outside of a rate proceeding could
11 recover those costs in a future rate proceeding.

12 Q. Another subject, during the course of your
13 testimony, you've discussed the notion of rates of
14 return, specifically return on equity, compensating
15 shareholders for the risks management takes in managing
16 generation facilities; do you recall that?

17 A. Yes.

18 Q. I think you indicated you generally were in
19 agreement with Mr. Wolverton on the subject matter?

20 A. Yes.

21 Q. You've appeared before the Commission in the
22 past as an expert witness on rate of return?

23 A. Yes.

24 Q. And you've performed financial analyses of
25 the companies in this case?

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1 A. Yes.

2 Q. And you are also familiar with the
3 Commission's rate of return treatments and the
4 establishment of rates of return for these three
5 companies?

6 A. Yes.

7 Q. Does the risks that we are talking about with
8 respect to managing these facilities include the risk
9 of disallowance of cost within these facilities?

10 A. Yes; in fact, explicitly in prior Commission
11 orders, the Commission has recognized those risks and
12 taken that into account in determining what is a fair
13 return on equity for these utilities in terms of the
14 disallowances and with respect to ongoing construction
15 and with respect to nuclear investments.

16 Q. Just before we get into those specific
17 examples, you then just disagree with Mr. Dukich in his
18 testimony at this point?

19 A. Absolutely.

20 Q. Can you give us some examples of prior
21 Commission decisions that you referenced?

22 A. Yes, I can. For Avista, which was formerly
23 the Washington Water Power Company, in the Commission's
24 Fifth Supplemental Order in Cause No. U-8326 on Page 10
25 under the category, The Commission's decisions about

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1 cost and common equity, the second paragraph states,
2 The Commission agrees with the Company that, quote,
3 "There is a measurable adverse impact on the price of
4 water power securities and the ability to market
5 securities due to the uncertainty surrounding WPPSS in
6 the Northwest and because of the Company's ownership
7 interests in WNP No. 3," end quote. The Commission
8 find that the Company's rate of return on common equity
9 should be 15.75 percent as recommended by Commission
10 staff, absent the WPPSS association; that 15 basis
11 points should be added because of the WPPSS association
12 and that the authorized rate of return on common equity
13 is therefore 15.9 percent.

14 The following year, Avista filed another
15 general rate case, and in the Second Supplemental Order
16 in Cause No. U-8428, there is a paragraph in the
17 Commission's order that states, The testimony of
18 Company witness John Eliason contained a caveat that
19 his testimony that 15.75 percent would be sufficient.
20 Cost of equity was based on the Company's proposed
21 common equity ratio of 40 percent and was accurate
22 provided the Company is allowed full recovery of the
23 Skagit investment as requested. Mr. Eliason's
24 testimony further indicated that if the Company were
25 not allowed recovery of Skagit by a court decision, a

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1 cost of equity of 17 percent to 17.9 percent would be
2 necessary.

3 So basically, these are just a couple of
4 examples of where the Commission explicitly ties a
5 return on equity decision, and the Company specifically
6 advocated different rates of return based on particular
7 cost recovery and the Commission's treatment with
8 respect to nuclear facilities, and this is not just
9 unique for water power. I just got a couple of water
10 power decisions because of the testimony that
11 Mr. Dukich offered on this issue, but there have been
12 similar decisions for the other companies.

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

15 JUDGE SCHAEER: Mr. Lavitt, go ahead.

16

17 CROSS-EXAMINATION

18 BY MR. LAVITT:

19 Q. Just one question. Going back taking your
20 discussion with Chairwoman Showalter one step further,
21 you said in that discussion if the sale doesn't go
22 forward after your proposed recommendation, then would
23 it still be in the ratepayers interest if the facility
24 were to close entirely?

25 A. I don't believe that the facility will be

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1 closed. I think that that particular facility, because
2 of its strategic location, has benefits to the region.
3 I don't see it closing. I think it will be an ongoing
4 operating facility for sometime.

5 Q. Were facility to close, however, would that
6 be in the ratepayers interest? I understand you don't
7 anticipate it would, but my question is if it were to
8 close.

9 A. I just can't envision that happening. I
10 would think that something would happen there in terms
11 of generation. In terms of that as a hypothetical, I
12 can't envision that that's why I'm having difficulty
13 answering that.

14 MR. LAVITT: Thank you.

15 JUDGE SCHAER: Any other questions for
16 Mr. Elgin?

17 MR. DAHLKE: Yes, Your Honor.

18

19 CROSS-EXAMINATION

20 BY MR. DAHLKE:

21 Q. Mr. Elgin, yesterday you were asked some
22 questions about the shape of the revenue requirement
23 associated with a utility asset, and I wanted to ask
24 you about the depreciation expense portion of a revenue
25 requirement for utility asset. Isn't it true that the

00573

1 depreciation expense for an item that's entered into
2 rate base is uniform, same amount each year once you
3 calculate the useful life of the item?

4 A. Yes. It's straight-line book depreciation;
5 however, utilities are allowed to depreciate the asset
6 more quickly for tax purposes, so the utilities do have
7 a benefit from that accelerated amortization than the
8 ability to recognize a difference between the tax base
9 as a depreciation and the book basis, but yes, for
10 ratemaking purposes, those assets are straight-line
11 depreciation.

12 Q. On the depreciation expense portion then,
13 would the accelerated depreciation for tax purposes be
14 flowed through to a customer under the ratemaking
15 principles that are in place, say, beginning in 1972?

16 A. First year, there are no -- is that your
17 question?

18 Q. Following the first year.

19 A. The Commission staff has treated the
20 difference in terms of the deferred taxes as end of
21 period per taxes and made an adjustment to rate base
22 for those.

23 Q. To the extent that the accelerated tax
24 depreciation is greater than the straight-line book
25 depreciation, those benefits were flowed through to

00574

1 ratepayers in the ratemaking process, were they not?

2 A. There is an attempt to do that, but the
3 shareholders do have the material benefit of that cash
4 flow from that difference, so there is a timing
5 difference, but the ratemaking process attempts to
6 capture that difference, but it can't fully capture it.

7 Q. When did the flow through of accelerated
8 depreciation began to occur; do you know?

9 A. I don't know specifically. I would ask you
10 to defer that question for Mr. Martin.

11 Q. Do you know what the useful life of Centralia
12 was when it was first put into rate base, how many
13 years for depreciation purposes?

14 A. For book purposes?

15 Q. Yes.

16 A. I believe it was 40 years.

17 Q. Would you subject to check 35 years?

18 A. I'll accept that.

19 Q. I think it was indicated previously that
20 we're currently approximately 28 years into that 35-ear
21 period; is that correct?

22 A. Yes.

23 Q. Do you know what the original investment was
24 of Centralia for Avista Corporation?

25 A. No, I don't.

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1 Q. Would you accept subject to check that it was
2 approximately 36 million dollars?

3 A. When it first went into rate base?

4 Q. Yes.

5 A. I'll accept that.

6 Q. Do you know -- I don't know if you have
7 Exhibit 324 before you.

8 MR. DAHLKE: If I could show the witness the
9 exhibit, it's five-year capital budget for Centralia
10 Plant.

11 A. I don't have it in front of me.

12 JUDGE SCHAER: Go ahead and present that
13 document to the witness, Mr. Dahlke.

14 THE WITNESS: Yes, Exhibit 324. I saw this
15 Friday.

16 Q. (By Mr. Dahlke) I think it's indicated there
17 that the five-year capital budget on the bottom
18 right-hand corner is approximately 240 million dollars;
19 is that correct?

20 A. Yes.

21 Q. So Avista's 15 percent share, if you assume a
22 15 percent share of that budget would be approximately
23 36 million dollars?

24 A. Yes.

25 Q. Wouldn't that indicate to you that we've

00576

1 probably already reached the low point of the revenue
2 requirement that's associated with the original
3 investment that was made in Centralia by Avista
4 Corporation?

5 A. Yes, and that's precisely why Centralia is
6 such a valuable resource for ratepayers because it is
7 at such a low point, and these incremental investments
8 to Centralia would continue to make it a viable
9 resource to ratepayers in the future.

10 Q. So fair to say that we're done with that
11 original high and low in the revenue requirement that
12 you described with regard to the asset as it originally
13 came into rate base, in terms of the shaping of the
14 revenue requirements. You wouldn't expect it to be
15 lower than it is currently.

16 A. No, but this is precisely what I'm saying is
17 that just because something has a 35-year book life,
18 that doesn't mean at the end of 35 years that a utility
19 can walk away from this and not continue to look at
20 whether or not on an incremental basis that this is a
21 viable resource for the benefit of its ratepayers.

22 Q. Then I had just one other question. I wanted
23 to clarify -- I think I understand your position, and
24 I'll state it and you can correct me if I'm not stating
25 it correctly, but does the return on equity component

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1 that's authorized by the Commission for Avista as a
2 regulated public utility in your mind preclude any
3 gains ever being awarded to shareholders under our
4 current ratemaking framework?

5 A. When you say "preclude," is that a matter of
6 law or a matter of policy?

7 Q. Either.

8 A. As a matter of law, I don't believe it
9 precludes it. As a matter of good ratemaking policy in
10 terms of what's been set up today, it is my
11 recommendation as a matter of policy that the
12 Commission would not provide that; that there is
13 nothing in the law that prohibits it.

14 MR. DAHLKE: Thank you.

15 JUDGE SCHAER: Any other questions for
16 Mr. Elgin? Go ahead, Mr. Galloway.

17

18 RE-CROSS-EXAMINATION

19 BY MR. GALLOWAY:

20 Q. Mr. Elgin, yesterday, I believe you agreed to
21 Mr. Adams' assertion that there was not adequate
22 information in the record in this proceeding that would
23 permit you to be able to make the adjustments to
24 PacifiCorp's regulatory assets that the Company
25 proposed; do you remember that?

00578

1 A. That wasn't his question.

2 Q. Do you believe that there is information in
3 this record that would permit you to mechanically
4 perform the adjustment that PacifiCorp has proposed for
5 its Washington allocated share of the regulatory
6 assets?

7 MR. CEDARBAUM: Your Honor, I'll object.
8 This is beyond the scope of any redirect that I asked.
9 I never got into this topic at all. Mr. Adams may have
10 on cross yesterday, but I haven't, so it's beyond the
11 scope of redirect.

12 MR. GALLOWAY: I think his testimony was
13 simply incorrect, and it doesn't seem to serve
14 anybody's purpose to leave incorrect testimony in the
15 record, but if that's what Mr. Cedarbaum would like to
16 do...

17 JUDGE SCHAER: His objection was based on
18 whether this was within the scope of redirect.

19 MR. GALLOWAY: As indicated, it's in response
20 to questions that Mr. Adams asked.

21 JUDGE SCHAER: It looks to me like you are
22 looking at a particular exhibit.

23 MR. GALLOWAY: In particular I'm looking at
24 Bench Request No. 7.

25 JUDGE SCHAER: And that is not a part of the

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1 record at this point; is that correct.

2 MR. GALLOWAY: I don't know what your policy
3 is on Bench requests.

4 JUDGE SCHAER: We only put Bench requests in
5 the record if a party or the Commission decides to do
6 so. I think at this point, we have put in 1 and 2 and
7 proposing to put in 9, but I don't think the Bench is
8 proposing to put in any response to Bench Request
9 No. 7. If there is something you think is in the
10 record that you would like to ask the witness whether
11 he is aware of, go ahead and ask the question in that
12 format.

13 MR. GALLOWAY: I will show him Bench Request
14 No. 7 for this purpose.

15 JUDGE SCHAER: Again, that is not part of the
16 record right now, and my understanding of your question
17 is whether or not there is something in the record that
18 would conflict with his testimony to Mr. Adams.

19 MR. GALLOWAY: What I will do is not pursue
20 this with this witness and offer Bench Request No. 7
21 through Dr. Weaver.

22 JUDGE SCHAER: I think that would be more
23 appropriate.

24 MR. CEDARBAUM: Before we get past this
25 issue -- not knowing where Mr. Galloway is going, it's

00580

1 hard to know how strongly to object. I'll object
2 anyway --

3 MR. GALLOWAY: I stopped asking the question
4 so you don't have to object at all.

5 MR. CEDARBAUM: My objection will be if the
6 point is he's then going to be allowed to offer through
7 his own witness an exhibit, which would basically be
8 more direct testimony, because we haven't crossed him
9 yet -- we don't know what issues will be opened --
10 that's an inappropriate process. It takes additional
11 prefile testimony that we haven't had a chance to look
12 at, and I think we need to deal with that process now
13 before we get locked into it later.

14 JUDGE SCHAER: I did not mean by anything I
15 said, Mr. Cedarbaum, to say what the ruling would be if
16 this were offered through Mr. Weaver, and if I left an
17 impression there would not be an opportunity to make
18 objections and to consider objections at that point,
19 then I apologize to counsel, but I don't believe that
20 we need to deal with this right now. I think if this
21 is offered and you have an objection, we'll take it up
22 then, and I would encourage you and Mr. Galloway to
23 perhaps have a conversation at break and see if there
24 is a way to work out this problem before we get to that
25 argument.

00581

1 Mr. Harris, did you have any further
2 questions?

3 MR. HARRIS: No.

4 JUDGE SCHAER: Mr. Adams?

5

6

FURTHER EXAMINATION

7 BY MR. ADAMS:

8 Q. It's sort of a bottom line question,
9 Mr. Elgin. In your opinion, does Centralia have better
10 economics than Colstrip?

11 A. Yes.

12 Q. And briefly, what are the reasons that you
13 would say that's true?

14 A. The fuel supply and the proximity to the
15 loads, and those are the primary two reasons, and, of
16 course, the costs, capital costs.

17 Q. I wanted to refer you to Avista, Exhibit 313
18 and 312. These are in the record, but I'm sure you
19 don't have these up there with you.

20 JUDGE SCHAER: You may approach the witness.

21 Q. Specifically, on 313, Page 1 of 2, and on
22 312, Page 2 of 3. If you look at the top of Page 203
23 of Exhibit 312, you see the cash plant sale 67.8
24 million dollars?

25 A. Yes.

00582

1 Q. That's the amount Avista will get if the sale
2 proceeds; is that correct?

3 MR. CEDARBAUM: I guess I just have to
4 practice fair play on this one. I objected before with
5 Mr. Galloway about being beyond the scope of redirect,
6 and I think I have to make the same objection here. I
7 didn't get into this subject matter at all.

8 MR. ADAMS: I'm simply following up on the
9 questions relating to the depreciation. I'm going to
10 ask Mr. Elgin a couple of question relating to
11 depreciation. Mr. Dahlke just finished asking
12 questions on depreciation. I think this is within the
13 scope of his testimony.

14 JUDGE SCHAER: I think, Mr. Adams, that the
15 question is not whether its within the scope of the
16 testimony but whether it's in the scope of redirect.

17 MR. ADAMS: Another counsel asked questions
18 as part of his cross-examination, and I'm trying to
19 follow up on some of that same cross-examination.

20 JUDGE SCHAER: Go ahead, Mr. Adams.

21 MR. GALLOWAY: Your Honor, as I understand
22 your prior ruling, I was not able to follow up on
23 cross-examination questions asked by Mr. Adams.
24 Mr. Adams is now wishing to follow up on
25 cross-examination questions asked by Mr. Dahlke. That

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1 seems asymmetrical.

2 JUDGE SCHAER: Mr. Galloway, I think you did
3 understand my earlier ruling. My earlier ruling was
4 that you could not refer to materials that were not
5 part of the record in a question to the witness about
6 whether or not the record included certain information.

7 MR. GALLOWAY: I'm sorry; I did
8 misunderstand. I thought Mr. Cedarbaum objected
9 because my questions did not go to questions that he
10 had raised.

11 JUDGE SCHAER: That was the basis of his
12 objection. That was not the basis of my ruling, and
13 he's raised the same objection here, and he's again
14 disappointed because I'm going to allow the questions
15 to proceed.

16 MR. GALLOWAY: In light of my
17 misunderstanding, once Mr. Adams is done, may I renew
18 my questions to this witness?

19 JUDGE SCHAER: Yes.

20 MR. ADAMS: Your Honor, I do not want to
21 destroy symmetry, so I will withdraw the questions.

22 JUDGE SCHAER: Go ahead, Mr. Galloway. The
23 reason I said no on material was that he was looking at
24 something not in the record. If there is a basis from
25 another question that he's following up on, that is

00584

1 something that we do allow usually.

2 MR. CEDARBAUM: Even if it's beyond the scope
3 of my redirect?

4 JUDGE SCHAER: Yes, because we don't just
5 have your redirect. We have all of the
6 cross-examination that came after you, Mr. Cedarbaum,
7 and I believe it is our practice to allow parties to
8 respond to that to some extent as well, and we usually
9 let them do one more round and then never again speak,
10 so that's where we are right now. Go ahead,
11 Mr. Galloway.

12

13 RE-CROSS-EXAMINATION

14 BY MR. GALLOWAY:

15 Q. Mr. Elgin, do you understand that it's the
16 Company's proposal to allocate the portion of the
17 Centralia gain to the Washington jurisdiction on the
18 basis of the apportionment to which Washington customers
19 have paid for the depreciation of the plant over its
20 history?

21 A. That's my understanding.

22 Q. It's your understanding that once that
23 allocation is done, the Company would write down the
24 portion of the so-called Yampa acquisition adjustment
25 that has been allocated to Washington?

00585

1 A. There is no Yampa acquisition adjustment
2 allocated to Washington. The Company has not
3 demonstrated that that is a reasonable acquisition, so
4 therefore, that is one of the problems with the
5 Company's proposal, but as I understand what the
6 Company is doing is that to the extent the Commission
7 would accept that for ratemaking purposes, the Company
8 would propose to use the gain to write down the
9 Washington portion of what would be assigned to them
10 for that acquisition premium for the property.

11 Q. Mechanically setting aside the policy
12 decision, you would be able to figure out the amount of
13 the Yampa acquisition adjustment, if it were
14 appropriate, that should be allocated to Washington
15 under the modified accord for inter jurisdictional
16 allocation, do you not?

17 A. Yes. I have confidence that Mr. Martin will
18 be able to perform that calculation.

19 JUDGE SCHAER: Anything else for this
20 witness? Thank you for your testimony, Mr. Elgin.
21 Let's be off the record for just a moment to allow the
22 next witness to take the stand.

23 (Discussion off the record.)

24 MR. CEDARBAUM: Staff calls Alan Buckley.

25 (Witness sworn.)

00586

1 DIRECT EXAMINATION

2 BY MR. CEDARBAUM:

3 Q. If you could please state your full name and
4 spell your last name.

5 A. Alan P. Buckley, B-u-c-k-l-e-y.

6 Q. Mr. Buckley, you are appearing on behalf of
7 Commission staff in this case?

8 A. Yes.

9 Q. You have before you what's been marked for
10 identification as Exhibit T-405?

11 A. Yes.

12 Q. Does that constitute your direct testimony in
13 this case?

14 A. Yes.

15 Q. Was it prepared by you or under your
16 supervision and direction?

17 A. Yes.

18 Q. Is it true and correct to the best of your
19 knowledge and belief?

20 A. Yes.

21 Q. Do you also have before you what's been
22 marked as Exhibit 406?

23 A. Yes, I do.

24 Q. Was this exhibit also prepared for
25 presentation in this proceeding?

00587

1 A. Yes.

2 Q. And it was prepared by you?

3 A. Yes.

4 Q. Is it true and correct to the best of your
5 knowledge and belief?

6 A. Yes.

7 MR. CEDARBAUM: I'd offer Exhibit T-405 and
8 406.

9 JUDGE SCHAER: Any objection? Those
10 documents are admitted.

11 MR. CEDARBAUM: Mr. Buckley is available for
12 cross.

13 JUDGE SCHAER: Did you have questions for
14 this witness, Mr. Harris?

15 MR. HARRIS: I do. Could we go ahead and
16 mark cross-examination exhibits?

17 JUDGE SCHAER: Yes. I'm going to mark for
18 identification as Exhibit 410 a single-page document,
19 heading at the top, Staff no replacement energy. I'm
20 going to mark for identification as Exhibit 411 a
21 document entitled at the top, PSE's Data Request No. 8
22 to Staff, a one-page document showing request and
23 response. I'm going to mark for identification as
24 Exhibit 412 a document entitled, PSE's Data Request 9
25 to Staff, another single-page document with a response,

00588

1 and I'm going to mark for identification as Exhibit 413
2 a multipage document entitled, PSE's Data Request
3 No. 10 to staff. I notice that there is some
4 handwriting in this document?

5 MR. HARRIS: That's how it was produced.

6 JUDGE SCHAER: And someone has also written
7 in page numbers.

8 MR. HARRIS: I believe that was the witness.

9

10 CROSS-EXAMINATION

11 BY MR. HARRIS:

12 Q. Your testimony does address your or Staff's
13 proposal that PSE as part of the sale approval be
14 required to defer an estimate of power cost savings
15 during the remainder of PSE's rate plan period, hold
16 those deferred savings in an account that accrues
17 interest and eventually flow them through to
18 ratepayers; correct?

19 A. It provides the calculation that gives that
20 number but not the policy behind doing that.

21 Q. You do the hard work of the calculations in
22 your testimony?

23 A. Yes.

24 Q. I'd like to turn then to Exhibit 406, which I
25 believe is where you set forth those calculations; is

00589

1 that correct?

2 A. Yes.

3 Q. And at least on 406 in Part 2 and Part 3,
4 that's your calculation of two different estimates of
5 power cost savings during the rate plan period.

6 A. It's two different methodologies.

7 Q. Just so we're clear, in the first scenario
8 under No. 1 on Exhibit 406, which is just a single-page
9 exhibit, that's PSE's estimates of power cost savings.

10 A. Yes. It's for what I would call the base
11 case or most likely case.

12 Q. By the way, as you note in your testimony,
13 near-term power costs, there is a great deal of
14 certainty about near-term power costs then there are
15 about longer term estimates of power costs; isn't
16 there?

17 A. In general, I would say that, yes.

18 Q. For example, the year 2000 forecast has less
19 uncertainty than the year 2005 forecast.

20 A. I think that would be safe to say, but it
21 depends upon the forecasts you are looking at. Some
22 forecast have errors inherent in them.

23 Q. But in general that's a true statement.

24 A. Yes.

25 Q. As you move further out in these forecast

00590

1 years, the amount of uncertainty, in general,
2 increases.

3 A. Yes.

4 Q. Let's turn back to Exhibit 406. In Part 2,
5 you calculate potential savings under a, what you call
6 a no-replacement scenario; correct?

7 A. Yes.

8 Q. And you start there on Line 8 with the
9 Centralia cost, which you just take from the
10 Applicant's testimony and exhibits; correct?

11 A. Yes.

12 Q. And then you subtract a variable dispatch
13 cost to get a fixed cost savings number, which you show
14 that on Line 10; correct?

15 A. Yes.

16 Q. To further adjust this, you calculate a
17 credit for sales margin, and as I understand your
18 exhibit, to calculate that credit for sales margin, you
19 take the market less the variable dispatch.

20 A. Yes. Those exact numbers aren't shown on
21 this exhibit, but that's the methodology.

22 Q. And you come up with a net savings amount,
23 which is shown on Line 13 there; correct?

24 A. Yes.

25 Q. You take that net savings amount and you

00591

1 multiply it by your 671-gigawatt-hours number down
2 there to come up with a total savings number; correct?

3 A. Yes.

4 Q. From market prices, which are not shown
5 there, but the market prices incorporated there in Line
6 11, that credit for sales margin, you used the Aurora
7 forecast provided in the Colstrip proceeding, didn't
8 you?

9 A. That was the original source of the number,
10 but along with just plucking the number from the Aurora
11 Model outcome, I also took into other considerations,
12 including problems that the Aurora Model outcome has,
13 so even the number itself is from that. There are
14 other considerations that I went through before I used
15 that number.

16 Q. You ultimately decided to use that number?

17 A. Yes, given the other considerations.

18 Q. Let's just take a moment and look at Exhibit
19 413, what's been marked for identification as Exhibit
20 413. Those are the work papers that back up these
21 calculations; correct?

22 A. Yes, they are.

23 Q. And if you turn to Page No. 2 in the lower
24 right-hand corner, is that your handwriting up in the
25 top there?

00592

1 A. Yes, it is.

2 Q. And you've circled the numbers you've used
3 for market numbers in this calculation we're looking at
4 on 406.

5 A. Yes.

6 MR. HARRIS: At this time, we would offer
7 Exhibit 413.

8 JUDGE SCHAER: Mr. Buckley, is all of the
9 handwriting in this document yours?

10 THE WITNESS: Yes, it is.

11 JUDGE SCHAER: Is there any objection?
12 Document is admitted, Mr. Harris.

13 Q. (By Mr. Harris) Let's turn to my attempt to
14 recreate your exhibit, which is what's been marked for
15 identification as Exhibit 410. Do you have that before
16 you?

17 A. Yes. And I've had a chance to review it too.

18 Q. You can see I've kept the Centralia cost the
19 same, the variable dispatch costs the same, which then
20 calculates the exact same fixed-cost savings that you
21 calculated, and then I have substituted the new market
22 prices, the new Aurora prices in this calculation, and
23 can you see there on the line I actually explicitly
24 show the 26.99 minus the 14.03?

25 A. Yes, I do.

00593

1 Q. Once you substitute the updated Aurora
2 prices, you get a very different result, don't you?
3 You get net savings that are negative in the first
4 year, which would be 2000, and then slightly positive
5 savings in the second year of 2001, with an overall
6 savings during the rate plan period of a negative
7 slightly more than a million dollars; do you see that?

8 A. Yes. If you pluck out those numbers out of
9 that later Aurora forecast and use those in my exhibit
10 without doing the calculation, I'll accept that subject
11 to check, but that looks like the values that you would
12 come up with.

13 Q. And given that it results in a negative
14 number with the updated forecast rather than a positive
15 number, do you still support an approach that requires
16 PSE to defer estimated power cost savings based on the
17 older forecast and set those aside and defer them and
18 accrue interest on them and pay them to consumers?

19 A. I would still support my original testimony
20 because I don't believe that these market price
21 forecasts, taking into consideration those other
22 factors I mentioned a minute ago, would be the right
23 values to use for a market forecast for the next two
24 years.

25 Q. So you think it's more appropriate to use the

00594

1 older forecast?

2 A. Not just because it's older. Like I said --
3 and I can go through a number of other considerations
4 there are in looking at the Aurora forecast. It's not
5 just that it's older or just that it's from Aurora;
6 that it was a number one of many that are out there
7 that happened to be a single annual number which made
8 it convenient, but taking into consideration the
9 problems that are documented with the Aurora Model,
10 particularly when it comes to short-term market
11 forecast and other considerations, I would not accept
12 using these later forecast numbers as a market price
13 estimate, even though it came from a later version of
14 the same original source that I used.

15 Q. But you do agree, don't you, that if those
16 numbers are plugged in, it would appear as if PSE will
17 actually lose money on power costs during the rate plan
18 period.

19 A. Yes.

20 Q. And if you go down to your last example,
21 which is the No. 3 on Exhibit 406, if you substitute
22 the new updated numbers in there -- I've gone ahead and
23 done that, substituted the updated forecast -- would
24 you accept subject to check that once you add in your
25 plus 1 adder for firming to the current Aurora

00595

1 forecast, that in the year 2000, the net power cost
2 savings are, in effect, power cost loss of
3 approximately 1.9 million dollars, and in 2001, you
4 show a net power cost loss of about
5 four-hundred-thousand dollars. Would you accept that
6 subject to check?

7 A. I would, except you said that I show that.

8 Q. No, you didn't show that. You showed
9 savings. So if, in fact, the latest Aurora forecast
10 turns out to be accurate and PSE wants to go ahead and
11 sell the plant, PSE will have to, under Staff's
12 proposal as we understand it, forego all of the gain,
13 receive none of the gain on the sale, defer
14 approximately 4.1 million dollars, set it aside in an
15 account, accrue interest on it, flow it through to
16 ratepayers at some point in the future, and then also,
17 if these forecasts turn out to be accurate, absorb the
18 power cost losses that it's going to suffer during the
19 rate plan period.

20 A. Yes. If the forecasts that you put on the
21 exhibit you gave to me ended up being the numbers, then
22 that's what happens.

23 MR. HARRIS: We'd offer at this time what's
24 been marked for identification as Exhibit 410.

25 JUDGE SCHAER: Any objection? Document is

00596

1 admitted.

2 Q. (By Mr. Harris) Mr. Buckley, could you
3 identify for identification what's been marked for
4 identification as Exhibit 411?

5 A. That's my response to PSE's Data Request No.
6 8 to Staff.

7 Q. In that response, you explain how the
8 proposed firming charge would be calculated and how
9 market data could be used to verify it, if at all?

10 A. Yes.

11 MR. HARRIS: We would offer 411.

12 JUDGE SCHAER: Any objection? 411 is

13 admitted.

14 Q. Would you please identify for us what has
15 been marked for identification as Exhibit 412?

16 A. That's my response to PSE's Data Request No.
17 9.

18 Q. In that response, you provide an explanation
19 that addresses both the question of what precedence
20 supports Staff's contention that PSE should have to
21 defer an estimated amount of savings rather than actual
22 savings.

23 A. Yes.

24 MR. HARRIS: We offer Exhibit 412 also.

25 JUDGE SCHAER: That document is admitted.

00597

1 MR. HARRIS: That's all our questions for
2 Mr. Buckley.

3 JUDGE SCHAER: Mr. Galloway, do you have
4 questions of Mr. Buckley?

5 MR. GALLOWAY: I do not.

6 JUDGE SCHAER: Mr. Dahlke?

7 MR. DAHLKE: No, Your Honor.

8 JUDGE SCHAER: Mr. Adams?

9

10 CROSS-EXAMINATION

11 BY MR. ADAMS:

12 Q. Mr. Buckley, will you look at what's been
13 admitted as Exhibit 413 for a moment, the first page of
14 that exhibit. I just want to ask, down just to the
15 right of the label market cost, there is some
16 handwriting that says, with 1 mill adder; do you see
17 that?

18 A. Yes.

19 Q. I just want to clarify, is that your writing
20 or is that from Puget?

21 A. That was mine.

22 Q. What does that mean? Does that mean that
23 there is 1 mill adder included in the numbers, or are
24 you adding 1 mill?

25 A. No. In the number, there is a 1 mill added,

00598

1 so for the year 2000, the original forecast that was in
2 the Aurora Model would have been 20.7.

3 Q. So Puget has made an a modification to the
4 Aurora Model to add that 1 mill?

5 A. No. This is me, and what it does is if you
6 were to use the market out there as a full replacement
7 for Centralia, what I thought would be appropriate is
8 that the sum amount would firm up that amount, whether
9 you want to call it a difference between financial firm
10 and physical firm. There is various ways you can call
11 it, but it's something that I understand the traders in
12 some instances do now to firm up the market prices of
13 non firm or economy energy.

14 Q. So looking at the line, which I guess is line
15 48, taking the 21.70 mill and going all the way across
16 to the year 2018, you would add 1 mill to each of those
17 numbers?

18 A. No. My testimony only covers the first two
19 years, and I guess if I was to do the analysis, and
20 understand that I didn't beyond that, I would consider
21 that.

22 Q. The 1 mill additive?

23 A. Yes, to try to give the quality of power the
24 same as what you are inquiring versus what Centralia
25 is, and like I said, I did not investigate the need to

00599

1 do that for those out years, but I would seriously
2 consider that.

3 MR. ADAMS: Thank you. That's all, Your
4 Honor.

5 JUDGE SCHAER: Commissioners, do you have
6 questions for Mr. Buckley?

7 CHAIRWOMAN SHOWALTER: I just have one on
8 Exhibit 410.

9

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

11 BY CHAIRWOMAN SHOWALTER:

12 Q. Can you provide appropriate labels for the
13 two columns there, as you understand it?

14 A. The first year would be the year 2000, and
15 the second column would be the year 2001.

16 CHAIRWOMAN SHOWALTER: Thank you.

17

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

19 BY JUDGE SCHAER:

20 Q. Mr. Buckley, you stated on Page 13 of your
21 testimony, beginning on Line 3, that it is virtually
22 impossible to calculate the actual true replacement
23 costs without modeling; is that correct?

24 A. Yes.

25 Q. Do the utilities use modeling to forecast

00600

1 their power cost and requirements now?

2 A. To forecast? I believe most utilities and I
3 believe all three of the utilities involved here use
4 some form of modeling, yes.

5 Q. Then it is possible to achieve some
6 reasonable calculation of the nature and cost of any
7 actual replacement power requirements; is that correct?

8 A. In my opinion, if you use the type of model
9 that will capture the redispatch of an integrated
10 system properly, then it should capture a reasonable
11 estimate, yes.

12 Q. Do you believe the companies may not strive
13 for the lowest cost power if left to their own methods?

14 A. I would certainly hope they would. I would
15 think that there potentially is somewhat lack of an
16 incentive to do so if you pass through actual costs,
17 but I would hope that management would deem it in their
18 best interests to find the lowest cost resources.

19 Q. Is your estimate a way of forcing the
20 utilities to strive for the lowest possible replacement
21 costs because if they don't meet or beat it, they lose
22 the difference?

23 A. That is one result of coming up with a single
24 reasonable estimate. I think that the reason first and
25 foremost is recognizing the difficulty, like I said in

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1 my testimony, of capturing an actual amount of an
2 integrated system, so first and foremost, that is the
3 reason why I would recommend the Commission adopt the
4 recommendation that I have made.

5 I think a secondary outcome of that would be
6 yes, if you came up with a conservative estimate, which
7 is what I tried to do, that it would give the
8 opportunity to beat that, and in fact, they would
9 maintain the savings from that.

10 Q. There was a discussion with you and counsel
11 for PSE about your Exhibit 406 and a document that was
12 prepared by Mr. Harris that is now Exhibit 410, and you
13 stated to him that, for several reasons, you believe
14 the numbers in Exhibit 406 were better numbers to use;
15 is that correct?

16 A. Yes.

17 Q. Would you please give me a brief outline of
18 those reasons?

19 A. I think the main difference is whether you
20 use later or earlier forecasts from the Aurora Model,
21 which was the issue that Mr. Harris was trying to bring
22 up, and I think what I tried to explain was that even
23 though the actual number that I used came from the
24 earlier forecast, and yes, there is a later forecast
25 that shows a higher market price, that other factors

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1 are there, and among those are that there is an
2 inherent documented problem with the Aurora Model in
3 that particularly in the early years in that the market
4 price forecast that it develops has to incorporate
5 recovery of fixed costs in it, and as you compare the
6 Aurora Model to what happens in reality, in reality,
7 typically, the near-term market costs are based on the
8 incremental costs of operating facilities that are out
9 there, and they don't necessarily, aren't required to
10 meet this Aurora Model requirement that all fixed costs
11 are recovered, so that's one reason why the Aurora
12 Model near-term forecast, why they fluctuate a lot, and
13 it's one reason why I didn't necessarily use them,
14 either the early one or the later one just on its own.

15 The other reason is there are other
16 forecasts -- one of the other things I looked at was
17 the other forecasts that are out there for market
18 prices. You can get various forecasts of mid Columbia
19 indexes. There is various forecasts of what it costs
20 that are out there, and many of those are lower than
21 what even the original, the earlier version of the
22 Aurora Model forecast that I used was. Another factor
23 that I looked at in developing this or using that
24 number and why I thought it was conservative is because
25 in reality, and the Company explained in its testimony

00603

1 was, they may not acquire any energy to replace
2 Centralia, or it would come from a whole portfolio mix
3 of different options, and if I could give an example,
4 if you were to enter into year 2000, you might see you
5 were having a good water year from your resources, and
6 you may not even have to be on the market for a large
7 portion of the power, so effectively, the replacement
8 energy would be free if it was hydro, or at a low cost
9 if it came from one of the other facilities.

10 Another factor I looked at was the ability to
11 shape into a nonfirm or lower load hours, and typically
12 those are a much lower cost than high load hours,
13 whereas the Aurora Model is a straight basically
14 average based on number of hours of different costs
15 that are out there, so to try to tie this in, what I
16 ended up with is yes, the numbers that came from that
17 original Aurora Model, because they were there and they
18 were on a piece of paper, but I considered the
19 advantages and disadvantages of the Aurora Model. I
20 considered the other options out there and just decided
21 to use for this purpose, to come up with a conservative
22 estimate of what a market price for energy would be,
23 just pick that number.

24 Q. So after looking at Exhibit 410, has that
25 changed your opinion at all of whether that's a

00604

1 conservative practice?

2 A. No. I was aware of the later price forecast.
3 In fact, I referenced that somewhat in my testimony
4 when I stated there was later forecasts that show
5 higher prices. Given the numbers that I see here, for
6 example, 27 mills, approximately, for market power in
7 the year 2000 and 2001, I compare that to the price we
8 are using in a Bonneville proceeding for a five-year
9 block of firm power at 28 mills, so right away, I
10 didn't give a whole lot of credence to the later price
11 forecast from that later model, taking into
12 consideration all these other factors, and I guess one
13 more thing I forgot about is in applying my No. 2, one
14 of the reasons I thought it was conservative was I
15 applied it to the entire amount of energy produced from
16 the Centralia Plant, so that, in itself, also made it
17 conservative that you might in reality, like the
18 Company said, might not have to replace all of that.
19 You might have to replace half of it, and even if the
20 number was higher that you would be replacing less,
21 perhaps, and then that would also kind of bring the
22 total dollar number down.

23 Q. Is there a better model that you know of for
24 making this estimate?

25 A. To clarify your question, is that a better

00605

1 model as compared to...

2 Q. As compared to Aurora.

3 A. Aurora is a very good model for what it
4 attempts to do, but it intends to look more at a big
5 picture type number to come up with a regional forecast
6 of prices. For the purposes of trying to determine the
7 benefits from selling or purchasing a resource and
8 redispacting your existing resources to meet the least
9 cost load, I think there are better models than the
10 Aurora Model. The Aurora Model is not basically
11 designed to do that, so there are other type models
12 that would redispact preferably on an hourly or weekly
13 basis or monthly basis even, resources that would come
14 up with a better number.

15

16 FURTHER EXAMINATION

17 BY CHAIRWOMAN SHOWALTER:

18 Q. I have one question regarding how the Aurora
19 Model works in the near term. On Exhibit No. 413, Page
20 the 2, do I take it that this was based on a model that
21 was based earlier than '99 or sometime during '99?

22 A. It was the output from the model that was
23 used in the Centralia case, which was the Colstrip
24 case, which also formed the original basis for the
25 Company's testimony. The Company in some ways

00606

1 acknowledged this problem with the Aurora in their
2 original work, whereas they took the first five years
3 and replaced the Aurora forecast with another estimate
4 of prices.

5 Q. Then I was looking at 1999 at the very top
6 row, 1999. Was that a forecast prior to 1999, or is
7 that actual?

8 A. This is a forecast that's on this sheet here.

9 Q. So the forecast was created sometime before
10 1999?

11 A. Yes. I was not involved in the Colstrip
12 case, so I don't know the exact date of that particular
13 model run, only that it was used by the Company both in
14 that case and this case.

15 Q. If you just look at that first row about what
16 was forecasted for 1999, how did it compare, do you
17 know, to what actually occurred in 1999 since 1999 is
18 now over?

19 A. No, I haven't made that comparison. You
20 could do it, but I haven't made it.

21 CHAIRWOMAN SHOWALTER: Thanks.

22

23 FURTHER EXAMINATION

24 BY JUDGE SCHAER:

25 Q. Mr. Buckley I have one more question. Do you

00607

1 believe that PSE might have been able to achieve the
2 power cost savings you estimate for 2000 and 2001 if
3 they had been able to dispatch Centralia optimally?

4 A. The calculation assumes that Centralia is not
5 there, and replace -- can I ask you to ask the question
6 again, please?

7 Q. The question I asked is do you believe that
8 PSE might have been able to achieve the power cost
9 savings you estimate for 2000 and 2001 if they would
10 have been able to dispatch Centralia optimally?

11 A. I don't believe so. I can't say that for
12 sure without exploring it any further, but just based
13 on any experience, I think the ability if Centralia was
14 there, and the Company says this too that it -- there
15 is less opportunity to explore these other portfolio
16 options than it would be if Centralia wasn't there, and
17 presuming then that these other options would be
18 depending on water conditions in the short term,
19 depending on a few other things, potentially could be
20 lesser price, but I could not say that for sure.

21 JUDGE SCHAER: Is there any redirect for
22 Mr. Buckley?

23

24 REDIRECT EXAMINATION

25 BY MR. CEDARBAUM:

00608

1 Q. Mr. Buckley, in your direct testimony through
2 questioning this morning, primarily from the Bench, you
3 gave your reasons why you believe your Exhibit 406
4 resulted in a conservative and reasonable estimate of
5 the power supply savings and why you chose the Aurora
6 Model that you did; do you recall all that discussion?

7 A. Yes.

8 Q. And I think you probably hit on this here and
9 there in your testimony, but just so we have it listed
10 in one place in the record, can you look at Exhibit 410
11 and explain the reasons why you don't think it's
12 appropriate to update the prices that are listed?

13 MR. HARRIS: Objection, asked and answered.
14 I think we just went through all of that with questions
15 from the Bench.

16 MR. CEDARBAUM: I just want to make sure the
17 record is clear on all of his reasons. I do agree
18 that's been covered here and there on the record, but I
19 think we'd benefit by having it all in one place.

20 MR. HARRIS: I disagree. The Bench asked
21 specifically for all of the factors. I don't see any
22 reason to go through them again.

23 JUDGE SCHAER: I don't think my question was
24 there that specific, Mr. Harris. Mr. Buckley, keeping
25 in mind what you've already described, are there

00609

1 additional points you wish to make about this exhibit
2 that was prepared by Mr. Harris as to why it might be
3 different than what you had sponsored?

4 THE WITNESS: I don't think it's the fact
5 that the forecast is later than any other forecast.
6 I'm always in favor of having the latest available
7 information. It's just that even if I was to use the
8 later Aurora forecast as a basis for beginning to look
9 at what I would estimate as my choice for a forecast, I
10 would still make adjustments, and more than likely, it
11 would still be in the range of what I submitted in my
12 testimony, given those factors that I described
13 earlier.

14 Q. So do you believe that what's shown on
15 Exhibit 410 results in what you've characterized in 406
16 as being a conservative and reasonable estimate?

17 A. I don't think Exhibit 410 does. I think it
18 would be more of a pessimistic look at the price
19 forecasts, given, like I described earlier, for
20 example, the Bonneville numbers that are coming out of
21 Bonneville rate case for firm energy.

22 MR. CEDARBAUM: That's all I have.

23 JUDGE SCHAER: Is there anything further for
24 this witness?

25

00610

REXCROSS-EXAMINATION

1

2 BY MR. HARRIS:

3

4 Q. You just responded that if you were going to
5 use these later Aurora forecast, the most recent Aurora
6 forecast, you would make adjustments to the forecast,
7 in response to questions from Mr. Cedarbaum; do you
8 recall that?

8

A. Yes.

9

10 Q. When you used the original forecast, the
11 Aurora forecast, you didn't make any adjustments to
12 that, did you? You used those numbers?

12

13 A. No. That's what I attempted to describe
14 earlier. I did use those numbers as a beginning point
15 and then recognized that you would have pluses and
16 minuses, but once you went through those pluses and
17 minuses, it ended up being that number, and it's a
18 number that could be referenced to something, and I
19 would say that if I used this number, I would do the
20 same pluses and minuses, but in my opinion, it would be
21 more minuses than pluses.

21

22 Q. But when you did it the first time, the
23 beginning point ended up being the ending point.

23

24 A. Yes. It was more of a qualitative. Since we
25 do not have the model, as I described in my testimony,
to do some of this redispaching, and I had before me

00611

1 acknowledged and made a qualitative judgment.

2 Q. About the Aurora forecast, generally, if I
3 understand your testimony, at least in the early years,
4 you think the market forecasts are generally too high
5 and that they should be discounted some.

6 A. Generally, yes.

7 MR. HARRIS: Nothing further.

8 JUDGE SCHAER: Mr. Galloway?

9

10 CROSS-EXAMINATION

11 BY MR. GALLOWAY:

12 Q. As I understand it, in response to some of
13 the questions from the Bench, you believe that when
14 calculating replacement power costs in the event that
15 the Centralia unit is sold that the type of modeling
16 that best captures those costs is modeling that
17 redispatches the utility's systems; is that correct?

18 A. Yes.

19 Q. Is the model sponsored by Dr. Weaver on
20 behalf of PacifiCorp the sort of model that you had in
21 mind as appropriate for this task?

22 A. Yes. There are many type models, and you
23 would try to find the best one for the resource mix
24 that the Company has, but generally, yes, the one that
25 PacifiCorp used, I believe it was better than others

00612

1 that were used.

2 Q. One of the questions in regard to your
3 adjustment from the Administrative Law Judge referred
4 to utilities in the plural. You are not proposing this
5 sort of adjustment for either Avista or PacifiCorp in
6 this proceeding, are you?

7 A. No. My testimony only covered, basically,
8 PSE, primarily because we are in the rate case with
9 Avista and PacifiCorp, and any of those benefits that
10 are present through redispaching will be captured in
11 the power supply portion of the rate case.

12 MR. GALLOWAY: Thank you, sir.

13 JUDGE SCHAER: Mr. Cedarbaum?

14

15 RE-REDIRECT EXAMINATION

16 BY MR. CEDARBAUM:

17 Q. Mr. Buckley, you indicated in your Exhibit
18 406 you assumed replacement of Centralia power with the
19 shape of that power; is that right?

20 A. Yes. The shape and the full amount.

21 Q. Did you estimate the power supply savings of
22 Centralia was not replaced?

23 A. That's what that exhibit was that we were
24 looking at. The second option there, both on my
25 Exhibit 406 and the one that Mr. Harris gave me is that

00613

1 that particular scenario. It assumes that the energy
2 was not needed, and let's say that they lost load, for
3 example, and none of that energy was needed or they
4 could get it from somewhere else, but to be fair, when
5 you compare that, you have to -- what you get rid of in
6 that case is you get rid of the fixed cost of operating
7 Centralia, but to be fair on the other side of it, if
8 they kept it and you are making a comparison, you have
9 to say the Company still does have Centralia, but
10 instead of selling it, instead of providing power,
11 needed power on that side, that they would just sell
12 into the market, so you just can't eliminate Centralia
13 in making this comparison. You do have to credit them
14 with any kind of revenue margin they would make off of
15 sales because they would still have Centralia. They
16 just wouldn't be using it to serve their retail load.

17 JUDGE SCHAER: Anything further for this
18 witness?

19

20 RE CROSS- EXAMINATION

21 BY MR. ADAMS:

22 Q. Is it correct that the Aurora Model
23 dispatches the entire western system, not just one
24 utility?

25 A. Yes. It uses the whole WSCC system and then

00614

1 it comes up with area market price forecast, and I
2 believe the one that was used was the Washington
3 California area.

4 Q. Would you be correct in that it's Western
5 Washington Oregon?

6 A. Okay. It included Oregon in there.

7 Q. Would you accept that subject to check?

8 A. Yes.

9 Q. And that model can be dispatched hourly,
10 daily, weekly, or however you want to dispatch it, can
11 it not?

12 A. Yes.

13 MR. ADAMS: Thank you.

14 JUDGE SCHAER: Anything further for
15 Mr. Buckley? Thank you for your testimony. Let's go
16 off the record briefly to allow the next witness to
17 take the stand.

18 (Discussion off the record.)

19 JUDGE SCHAER: Would you like to call your
20 next witness?

21 MR. CEDARBAUM: The final staff witness is
22 Roland Martin.

23 (Witness sworn.)

24

25

DIRECT EXAMINATION

00615

1 BY MR. CEDARBAUM:

2 Q. If you could please state your full name for
3 the record.

4 A. My name is Roland C. Martin.

5 Q. You are appearing on behalf of Commission
6 staff in this case?

7 A. Yes.

8 Q. Referring to you what's been marked for
9 identification a Exhibit T-403, is that your direct
10 testimony in this proceeding?

11 A. Yes.

12 Q. Do you have any corrections that need to be
13 made to the exhibit?

14 A. I have one minor correction on Page 1, Line
15 9. Exhibit No. 403 should be changed to Exhibit No.
16 404.

17 Q. With that change then, is Exhibit T-403 true
18 and correct to the best of your knowledge and belief?

19 A. Yes.

20 Q. And it was prepared by you?

21 A. Yes.

22 Q. Referring to Exhibit 404 for identification,
23 was this also prepared for this proceeding by you?

24 A. Yes.

25 Q. And it's true and correct to the best of your

00616

1 knowledge?

2 A. Yes.

3 MR. CEDARBAUM: Your Honor, I would offer
4 Exhibits T-403 and 404.

5 JUDGE SCHAER: Any objections? Those
6 documents are admitted. Did you have questions for
7 this witness, Mr. Harris?

8

9

CROSS-EXAMINATION

10 BY MR. HARRIS:

11 Q. As I understand Staff's position, it's that
12 the sale of Centralia, just like the sale of Colstrip,
13 was something that was not contemplated at the time of
14 the merger, and therefore, falls outside of the merger
15 rate plan; is that correct?

16 A. That's correct.

17 Q. And because of that, Staff takes the position
18 that PSE should receive none of the gain on the sale;
19 correct?

20 A. Staff testimony is that all the gain should
21 be given to the ratepayers for the reasons stated in
22 Mr. Elgin's testimony.

23 Q. Following that same logic that this was not
24 something that was contemplated at the time of the
25 merger, Staff takes the position that any power cost

00617

1 savings that result from the sale and that occurred
2 during the rate plan period must be deferred and held
3 until after the end of the rate plan period and then
4 passed through to consumers; correct?

5 A. Again, for the reasons stated by Mr. Elgin in
6 his testimony, that power savings as well will be
7 deferred.

8 Q. Following this same logic and applying the
9 symmetry that we've talked about earlier, if it turns
10 out that there are power cost losses during the rate
11 plan period, should those too be deferred and passed
12 through to ratepayers after the end of the rate plan
13 period?

14 MR. CEDARBAUM: I'll object. This was first
15 of all asked of Mr. Buckley and maybe even Mr. Elgin as
16 well, but it's beyond the scope of this witness's
17 testimony.

18 MR. HARRIS: I believe that Mr. Buckley
19 said -- I asked this question of Mr. Buckley, and he
20 said he was not the policy witness on this subject, and
21 he pointed to, I thought, Mr. Martin, but if Mr. Martin
22 can't address the subject, I'll withdraw the question.

23 JUDGE SCHAER: My understanding is that the
24 policy witness for Staff was Mr. Elgin. Did you ask
25 this question of him?

00618

1 MR. HARRIS: I asked the question of
2 Mr. Elgin, but Mr. Martin does explain the accounting
3 rules that they ask to be applied, and he gives the
4 rationale for the accounting rules that are to be
5 applied.

6 JUDGE SCHAER: Why don't you reask your
7 question in terms of those rules.

8 MR. CEDARBAUM: I was going to say as to the
9 accounting, the specifics of that, I don't have any
10 objection. Just the tone of the question is more of a
11 general policy nature, and that's what I was objecting
12 to, so if the questions are directed to the accounting
13 aspect of this, that's fine.

14 Q. I'll focus solely on the accounting. With an
15 understanding of the underlying policy that this is an
16 event that was not contemplated as of the time of
17 merger, would it be your recommendation as the
18 accounting witness that any power cost losses that
19 occur as a result of this sale during the rate plan
20 period that those be deferred until after the end of
21 the rate plan period and passed through the ratepayers?

22 A. My recommendation is that I am to account for
23 savings of 4.1 million dollars, and that will be
24 deferred during the rate plan period, which will be
25 passed to the ratepayers after that.

00619

1 Q. And applying that same accounting rule, if it
2 were losses instead of savings, would the losses be
3 deferred?

4 A. I'm not going to account for any losses
5 because my testimony is to account for savings.

6 Q. So you would not apply the same rule if there
7 were losses.

8 A. What I'm saying. It will be applicable only
9 to the savings that the Staff believes is going to
10 occur.

11 Q. And if the Commission determines there are
12 going to be losses instead of savings, would it be
13 Staff' recommendation that those losses be deferred
14 until after the rate period ends?

15 A. As I have said, my recommendation applies
16 only to savings.

17 Q. Do you have a recommendation with respect to
18 losses?

19 A. I don't.

20 MR. HARRIS: No further questions.

21 JUDGE SCHAER: Mr. Galloway?

22

23 CROSS-EXAMINATION

24 BY MR. GALLOWAY:

25 Q. As I understand your testimony, Staff does

00620

1 not necessarily disagree with PacifiCorp's proposal to
2 use the customer's share of the gain from the sale to
3 write down regulatory assets.

4 A. That's correct.

5 Q. Do you understand that the Company,
6 PacifiCorp, is proposing to use the modified accord
7 allocation factors to assign the gain among the states?

8 A. That's my understanding after inquiry from
9 the Company because they didn't submit any testimony
10 that that's their intention.

11 Q. Do you support this proposal for allocation
12 of the gain among the states as consistent with the
13 PITA process?

14 A. The modified accord does not explicitly
15 provide for allocation of gain, but the modified accord
16 could provide principles that will guide the allocation
17 of the gain.

18 Q. And that principle would be, if you were to
19 look at each state's respective contribution to the
20 depreciation of expense, pre and post merger and
21 allocated on that basis?

22 A. That's one major essential element of the
23 modified accord. There is a distinction between
24 premerger assets.

25 Q. And do you agree with that approach as a

00621

1 policy matter?

2 A. Generally speaking, I am supportive of the
3 modified accord, but my support was conditional on
4 certain things, and those conditions are expressed in
5 the PITA group.

6 Q. I'm just asking you, and not certainly asking
7 to you endorse the modified accord in all respects, but
8 philosophically, policy wise, do you think it's a
9 sensible means of allocating the gain among
10 jurisdictions to base it on the respective share of pre
11 and post merger depreciation expenses?

12 MR. CEDARBAUM: I'll object at this point.
13 In Exhibit 409, which was offered in through Mr. Elgin,
14 there is a request, and this was a Public Counsel data
15 request, the response to that indicated the issue of
16 interjurisdictional allocation of gain will be
17 addressed in the general rate proceeding, referring
18 back to PacifiCorp's pending general rate proceeding,
19 so this question has been already, in a sense, asked,
20 and Staff has indicated that that issue will be
21 addressed in the rate proceeding, so the question has
22 been asked and answered.

23 JUDGE SCHAER: So you are saying that an
24 exhibit that is in the proceeding --

25 MR. CEDARBAUM: Exhibit 409 specifically

00622

1 states Staff's response to this question, which is the
2 issue of interjurisdictional allocation of the net gain
3 will be addressed in PacifiCorp's pending general rate
4 proceeding.

5 JUDGE SCHAER: I'm going to overrule that
6 objection. I think Mr. Galloway can explore with
7 Mr. Martin his understanding of what those principles
8 are and how those principles might match his client's
9 proposal. Go ahead, Mr. Galloway.

10 Q. The question was whether you, as a general
11 proposition, agree with the principle that the gain
12 from the sale be allocated among jurisdictions based on
13 the relative pre and post merger contribution to plant
14 depreciation.

15 A. As a general matter, if my conditional
16 support for the modified accord is not disturbed, then
17 that generally would be the feeling towards this
18 allocation.

19 Q. Would you accept subject to check that using
20 this allocation method results in approximately 15.4
21 percent of the gain being allocated to Washington, of
22 the amount of gain being allocated to Washington
23 customers?

24 A. Based on the Company's proposal to allocate
25 certain parts of the gain to shareholders, I think

00623

1 that's the mathematical result.

2 Q. But 15.4 isn't affected by the Company's
3 sharing between customers and shareholders, is it?

4 A. It affects the amount of gain being shared,
5 because from the information supplied to me by the
6 Company, they are trying to satisfy the requirements of
7 the different jurisdictions, including Utah, which
8 adopted a different type of allocation, such that the
9 result is that there is going to be a subsidy to
10 satisfy Utah, subsidy meaning solid gain that's
11 allocated to the shareholders will be given to the Utah
12 jurisdiction, such that if you sum up all the different
13 allocated parts of the gain, it's not going to come to
14 100 percent, but more than 100 percent, so that's one
15 complication which I think should be better explored in
16 the general rate case, because if the Commission
17 decides that 100 percent of the gain is to be allocated
18 to the ratepayers, than necessarily the Company will
19 have to retain the to satisfy Utah.

20 Q. Does this suggest that there is the
21 potential, given these issues associated with
22 interjurisdictional allocations for the Company being
23 required to allocate more than 100 percent of the gain
24 to customers?

25 A. I don't understand the question. Could you

00624

1 please restate?

2 Q. You've described the conflicting views and
3 policies of the commissions, particularly Utah on the
4 allocation. Does that lack of uniformity in policies
5 create a possibility that if each state applied its own
6 policies that the Company could be required to share
7 more than 100 percent of the gain with customers?

8 A. Necessarily, if one jurisdiction does not
9 conform to uniform system of allocation, then there
10 might be some vacuum that needs to be filled up, so
11 like I've said, there should be more than 100 percent
12 of the gain to satisfy everybody.

13 Q. So there is that risk; the answer is yes?

14 A. Yes.

15 Q. Do you think it is reasonable to expect
16 PacifiCorp to go forward with this transaction not
17 knowing how these issues will be resolved?

18 A. I think PacifiCorp is very well aware that
19 there is this risk that all of the different
20 jurisdictions may not come into accord as to allocation
21 of costs. This is true not only in this case but in
22 all their costs.

23 Q. Mr. Martin, my question is whether you think
24 it is reasonable to expect PacifiCorp to go forward not
25 knowing how this issue will be resolved?

00625

1 MR. CEDARBAUM: Your Honor, I'll object to
2 the question. That's a decision for management to
3 make, not Mr. Martin to indicate his opinions as to
4 what management should do.

5 MR. GALLOWAY: Your Honor, may I be heard?

6 JUDGE SCHAER: I was planning on overruling
7 the objection, Mr. Galloway, so let's go forward.
8 Mr. Martin, if you have an opinion on this topic,
9 please share it with Mr. Galloway.

10 THE WITNESS: I think the Company knows
11 beforehand that the unilateral declaration of Utah to a
12 different methodology, that there is not going to be a
13 resolution as far as allocating 100 percent of the
14 gain.

15 Q. Mr. Martin, my question was, do you believe
16 it's reasonable to expect the Company to proceed
17 forward with the close of the sale not knowing how the
18 gain is going to be allocated among the jurisdictions?

19 A. It's reasonable to assume that the Company
20 should go forward because they know it beforehand.

21 Q. You think it's reasonable to expect them to
22 do that?

23 MR. CEDARBAUM: I'll object. It's now been
24 asked four or five times. He just answered the
25 question.

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1 JUDGE SCHAER: I believe he did answer the
2 question, Mr. Galloway. You may not like his answer,
3 but I believe he answered.

4 MR. GALLOWAY: I'm sorry. Maybe I misheard
5 it. Could we read back his answer, please?

6 (Answer on Page 625, Lines 19 through 20,
7 read by the reporter.)

8 Q. (By Mr. Galloway) Mr. Martin, is it the case
9 if the Commission accepts your recommendation to defer
10 this issue until the rate case that PacifiCorp will not
11 know what portion of the gain is going to be allocated
12 to the Washington jurisdiction at the time it closes
13 the sale?

14 A. I think there is a misunderstanding about
15 Staff's position on the methodology. To clarify, the
16 Company recommends that a certain portion of the gain
17 should be allocated to the ratepayers and a certain
18 portion of the gain should be allocated to the
19 shareholders. Staff, on the other hand, recommends
20 that 100 percent of the gain should be allocated to the
21 ratepayers. That will be decided in this case.

22 Q. But you are proposing to defer to some future
23 time the issue of how much of the total gain gets
24 allocated to Washington, are you not?

25 A. Yes.

00627

1 Q. And if it follows from that, does it not,
2 that if the Commission accepts that recommendation, it
3 would be required to close this transaction not knowing
4 how much of the share of the gain will be allocated to
5 Washington.

6 A. That's the effect.

7 MR. GALLOWAY: Thank you. I have nothing
8 further.

9 JUDGE SCHAEER: Mr. Dahlke, did you have
10 questions?

11

12 CROSS-EXAMINATION

13 BY MR. DAHLKE:

14 Q. Mr. Martin, I have a couple of questions for
15 Avista Corporation. I'm Gary Dahlke. I don't believe
16 we've met. Do you know what allocation factor Avista
17 is proposing to use for the Idaho and Washington
18 jurisdictions for the gain in this proceeding?

19 A. I believe the Company is using the production
20 transmission formula, which is based on the production
21 related allocation factors.

22 Q. Is that 66.99 percent allocation to
23 Washington?

24 A. That sounds familiar.

25 Q. Do you know whether Staff has any position

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1 currently as to whether that's the appropriate
2 allocation factor to use to apply to the gain on the
3 sale of Centralia?

4 A. Essentially, the Staff position is the same
5 as PacifiCorp's because when the company was still
6 Washington Water Power, they proposed some changes in
7 allocation, and I think Staff generally expressed
8 agreement in principle but reserved the right to
9 scrutinize the methodology in the general rate case,
10 and that general rate case is the one pending right
11 now.

12 Q. So your answer for the Avista Corporation
13 would be the same as you indicated for PacifiCorp that
14 there would not, in your view, be a final determination
15 of the allocation factor in this proceeding.

16 A. As far as allocation among jurisdictions,
17 yes.

18 Q. Assuming for the moment that the allocation
19 percentage of 66.99 percent were determined in the
20 pending rate case for Avista Corporation and applied to
21 the gain. Once that's done, it would result in a
22 specific dollar amount, would it not?

23 A. That's correct.

24 Q. And after that dollar amount is determined,
25 does that dollar amount remain the same over time, or

00629

1 as the allocation percentage might be changed from
2 year-to-year, would Staff be proposing to change the
3 allocation of the gain from year-to-year?

4 A. I mentioned in my testimony there is a lot of
5 ways of passing through to the ratepayers, and we
6 expect that the methodology will be determined in the
7 pending general rate case, so for instance -- I'm not
8 necessarily endorsing it -- one method is to give the
9 gain as a credit to the ratepayers one time. Then that
10 issue that you mentioned is not going to be in
11 existence, so in essence, 66.9 percent of the gain
12 comes out with a specific amount of dollars, and a
13 specific amount of dollars, if the Commission orders it
14 to be given to the ratepayers as a rebate over a
15 certain period of time, then that's another matter.

16 Q. And it would not be revisited in rate case
17 number 2 and rate case number 3 as the general
18 production transmission allocation were changed, but it
19 would remain that fixed dollar amount that was
20 determined in the pending rate case?

21 A. Not anymore. It's been enjoyed by the
22 ratepayers of Washington.

23 Q. I guess what I'm trying to find out is if the
24 refund occurs over a period of time and does not occur
25 within one year and there is an allocation of the gain

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1 made in the pending rate case, is it your position that
2 that allocation will remain fixed so that to be a known
3 amount, or might the allocation change from
4 year-to-year in subsequent rate cases as the refund is
5 paid out over a period of years?

6 A. If you are talking about the rate fund, the
7 model speaks the first year until it's exhausted.

8 Q. I asked a question of Mr. Elgin about the
9 treatment of accelerated depreciation for tax purposes
10 for Centralia and how that was handled for ratemaking
11 purposes, and the answer to that question was referred
12 to you. Do you know how accelerated depreciation has
13 been handled for ratemaking purposed for Centralia for
14 Avista Corporation since 1972?

15 A. Generally speaking, not just necessarily for
16 Centralia, I think prior to the enactment of the
17 Commission Recovery Tax Act of 1981, the tax benefit of
18 accelerated depreciation were allowed to be flowed
19 through to the ratepayers in the year that they are
20 realized, but subsequent to that, the 1981 tax accident
21 mandated the use of the normalization of the tax
22 benefits of the depreciation, so in essence, it
23 prohibited immediate flow-through of those tax
24 benefits.

25 Q. So for the period prior to 1981, to the

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1 extent that accelerated depreciation exceeded the book
2 depreciation, the revenue requirement that was charged
3 to ratepayers would reflect the accelerated
4 depreciation as a direct pass-through; is that correct?

5 A. Yes.

6 Q. And after 1981, a different accounting method
7 was used to arrive at a revenue requirement for a plant
8 like Centralia -- I withdraw that.

9 For additions that were made to Centralia in
10 1981, can you tell me what the treatment was for those
11 additions?

12 A. The tax benefit arising from the difference
13 between the tax rate and the book rate is deferred, and
14 I believe, like what we do now, the ratemaking
15 treatment is that it uses an offset to rate base.

16 Q. So the effect of that would be to reduce the
17 revenue requirement associated with the deferred taxes?

18 A. Yes, but it's a lesser extent, I suppose, to
19 the flow through reports.

20 MR. DAHLKE: I have no other questions.

21 JUDGE SCHAER: Mr. Adams?

22

23

CROSS-EXAMINATION

24 BY MR. ADAMS:

25 Q. Mr. Martin, are you aware of any PacifiCorp

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1 exhibit or testimony showing its proposed allocation
2 between states?

3 A. I think I mentioned earlier that the Company
4 did not submit any interjurisdictional allocation
5 testimony or exhibit in this proceeding.

6 Q. Is there any exhibit that breaks down pre and
7 post merger depreciation of the Centralia Plant?

8 A. I haven't seen any exhibit.

9 Q. So is it a fair statement that these are
10 issues that Staff intends to visit in the general rate
11 case?

12 A. Yes.

13 MR. ADAMS: Thank you. That's all I have.

14 JUDGE SCHAER: Commissioners, do you have
15 questions of Mr. Martin?

16 CHAIRWOMAN SHOWALTER: No.

17

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

19 BY JUDGE SCHAER:

20 Q. Mr. Martin, on Page 2 of your testimony, you
21 discuss the environmental liability accrual for the
22 plant and mine in the gain calculation; is that
23 correct?

24 A. That's correct.

25 Q. And you state that the accruals are unknown

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1 and speculative; is that correct?

2 A. Yes.

3 Q. Then on Page 11 of your testimony, you state
4 that the amounts in the reclamation funds are fuel
5 costs imbedded in rates; is that correct?

6 A. Because they are part of the fuel costs, yes,
7 that is correct. It's part of the cost that's being
8 paid by the ratepayers.

9 Q. Is it your position that ratepayers have made
10 all the amounts in the reclamation balances?

11 A. There might be some difference, but
12 eventually the ratepayers will pay entire amount.

13 JUDGE SCHAER: Is there any redirect for this
14 witness?

15 MR. CEDARBAUM: Yes.

16 CHAIRWOMAN SHOWALTER: I just have a
17 clarification on this question and question on the word
18 "speculative."

19

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

21 BY CHAIRWOMAN SHOWALTER:

22 Q. Isn't any time we are looking forward into
23 the future to costs or events that are unknown, we are
24 speculating to one degree or another?

25 A. To a certain degree, some is some speculation

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1 might be more educated than others.

2 Q. So isn't the question whether the speculation
3 is informed and justified or justified type of
4 speculation rather than whether it's good or bad to
5 speculate about the future?

6 A. That's right. As a matter of fact, on this
7 particular subject matter about the environmental
8 liabilities, I inquired from the Company about the
9 nature of this, and they said it's based on their
10 adjustment, as opposed to the Colstrip where there was
11 actually an outside consultant hired to make a study on
12 what's the extent of environmental liability.

13 Q. So if you are criticizing something as
14 speculative, aren't you saying there is either no
15 foundation for the speculation or no reason to
16 speculate in the first place, one or the other, as
17 opposed to it's plain bad to speculate?

18 A. That's correct.

19 CHAIRWOMAN SHOWALTER: Thanks.

20

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

22 BY JUDGE SCHAER:

23 Q. Mr. Martin, are the environmental liabilities
24 accrued actually funded?

25 A. In this case, I don't think so.

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1 JUDGE SCHAEER: Go ahead, Mr. Cedarbaum.

2

3

REDIRECT EXAMINATION

4 BY MR. CEDARBAUM:

5 Q. Mr. Martin, in discussion with Mr. Galloway,
6 you indicated that PacifiCorp would be required to
7 close on the transaction before, under Staff's
8 recommendation, the issue of allocating the gain to
9 Washington would be decided in the general rate
10 proceeding; do you recall that?

11 A. Yes.

12 Q. Do you think it was a reasonable risk for
13 PacifiCorp to assume that that would be the case when
14 it decided to sell Centralia?

15 A. I think I mentioned that it is.

16 Q. You also indicated in your discussion with
17 Mr. Galloway that you gave conditional support to the
18 PITA allocation accord; do you recall that?

19 A. Yes.

20 Q. I'm not sure what you stated those conditions
21 were. Can you just list them, please?

22 A. The specific condition is that the Company is
23 going to provide me a study that shows the long-term
24 effect of modified accord will not materially deviate
25 from the original accord.

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1 Q. Have you seen that study yet?

2 A. No, not yet.

3 Q. Was there any commitment made by the Company
4 as to when it would be provided?

5 A. There was indication by the Company that they
6 are going to provide me at the last PITA meeting, but
7 they were not able to come out with a study.

8 Q. So that would be something, again, that you
9 could look at in the context of the general rate
10 proceeding pending before the Commission?

11 A. That's correct.

12 MR. CEDARBAUM: That's all the questions.

13 JUDGE SCHAER: Is there anything for this
14 witness.

15 MR. DAHLKE: Yes.

16

17 RE-CROSS-EXAMINATION

18 BY MR. DAHLKE:

19 Q. Mr. Martin, you were asked a question about
20 direct assignment. If you are proposing to directly
21 assign the reclamation trust component of the gain
22 associated with the sale of Centralia, wouldn't it be
23 appropriate to directly assign all components for which
24 there was a reasonable accounting basis for direct
25 assignment?

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1 A. Not necessarily. I'm proposing for this
2 specific component of the gain because of the way
3 it's -- there is a special treatment of the gain, of
4 this component in the gain. There is the fact that is
5 identified and has been supported by the ratepayers, so
6 it's only fair not to subject it to allocation between
7 ratepayers or shareholders because from my testimony, I
8 think it's clear that the ratepayers supported that.

9 Q. If there were other components that would be
10 subject to the same rationale, would you be opposed to
11 direct assignment of those components as well?

12 A. An argument could be made that every
13 component could be directly assigned for some reason or
14 another, and I'm not taking special treatment for this
15 because of the reasons I stated earlier.

16 MR. DAHLKE: Thank you.

17 JUDGE SCHAER: Mr. Galloway?

18

19 REXCROSS-EXAMINATION

20 BY MR. GALLOWAY:

21 Q. In response to a question from the Chair, you
22 distinguished this case from the Colstrip case in that
23 in the case of Colstrip, there was an outside
24 evaluation of the potential residual environmental
25 liabilities; do you recall that?

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1 A. Yes.

2 Q. Notwithstanding the existence of that study,
3 the Staff took the same position that the accrual
4 should not be permitted, did it not?

5 A. Yes.

6 Q. You were asked whether the accrual was funded
7 or not; do you recall that?

8 A. Yes.

9 Q. Would you expect the accrual to be funded in
10 advance of the sale and in advance of the receipt of
11 funds?

12 A. I think that's what the Company is trying to
13 propose in this case, to get it funded by covering an
14 amount from the sales proceeds.

15 Q. So the fact that it isn't funded now is a
16 result of there not being funds; isn't it?

17 A. It's not funded now, so there are no funds.

18 MR. GALLOWAY: Thank you. I have nothing
19 further.

20 JUDGE SCHAER: Anything else for this
21 witness? Thank you for your testimony. You may step
22 down.

23 I'd like to take our morning recess at this
24 time.

25 (Recess.)

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1 JUDGE SCHAER: Would you like to call your
2 next witness, Mr. Galloway?

3 MR. GALLOWAY: The Company's next witness is
4 Rodger Weaver. I'd ask that he be sworn at this time.
5 (Witness sworn)
6

7 DIRECT EXAMINATION

8 BY MR. GALLOWAY:

9 Q. Dr. Weaver, are you familiar with your
10 prefile direct testimony in this proceeding that has
11 been previously marked as Exhibit T-209?

12 A. Yes.

13 Q. And accompanying that prefile direct
14 testimony, are there Exhibits 210 through 212?

15 A. Yes.

16 Q. And similarly, are you familiar with the
17 prefiled rebuttal testimony that has been previously
18 marked as Exhibit 216?

19 A. Yes, I am.

20 Q. And accompanying Exhibit T-216, are there
21 Exhibits 217 through 225?

22 A. Yes, there are.

23 Q. Are there any changes you would like to make
24 in Exhibit T-201, which is your prefiled direct
25 testimony?

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1 A. Is that 201?

2 Q. I'm sorry, 209.

3 A. Yes, there are some changes I need to make
4 there.

5 Q. Could you read them into the record at this
6 time, please?

7 A. The first change is on Page 4, Line 7. There
8 is a number, 10 million dollars, in the middle of that
9 Line 7. That number should be changed to 42 million
10 dollars, and on the next page, Page 5, there is some
11 corresponding changes. On Page 5, Line 11, the
12 sentence there starts on Line 10 says, "the results
13 show that there are 39 million of net present value
14 reductions in the first 10 years." That 39 should
15 change to 59 million dollars. Then again on Line 12,
16 Page 5, the 10 million in total benefits should be
17 changed to 42 million in total benefits, and then
18 finally, on Lines 14 and 15, there is the year 2010,
19 which is the first year in which the sell case is more
20 expensive than the keep case; in other words, it
21 benefits. That year should be changed to the year 2014
22 on both Lines 14 and 15.

23 JUDGE SCHAER: Just a moment, Mr. Galloway.
24 I'm looking through the letter that you sent us on
25 December 28th, 1999, which I believe includes most of

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1 these changes; is that correct?

2 MR. GALLOWAY: Should include all of them.

3 JUDGE SCHAER: The last change just read is
4 different, I believe, because the letter says it should
5 be changed to 2013, and the witness just said 2014.

6 THE WITNESS: Thank you for the opportunity
7 to clarify that. Actually, when we wrote the letter,
8 we were thinking that the year to be quoted was the
9 last year showing benefits. In fact, the language says
10 it's the first year showing disbenefits, so it's the
11 following year 2014 instead of 2013. It's both 14 and
12 15.

13 MR. GALLOWAY: Your Honor, you made reference
14 to my letter of December 28th, and appended to that
15 letter was a revised Exhibit 212, which we would
16 propose to substitute for the original Exhibit 212
17 submitted with the prefiled testimony.

18 JUDGE SCHAER: Is the revised Exhibit 212
19 that you sent in on December 28th identical to the one
20 attached to the letter to Mr. Kilpatrick dated December
21 13, or are there additional changes?

22 MR. GALLOWAY: There are no additional
23 changes. It's the same chart.

24 Q. (By Mr. Galloway) Dr. Weaver, are there
25 changes to your prefiled rebuttal testimony, T-216,

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1 that are driven by the changes this week to Mr. Lazar's
2 testimony?

3 A. Yes. Mr. Lazar has modified testimony, and
4 this rebuttal is in response to his original version,
5 so I'd like to make some changes that make this
6 rebuttal consistent with his changed exhibits.

7 Q. Would you read those into the record at this
8 time, please?

9 A. The first change occurs on Page 3, starting
10 with the bulleted item on Line 7. That bulleted item
11 is to be deleted; in other words, delete Lines 7, 8 and
12 9. Going down the page, the section called "market
13 price projections," starting on Page 18, that entire
14 section should be deleted, which means delete
15 everything beginning with Page 3, Line 18 through Page
16 4, Line 7; and in addition, my Exhibit 218 can also be
17 deleted.

18 JUDGE SCHAER: Did you identify that exhibit
19 already, counsel?

20 MR. GALLOWAY: Yes, he has identified that
21 already.

22 THE WITNESS: To continue, turning now to
23 Page 5, Line 14, the 77 million dollars in the middle,
24 that line should now you changed to 57 million dollars,
25 and in addition -- and I think this is what

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1 Mr. Galloway was going to introduce -- there is an
2 Exhibit 219 revised to replace the 219 that was
3 originally filed, and shall I finish the rest of these?

4 JUDGE SCHAER: Why don't you finish the
5 changes in the testimony itself and then we'll take up
6 the exhibits.

7 THE WITNESS: Then the last change is on Page
8 11, Line 9 where it refers to Exhibit 225. That should
9 now refer to Exhibit 225, Revised, so just insert the
10 word "revised." I believe that's all.

11 CHAIRWOMAN SHOWALTER: I have a question on
12 these exhibits though. Is it 206 it refers to revised
13 exhibit? I've lost the number now.

14 MR. GALLOWAY: It's 212 which accompanied the
15 prefile direct testimony, and that was distributed.

16 CHAIRWOMAN SHOWALTER: If you have an extra
17 copy.

18 MR. GALLOWAY: I do.

19 MR. ADAMS: Your Honor, I would like to ask
20 counsel a question on identification, and if we could
21 go off the record for a moment.

22 JUDGE SCHAER: Off the record.

23 (Discussion off the record.)

24 Q. (By Mr. Galloway) Dr. Weaver, are there also
25 corresponding to the verbal changes that you gave

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1 Revised Exhibits 219 and 225?

2 A. Yes.

3 MR. GALLOWAY: Your Honor, those are the two
4 replacement exhibits that I distributed to the parties
5 during the break and to Bench.

6 JUDGE SCHAER: Are those all the exhibits you
7 are going to be offering.

8 MR. GALLOWAY: Yes, ma'am.

9 JUDGE SCHAER: Should the remainder of the
10 exhibits there be thrown out?

11 MR. GALLOWAY: To the extent they are
12 replaced, yes. They are completely replaced.

13 Q. (By Mr. Galloway) Dr. Weaver, with the
14 changes that you read into the record, if I were to ask
15 you the questions set forth in your direct and rebuttal
16 testimony, Exhibits T-209 and T-216 respectively, would
17 your answers be the same therein?

18 A. Yes, they would.

19 Q. And are Exhibits 210 through 212 and 217
20 through 225, as you've revised them this morning, true
21 and correct to the best of your knowledge?

22 A. Yes, they are.

23 MR. GALLOWAY: Mr. Weaver is available for
24 cross-examination.

25 JUDGE SCHAER: Did you wish to offer the

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1 exhibits?

2 MR. GALLOWAY: I did.

3 JUDGE SCHAER: Any objections? Those
4 exhibits are admitted. Mr. Adams, any
5 cross-examination?

6 MR. ADAMS: Yes. Your Honor, perhaps I
7 should raise initially so we don't get partway through
8 the examination and have this issue come up, there was
9 a document that I was going to hand out which to our
10 understanding is part of the model output that is also
11 covered by Bench Request 9, which the Company, as I
12 understand at the break, maintains there are
13 confidentiality issues. We don't agree with that, but
14 they are claiming confidentiality issues to our
15 potential exhibit, and I would assume as well then to
16 the Bench Request No. 9 that we need to address -- and
17 I can try to skirt it and save it for awhile, but at
18 some point I'm going to want to introduce that
19 document.

20 JUDGE SCHAER: Let's deal with that now, Mr.
21 Adams. I had identified yesterday the response to
22 Bench Request No. 9 as Exhibit 230, and I was
23 instructed by you, Mr. Galloway, that this should be
24 offered through Mr. Weaver, so I am going to at this
25 point suggest that we put the response to Bench Request

00646

1 9 into the record as Exhibit 230, and ask if anyone has
2 any concerns about that or any objection, so why don't
3 you tell me what your concerns are about
4 confidentiality and this information.

5 MR. GALLOWAY: I'll tell you generally, but I
6 think you will probably get a better feel from it from
7 Dr. Weaver. These materials reflect the Company's
8 modeling of its future power costs, and they include
9 assumptions in respect to its future costs that the
10 Company believes are commercially sensitive, because if
11 a competitor knew of the future costs of its power
12 plants and particularly its dispatch costs and that
13 sort of thing, it would be at a competitive
14 disadvantage, and for those reasons, certainly some of
15 the sheets that are, but by no means all, included in
16 these materials are proprietary and the Company
17 believes to be confidential. Dr. Weaver, does that
18 accurately describe the concerns?

19 THE WITNESS: Yes, it does. My primary
20 concern is that it identifies information that we
21 believe would compromise our ability to negotiate in
22 our customers' best interests if counter parties in the
23 negotiations possessed that information, and again, not
24 all of what's being proposed falls into that category.

25 JUDGE SCHAER: Looking at your response to

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1 Bench Request No. 9, I do see that you have claimed
2 that CD ROM that you provided to the Commission is
3 confidential and subject to protective order. Was that
4 filed as a confidential document inside the sealed
5 envelope with the stamp on it and those protections
6 taken; do you know, Mr. Galloway.

7 MR. GALLOWAY: I do not know.

8 JUDGE SCHAER: It was my understanding that
9 you had personally brought that to the meetings or that
10 one of your clients had brought that to the hearings.

11 MR. GALLOWAY: I had no involvement in the
12 processes because I was in Wyoming.

13 JUDGE SCHAER: Are you arguing, Mr. Adams,
14 that the entire model should be made public, or do you
15 object to it being confidential?

16 MR. ADAMS: Your Honor, I brought it up only
17 because part of the exhibit we are putting in is a
18 portion of the output of that model, and we don't
19 believe that the portion we want to put in, which
20 includes things from basic assumptions and so forth, is
21 confidential. I raise the Bench 9 only to alert you to
22 the fact that the entire document may be considered
23 confidential by the Company, at least in the electronic
24 format form.

25 JUDGE SCHAER: Mr. Galloway, if the

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1 Commission treats this response as confidential, do you
2 have any concern about it being made part of the
3 record?

4 MR. GALLOWAY: No, ma'am.

5 JUDGE SCHAER: I'm going to enter Exhibit
6 230, and then I'm going to ask you, Mr. Adams, to
7 distribute the document you just discussed, and it was
8 my understanding that the issue before us is whether
9 this should be treated as a confidential exhibit or
10 nonconfidential exhibit; is that correct?

11 MR. ADAMS: That is correct, Your Honor.

12 MR. GALLOWAY: Could I propose that it not,
13 consistent with what we did yesterday, not be passed
14 out to representatives of Puget and Avista?

15 JUDGE SCHAER: I will allow you to ask that
16 this be treated as a super-confidential document at
17 this point, and I will allow Mr. Harris or Mr. Dahlke
18 to object to that treatment if they wish to do so or
19 Mr. Lavitt. Thank you, gentlemen. Go ahead then and
20 pass it out to the Commissioners, to me, to Commission
21 staff, counsel, and then Mr. Galloway and then let's
22 talk about it.

23 MR. ADAMS: Do I understand, pursuant to
24 yesterday, we need to pull them back and put them in an
25 envelope?

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1 JUDGE SCHAER: If you agree they should be
2 treated as confidential, then go ahead and we'll get it
3 entered, and you can put it in an envelope. If we need
4 to determine whether or not it should be treated as
5 confidential, we'll do that now, but if you are willing
6 to go along with the treatment of this as something
7 super confidential so that the other parties cannot see
8 it, then go ahead and put it in in that status,
9 Mr. Adams, because we have provision for having those
10 exhibits in the record.

11 MR. ADAMS: We have a preference, as I assume
12 the Commission does, not to put things under
13 confidential seal if it's not necessary, and we
14 certainly respect the Company's concerns in certain
15 areas. We don't believe this is confidential material,
16 certainly by the small sound bits that are produced
17 here, so I will pass it out to all except Avista.

18 JUDGE SCHAER: Do not pass it out to Avista,
19 PSE or Local 612, please, and then I'll take up the
20 argument on whether or not it should be treated as
21 confidential when I have it in front of me and the
22 Commissioners have it in front of them.

23 I will mark this for identification as
24 Exhibit 235, and then we will go through this to
25 determine how it should be treated. Do you have a copy

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1 of this in front of you, Dr. Weaver?

2 THE WITNESS: Yes, I do.

3 JUDGE SCHAER: Mr. Galloway, it's your
4 request that this be treated as confidential, so I'm
5 going to ask you to take a moment to look through this
6 and let us know if there are any pages which you would
7 agree are not confidential and which pages you are
8 really concerned about, unless it's all of them, so we
9 know what we're talking about.

10 MR. GALLOWAY: Could I ask Dr. Weaver to do
11 that?

12 JUDGE SCHAER: I would like both of you to do
13 that. Mr. Adams, if at some point you take this back
14 to put into envelopes, we're also going to want the
15 pages numbered consecutively. Even if you don't take
16 it back to put it in envelopes, we want the pages
17 numbered consecutively.

18 MR. ADAMS: I apologize. These are pieces
19 pulled out of a huge model.

20 JUDGE SCHAER: At what point in your
21 questioning are we going to be addressing this issue,
22 Mr. Adams?

23 MR. ADAMS: Other than identifying the
24 documents so we understand what it came from and what
25 it is, we are not going to be asking any questions on

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1 it.

2 JUDGE SCHAER: Let's go ahead with your other
3 questions, and perhaps this is something that counsel
4 and his witness can look at over the lunch hour. I
5 would prefer not to take up a lot more hearing time
6 right now.

7 MR. ADAMS: Did you give this document a
8 number?

9 JUDGE SCHAER: I identified this as Exhibit
10 235. I have not put any confidential or
11 super-confidential designation in front of that yet but
12 may be doing so after lunch.

13 MR. ADAMS: Your Honor, I apologize. We
14 discovered there was one more exhibit we had not handed
15 out.

16 JUDGE SCHAER: Do that very quickly, please,
17 Mr. Adams.

18 MR. ADAMS: Wouldn't this be 236 then?

19 JUDGE SCHAER: Marked for identification as
20 Exhibit 236, a document entitled Public Counsel Data
21 Request No. 51 and the attached response. Go ahead
22 Mr. Adams.

23 Q. (By Mr. Adams) First off, I want to ask you,
24 does PacifiCorp have any gas distribution operations?

25 A. No, we do not.

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1 Q. Looking at your rebuttal testimony, at
2 No. 216, Page 6, and your answer that begins at Line 5
3 through Line 13, you indicate that you believe that a
4 mix of mid Columbia and California Oregon border prices
5 should be used to evaluate the value of the Centralia
6 power; is that correct?

7 A. I indicate that we should use those two
8 points as a reasonable approximation to where
9 PacifiCorp would get the power needed to replace what
10 it doesn't any longer get from Centralia through the
11 sale.

12 Q. First, you would agree that Centralia is
13 located in Western Washington?

14 A. It certain is.

15 Q. At the present time, does Pacific have the
16 option of selling its share of Centralia in the market
17 and generating or buying replacement power at the mid
18 Columbia and California Oregon border as needed to meet
19 its loads?

20 A. Yes. As part of dispatching its entire
21 system, it certainly has that option.

22 Q. If the value of power in Western Washington
23 were greater than the cost of replacement power
24 purchased in the regions where Pacific has loads and
25 needs power, would you agree that it would make sense

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1 to sell at Centralia and buy where you need it?

2 A. What I would agree is in dispatching our
3 system, including wholesale and meeting our retail
4 needs, we should buy where power is cheapest and sell
5 where it's most expensive. To the extent that at any
6 given time an opportunity to carry out that kind of
7 transaction existed then we ought to do that.

8 Q. Is that a yes answer?

9 A. I tried to answer the question as it makes
10 sense so me. Perhaps if you would state the question
11 again, I could start off with a yes or no and go from
12 there.

13 Q. I think that basically where you got to at
14 the end of your answer was a yes. I just want to make
15 sure. If the value of power in Western Washington were
16 greater than the cost of replacement power purchased in
17 the regions where Pacific has loads and needs power,
18 would you agree that it would make sense to sell at
19 Centralia and buy where you need it?

20 A. I agree it would make sense if there was
21 specific opportunity to make a specific sale, and that
22 would only be one possible decision in the overall
23 process of balancing and dispatching our system to meet
24 our load obligations.

25 Q. If the Company sells Centralia, it would

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1 still be able to generate or buy replacement power at
2 the mid Columbia and California Oregon border as needed
3 to meet its loads; correct?

4 A. It certainly would.

5 Q. But it would forego the opportunity to sell
6 the output of Centralia in the Western Washington
7 market, would it not?

8 A. Yes, that's true.

9 Q. Turning to Page 10 of your rebuttal, please,
10 at Line 10, beginning in the paragraph that you respond
11 there at Line 10, you state that the analysis that you
12 prepared in this case using the life of Centralia
13 through the year 2023 was based on a depreciation study
14 which the Company presented to the Utah Commission;
15 correct?

16 A. That's correct.

17 Q. And that study generically provided for a
18 40-year lifetime for coal plants, did it not?

19 A. I don't want to hold myself as an expert on
20 that study because I'm not. What it did do regarding
21 this case is that absent any life-extending
22 investments, the Centralia would reach the end of its
23 depreciable life in 2013.

24 Q. That's 40 years, is it not?

25 A. That would be awful close to 40 years.

00655

1 Q. Looking at your testimony at Line 20, you
2 refer to it as this 40-year life.

3 A. Yes.

4 Q. That study provided for 10-year life
5 extensions of the plant based on life-extending
6 capital; is that also correct?

7 A. That's correct.

8 Q. On Page 9 of your rebuttal testimony, you
9 refer to the scrubbers at Centralia as being an example
10 of life-extending capital; correct?

11 A. Let me make sure that's the way I said it.
12 What I meant to say is that the scrubbers combined with
13 some additional investments that's intended to be
14 carried out at the time the scrubbers are being put in
15 constitutes that kind of life-extended investment.

16 Q. Are you referring to the rewinds of the
17 generators?

18 A. Yes.

19 Q. I want to ask you a couple of questions in
20 this regard relating to your model, and I'm going to
21 try to ask them very generally. Can you tell me in
22 your pricing model, do you know when you provided that
23 the Dave Johnston plant life would end?

24 A. In my pricing model, are you referring to the
25 market clearing price model?

00656

1 Q. Yes.

2 A. I'm not entirely sure in that model that any
3 of our plants are expected to reach a retirement date.
4 I could easily be shown that, in fact, it does.

5 Q. We'd agree with that statement you just made.
6 What's the last year of the model run?

7 A. The model runs through -- I believe through
8 2008, and I could be told that it goes a couple of
9 years longer than that.

10 Q. And the Dave Johnston Plant was originally
11 commissioned around 1959, was it not?

12 A. Yes.

13 Q. So that plant at this point has approximately
14 52 years of life in it so far?

15 A. That would be about right. I'd just like to
16 point out that in the assumption of the model that
17 these plants live, in effect, indefinitely would be
18 based on the assumption or the implicit assumption that
19 life-extending investments are required to get that
20 done, and further that the investments that are
21 required don't play into their contribution of the
22 determination of market prices, because market prices
23 are a function of incremental costs as opposed to
24 investment costs.

25 Q. Would you accept subject to check that the

00657

1 Dave Johnston Plant in 1998 operated at 84 percent
2 capacity factor?

3 A. Yes.

4 Q. I want to turn to the carbon coal plant.
5 When was it assumed to reach the end of its operating
6 lifetime in your model?

7 A. Once again, I think it probably was assumed
8 to continue indefinitely.

9 Q. The carbon unit was originally commissioned
10 in about 1954, was it not?

11 A. That's approximately right.

12 Q. So that's approximately 57 years of life
13 through the end of your model?

14 A. That would be about right.

15 Q. Is your prior answer about indefinite life
16 expectancy with capital extensions the same?

17 A. Yes.

18 Q. Would you accept subject to check that it ran
19 at approximately 80 percent capacity factor?

20 A. I would expect it to run about that range,
21 yes.

22 Q. That was in 1998.

23 A. Yes.

24 MR. ADAMS: Your Honor, we ended up with an
25 unnumbered copy. If I could ask the Bench to indicate

00658

1 the exhibit that has the heading, Public Counsel Data
2 Request No. 33, what's the exhibit number on that?

3 JUDGE SCHAER: That's been marked for
4 identification as Exhibit 234, Mr. Adams.

5 MR. ADAMS: Thank you very much.

6 Q. (By Mr. Adams) Mr. Weaver, could you turn to
7 what's been marked as Exhibit 234, marked for
8 identification a Exhibit 234?

9 A. I have it.

10 Q. Do you recognize this exhibit as your most
11 recent avoided cost filing with the Oregon Commission?

12 A. Yes, that's what it appears to be.

13 Q. Is there any more recent filing for the
14 Company made in any other jurisdiction?

15 A. Yes. We made a more recent filing than this
16 in Utah. It was dated September 15th or 17th of '99.

17 Q. Looking at the request on the face of the
18 first page of this document, have you supplied that
19 information to Public Counsel?

20 A. I can't say that we did. I have not been
21 managing that process. I don't know whether we have or
22 not.

23 Q. Can you provide that document to us at the
24 break?

25 A. I don't have it here.

00659

1 MR. GALLOWAY: Your Honor, may we go off the
2 record for a moment?

3 JUDGE SCHAER: Off the record.
4 (Discussion off the record.)

5 JUDGE SCHAER: While we were off the record,
6 there was a discussion of information sought in Public
7 Counsel Data Request No. 33 and arrangements made to
8 attempt to produce a more recent avoided cost study
9 than the one that is this exhibit. Go ahead, please,
10 Mr. Adams.

11 Q. (By Mr. Adams) Dr. Weaver, let me just ask
12 one question so I understand it. Other than the most
13 recent filing that you've just referenced in Utah, is
14 what has been marked as Exhibit 234 the most recent
15 filing?

16 A. Yes, it is.

17 Q. It was the most current at the time you
18 prepared your testimony?

19 A. Yes, it was.

20 Q. Could you refer to what's been marked as
21 Exhibits 236, please?

22 A. Yes, I have it.

23 Q. Is this true and correct to the best of your
24 knowledge?

25 A. Yes.

00660

1 Q. It represents the historical equivalent
2 availability factor forced outage rate and capacity
3 factor for Centralia during its commercial operation;
4 is that correct?

5 A. Yes.

6 Q. I'll refer you to the document entitled
7 Public Counsel Data Request No. 23 --

8 JUDGE SCHAER: That document has been marked
9 for identification at Exhibit 232.

10 Q. -- do you recognize that document?

11 A. Yes.

12 Q. And it's basically in reference to heat rate
13 improvements?

14 A. Yes, it is.

15 Q. Is it true and correct to the best of your
16 knowledge?

17 A. Yes.

18 Q. And finally, reference to Public Counsel Data
19 Request No. 49?

20 JUDGE SCHAER: That is 233 for
21 identification.

22 Q. Have you had a chance to review proposed
23 Exhibit 233?

24 A. Yes.

25 Q. And is it true and correct to the best of

00661

1 your knowledge?

2 A. Yes, it is.

3 MR. ADAMS: I would move the admission of all
4 Public Counsel documents except 234 and 235 at this
5 time, which, as I understand it, would be 232, 233,
6 236.

7 JUDGE SCHAER: Any objections? Those
8 documents are admitted.

9 MR. ADAMS: I would ask that that be all the
10 questions I have at this time, but I would like to
11 reserve the opportunity to call Dr. Weaver back after
12 the lunch hour if something comes up in terms of our
13 discussions on Exhibits 235 and 234.

14 JUDGE SCHAER: Okay. I think what we'll do
15 is take our lunch recess at this time, and I would like
16 you to use this time not just to feed yourself but to
17 work to resolve some of the problems that we've
18 identified, so I'm going to give a little bit more time
19 than I'd originally anticipated, and we will back on
20 the record at one o'clock.

21 (Lunch recess at 11:40 a.m.)

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AFTERNOON SESSION

(1:10 p.m.)

JUDGE SCHAER: While we were off the record, both Mr. Galloway and Mr. Adams have described certain agreements reached between those two counsel on behalf of their clients over the lunch hour, and I would ask you to either describe that now, Mr. Adams, or deal with it as you go through the different exhibits. First of all, it's my understanding that you have withdrawn what had been marked for identification as Exhibit 235; is that correct?

MR. ADAMS: That is correct, Your Honor. I should indicate that what has been marked Exhibit 238 are the bottom two pages of that document which the Company does not assert confidentiality over, and I will get into this with the questions, but just again so you know what's going on here, Exhibit 234 was the least-cost planned document filed in Oregon, and 237 is basically the one of the same pages from the very recently filed document before the Utah Commission, and I will ask Dr. Weaver a couple of questions about that just so everybody is clear.

JUDGE SCHAER: Neither of those documents have been offered at this point?

MR. ADAMS: That is correct.

00663

1 Q. (By Mr. Adams) Dr. Weaver, I'd like to first
2 start off with referring to Exhibit for identification
3 234, and it's my understanding that was the avoided
4 cost filing in Oregon that you made with the Oregon
5 Commission in June of 1999; is that correct?

6 A. That's correct.

7 Q. And what has been marked Exhibit 237 is just
8 the cover two pages plus one page of avoided cost
9 numbers, and it was just filed last week in the state
10 of Utah?

11 A. It was filed December 15th. Let me correct
12 that. It was not filed on the 15th. It was on the
13 10th of December.

14 Q. Looking at the last page of Exhibit 237 for
15 identification, is that essentially the same pages as
16 is contained in identification 234, and I apologize for
17 the lack of pagination, but the fifth page from the
18 bottom of the end of the document?

19 A. Yes, that's correct.

20 Q. Could you indicate briefly, am I correct that
21 for all years after 2007, the numbers are identical
22 between Exhibit 234 and identification 237?

23 A. Yes. Beginning with 2008, they are the same.

24 Q. And could you just indicate for the record
25 what the reason for the difference is?

00664

1 A. Yes. The difference turns on the fact that
2 by Utah's rules, we are not allowed to make filings
3 based on what are thought to be known and measurable
4 changes. In particular, one of those is whether the
5 Centralia Plant will be sold or not. The difference
6 between these two is that in the Oregon filed approved
7 avoided costs the assumption is that Centralia Plant
8 has indeed been sold, and in the Utah case, the
9 assumption is that the Centralia Plant has not been
10 sold. If I could expand on that for just a minute so
11 you see why it leads to different answers.

12 We use the same methodology and basically --
13 the same methodology and same assumptions in both
14 analyses except that Centralia sale or not. Why that
15 matters is until a company reaches load and resource
16 balance, avoided cost is computed by comparing net
17 power cost model runs with and without hypothetical
18 avoided cost resource, hypothetical qualifying facility
19 type resource, and hence, the avoided costs are
20 basically incremental costs of putting power on the
21 system, and then after the company reaches load and
22 resource balance, the avoided cost become the cost of
23 the new resource required to get us back in the balance
24 again, and that, inevitably, is considerably higher
25 because it has all the capital costs of building a new

00665

1 plant.

2 The one additional difference between these
3 two you will see in the avoided firm capacity cost
4 column in the Utah case starting in 2003 and running
5 until 2007, there is a small capacity cost number
6 there, particularly relative to the corresponding years
7 in Oregon, that reflects the fact that in those years
8 with Centralia still on the system, we would be
9 capacity short in either summer or winter and meet that
10 with a season capacity purchase. It then becomes the
11 case in Utah that we have been become capacity short in
12 both winter and summer and also energy short starting
13 in 2008, so at this point, we would need to add the new
14 same capacity as is reflected in the Oregon case;
15 hence, they become the same numbers at that time.

16 MR. ADAMS: I would move the admission of
17 Exhibit 237, and I guess I would ask you whether I have
18 offered 234. Then for both.

19 MR. GALLOWAY: No objection.

20 JUDGE SCHAER: Those documents are admitted.

21 Q. (By Mr. Adams) Dr. Weaver, I want to address
22 Exhibit -- what was identified a Confidential Exhibit
23 235, or potentially was a confidential exhibit, which
24 has been withdrawn. First, have you seen what has been
25 identified as Exhibit 238?

00666

1 A. Yes, I have.

2 Q. My understanding is those two pages are not
3 confidential.

4 A. That is correct.

5 Q. Are they true and correct to the best of your
6 knowledge?

7 A. Yes, they are.

8 Q. Could you indicate which model that is an
9 output of?

10 A. That's printed from the model -- I hesitate
11 to use "output" because some of it is input, but it's
12 printed from the model called, Centralia model and
13 backup.

14 MR. ADAMS: Your Honor, I'd move the
15 admission of Exhibit 238.

16 MR. GALLOWAY: No objection.

17 JUDGE SCHAER: That document is admitted.

18 Q. Dr. Weaver, I want to back up for a moment,
19 discuss briefly what has become Bench Request 9, which,
20 Your Honor, I believe you admitted as Exhibit 230?

21 JUDGE SCHAER: That is Exhibit 230 and has
22 been admitted.

23 Q. Dr. Weaver, could you indicate for the record
24 what is contained in Bench Request 9 or Exhibit 230?

25 A. Yes. The response to Bench Request 9 is a CD

00667

1 ROM delivered by the Company. On that are two files.
2 One of those files is the model called the Centralia
3 model and backup, which is what we were just referring
4 to that the two pages in 238 come out of. The second
5 is a file called "impact," which is the information
6 from the, in fact, the market clearing price model
7 which is the model the Company uses to project
8 competitive market clearing prices for electricity.

9 JUDGE SCHAER: While we're on this point
10 Mr. Adams, let me ask a brief question of Mr. Galloway.
11 It's my understanding while we were off the record that
12 you indicated that Exhibit 230 should receive a
13 super-confidential designation; is that correct?

14 MR. GALLOWAY: That's correct.

15 JUDGE SCHAER: Is there any party that would
16 object to that designation, especially any of the
17 parties that were blocked from seeing that exhibit?
18 I'm going to give the exhibit super-confidential
19 designation, Exhibit 230.

20 MR. GALLOWAY: It's my understanding you wish
21 us to take possession of that back and resubmit it in a
22 sealed envelope.

23 JUDGE SCHAER: I would like you to bring in a
24 sealed envelope and put the CD in it, yes, and also if
25 you could, a label to go on the disk itself that

00668

1 indicates its designation, because we would like to do
2 our utmost to keep that protected, but it is something
3 that the Bench may need to use.

4 MR. GALLOWAY: Okay.

5 Q. (By Mr. Adams) Dr. Weaver, Am I correct that
6 the pages that the Company was asserting
7 confidentiality to as contained in the withdrawn
8 Exhibit 235, those pages are contained in the model
9 runs, and specifically in the clearing price model?

10 A. Right. Which again, on the CD ROM is labeled
11 "impact," yes.

12 Q. So we basically have those documents in the
13 record now just in the form of a confidential exhibit.

14 A. Exactly.

15 Q. Are you familiar with Mr. Lazar's Exhibit
16 501?

17 A. Yes.

18 Q. Is it your understanding that the impact
19 model or the market clearing price model is the source
20 of the Unit 1 fuel and Unit 2 fuel prices that
21 Mr. Lazar has used on Page 7 of his exhibit?

22 A. Tell me again which pages?

23 Q. Page 7. It's right at the top of Page 7.

24 A. Okay. Yes.

25 Q. The line above it, the nonfuel revenue

00669

1 requirement, that comes from the Centralia model and
2 backup?

3 A. It should, yes.

4 Q. And both of these were also used in your
5 preparation of Exhibit 212?

6 A. Yes.

7 MR. ADAMS: Your Honor, if I haven't moved my
8 exhibits, I would like to move them at this time.

9 JUDGE SCHAER: It looks to me that you have
10 offered and everything has been admitted that you have
11 identified thus far.

12 MR. ADAMS: I guess I would just raise this
13 at this point and you can defer it to whenever you want
14 to discuss it, but this is not an exhibit for this
15 witness, but we do have an exhibit that we would be
16 proposing which I believe the Company would assert
17 super confidentiality to relating to a presentation
18 made to the board of directors of PacifiCorp, which was
19 discussed last Friday. We do not need a witness for
20 this. I think the Company's position is there needs to
21 be a witness for it.

22 MR. GALLOWAY: That is correct. We both
23 believe that the exhibit should be subject to
24 super-confidentiality treatment but also that the
25 exhibit in its form, which is a series of power point

00670

1 slides, without explanation would be extremely
2 misleading and prejudicial to the Company's case, and
3 for that reason, if the exhibit is to be admitted, that
4 we should have the opportunity on a super-confidential
5 basis to present brief testimony concerning a
6 background and explanation of those materials.

7 JUDGE SCHAER: What witness would you want to
8 have do that?

9 MR. GALLOWAY: Mr. Miller.

10 JUDGE SCHAER: Would you like to recall
11 Mr. Miller at this time?

12 MR. GALLOWAY: Yes. Right now is when you'd
13 like to do it?

14 JUDGE SCHAER: After we finish with
15 Mr. Weaver.

16 MR. GALLOWAY: Mr. Miller will be here for
17 the duration.

18 JUDGE SCHAER: I think what I would suggest
19 that we do is finish this witness, let you recall
20 Mr. Miller, and then proceed with questioning until we
21 reach a point where it appears that you want to claim
22 confidentiality of oral testimony, and at that point
23 decide whether we need to seal the hearing.

24 MR. GALLOWAY: I think my first question
25 would probably fall under that.

00671

1 JUDGE SCHAER: Until I hear the question, I'm
2 not as well advised as you are, sir. Let's go ahead
3 and finish Dr. Weaver and then go forward.

4 MR. ADAMS: Just so you understand, we do not
5 agree that a sponsoring witness is necessary, but I'm
6 not trying to debate that. We are finished with any
7 questions for Dr. Weaver at this point.

8 MR. LAVITT: No questions.

9 JUDGE SCHAER: Questions from the
10 Commissioners?

11 CHAIRWOMAN SHOWALTER: I think I may have
12 one.

13

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

15 BY CHAIRWOMAN SHOWALTER:

16 Q. In your testimony, your direct testimony,
17 Exhibit 209 on Page 4, Lines 19 through 21, you say, In
18 addition continued ownership could be impacted by
19 potential future CO2 taxes. You are drawing at that
20 point a risk of continued ownership with Centralia.

21 A. Yes.

22 Q. My question is, wouldn't a risk like that be
23 incorporated into the bid price; that is, those that
24 are buying it are also anticipating whether that might
25 or might not happen, so doesn't the price for the plant

00672

1 reflect some of that, either reflect that risk or at
2 least some of that risk?

3 A. I would expect, indeed, that it reflects the
4 purchaser's anticipation of what that risk and all
5 other such ownership risks might be.

6 Q. So isn't the compensation on the sale account
7 for that risk?

8 A. It's hard to say. Perhaps in a perfect world
9 with a perfect market where basically all entities have
10 the same potential view, that would certainly be the
11 result. I don't know what their thinking is, and I
12 only list it as a possibility without even trying to
13 quantify it leads to, basically, potential costs that
14 we and our customers can avoid if we don't own a
15 particular plant, but to the extent that TransAlta
16 adjusted their offer price downward in anticipation or
17 recognition of that risk, then I do.

18 Q. Some of the qualitative risks that have been
19 mentioned are ones that fall on an owner of a plant
20 versus maybe buyers or some, for example, open access
21 is something that probably falls more as a risk to
22 ratepayers rather than -- it could work both ways, but
23 this particular one, it seems that whoever is buying or
24 selling coal-generated electricity would be having to
25 account for that risk, whereas those who happen not to

00673

1 be would have a relative benefit.

2 A. I think that's all probably true, yes. I
3 guess part of what needs to be considered is to the
4 extent that the Company serves its load from other than
5 Centralia resources, that would be a complete
6 rebalancing and redispatch of its existing system,
7 additions of purchases, if necessary, long-term
8 purchases, if necessary, then I think we wind up being
9 able to disperse that risk through the whole market, at
10 least our exposure to it where, of course, whoever owns
11 Centralia explicitly has that specific risk associated
12 exact with that plant, so in that sense, I think I
13 would characterize having sold a plant as having
14 certainly minimized the risks associated with these
15 kinds of events.

16 Q. One other question. I think it was
17 Mr. Adams' question of you regarding Page 5 of your
18 rebuttal testimony, which is T-216. I think he asked
19 you a question that if the Company owns Centralia, then
20 it can essentially buy low and sell high; that is, sell
21 Centralia if it can get a good price for it and buy
22 lower priced power -- I think that was the question --
23 and you agreed with that. I'm just wondering if there
24 was a reverse to that. If you owned the plant -- I'm
25 trying to figure this out. Is this an obverse to that

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1 equation or not?

2 A. If we own the plant, then in dispatching the
3 system, there may be the opportunity to make a sale to
4 the market that's supported by running Centralia if
5 Centralia's incremental running cost is below the price
6 at which we make the sale, so owning Centralia would
7 give us the opportunity to make such a sale as that,
8 but at the same time, it also requires us to maintain
9 in rate base the fixed cost of the plant. Centralia
10 happens to be one of our higher cost units, not the
11 highest, but among the highest cost units, which means
12 that it doesn't run as hard as some of our other coal
13 plants that have incremental costs.

14 Nonetheless, owning Centralia does sometimes
15 give us an opportunity to make sales we might not
16 otherwise make. Those may or may not cover the full
17 fixed cost; in fact, most often we don't cover the full
18 or fixed plant cost on our system. That's the nature
19 of the kind of incremental short-term nonfirm sales we
20 are talking about here.

21 CHAIRWOMAN SHOWALTER: Thanks.

22 COMMISSIONER HEMSTAD: I don't have any
23 questions.

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E X A M I N A T I O N

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BY JUDGE SCHAEER:

Q. Dr. Weaver, would you please confirm for me the discount rates you have used in your analyses?

A. The discount rate we've used is 7.82 percent.

Q. Where is that found, sir?

A. On my exhibit, the one that was marked RW-1, must be No. 210.

Q. What page are you looking at, or is there just one page?

A. It's just one page. It's under, generic assumptions. It's the second item.

Q. I'd like you to look now at your Exhibit 225, and I believe that there is a completely revised version of that that was distributed this morning.

A. I have that.

Q. This exhibit indicates that you have valued PacifiCorp's proposed treatment of the gain on sale at 53 million dollars in present value; is that correct?

A. Well, it just takes the proposed allocation of the gain to customers. That 53 is just the share that we proposed to allocate to customers as a single one-time item.

Q. And you also testify that the total benefit of the sale is a positive 42 million dollars over some

00676

1 23 years in your base analysis case; is that correct?

2 A. That's correct.

3 Q. Does the latter analysis include the effect
4 of the proposed treatment of the gain on sale?

5 A. Actually, it doesn't. This analysis that's
6 summarized in Exhibit 225 is an attempt to present what
7 I would think to be corrections or insertion of an
8 appropriate assumptions into the analysis that
9 Mr. Lazar used to come to his conclusion that the total
10 gain on sale required for break-even would be 807
11 million dollars for the entire ownership group, which
12 comes to 383 for PacifiCorp, and then these items are
13 items that I would propose as modifications for
14 adjustments to Mr. Lazar's analysis to arrive at a
15 statement of what the net benefits or detriments to
16 customers would be, but it's an entirely different kind
17 of analysis, and it doesn't take account of the way
18 that 53 million dollars should be returned to
19 customers.

20 Q. Can you provide the results of your base case
21 23-year analysis for power value only?

22 A. I'm not sure that I understand the question.

23 Q. I believe that --

24 A. You mean simply the replacement power costs
25 without considering removal of plant from --

00677

1 Q. Yes.

2 A. I believe if I'm lucky I'll be able to turn
3 to an appropriate page which comes, by the way, from
4 one of the tabs in Bench Exhibit 9, but finding it
5 might be a bit of a trick.

6 MR. ADAMS: Your Honor, could I offer a
7 suggestion to the witness that he might look at Exhibit
8 19, Page 1?

9 THE WITNESS: Actually, that doesn't quite
10 get it because again -- this is an effort to cast a
11 similar thought but in Mr. Lazar's terms. What I'm
12 trying to locate is the tab in the overall analysis
13 that is labeled, "system power cost." My little pink
14 tabs are not coming to my rescue here. How best way to
15 deal with this.

16 I'm half tempted to try to ask for the
17 opportunity to get back with an answer. I haven't cast
18 this analysis into his terms. There is a tab in Bench
19 Request 9 called, "net power costs" and it shows what
20 net power costs would be without Centralia sold and
21 with Centralia sold, and it shows that just the power
22 costs portion itself, which leaves out the fixed costs
23 of owning the plant would, in fact, be higher if we
24 didn't own Centralia because Centralia's incremental
25 running costs are lower than replacement costs are

00678

1 likely to be, but then for all of it make sense it has
2 to be built to add in the ownership cost, so I guess
3 I'm a little reluctant to directly answer the question
4 because I'm not sure that I would be providing an
5 answer that makes a lot of sense.

6 Q. So that's not something that you are able to
7 do in here today; is that what you are saying?

8 A. I'd better not because I'm likely to get it
9 wrong.

10 Q. Bench Request No. 11, I'd like you to provide
11 that number.

12 A. I will do that.

13 Q. And how quickly can you do that, sir?

14 A. I think we should be able to get it back up
15 here not later than the day after tomorrow, probably
16 tomorrow.

17 Q. So we'll make that due on January 13th, which
18 is the day after tomorrow, and I'm going to give that
19 an Exhibit number at this time and have it admitted,
20 and then there is a procedure in other procedural rules
21 that tells you what to do if you have a problem with
22 that or any other party does and wishes to object to
23 the response being included in the records.

24 A. So I be sure I answer the question you are
25 asking, would you ask it one more time so I can jot it

00679

1 down here?

2 Q. Let me finish my thought and I will read that
3 to you again. This would be Bench Request No. 11, and
4 I'm marking it as Exhibit No. 239 and I'm admitting it
5 at this point subject to any objection made in terms of
6 the rule, and what I have asked you to provide is the
7 result of your base case 23-year analysis for power
8 value only.

9 JUDGE SCHAER: Thank you.

10

11 FURTHER EXAMINATION

12 BY CHAIRWOMAN SHOWALTER:

13 Q. There was one more thing I wanted to ask you.
14 On Exhibit 236 are some terms at the top: availability
15 factor, equivalent availability factor, worst outage
16 rate, and capacity factor. Can you just tell me what
17 that means, and or are these units or percentages or
18 something?

19 A. These are percentages. Availability factor
20 is defined as the portion of time during the year that
21 the unit is available and capable of running. The
22 equivalent availability factor is a definition I
23 usually have in my head, but it's related to the
24 availability factor, but it's adjusted downward for
25 periods of forced outages or plant outages for

00680

1 maintenance.

2 And then the forced outage rate is just the
3 percentage of the time that the machine is forced not
4 to perform because of breakdowns, and the capacity
5 factor is a percentage of the total output that the
6 unit could produce if it ran all the time divided into
7 the amount of energy that it actually does produce, so
8 it's a measure of how hard or how close to its total
9 capacity to produce energy that the unit actually get.
10 The availability factor talks about how much of the
11 time you could run it if you wanted to, is available to
12 run. On the other hand, the capacity factor talks
13 about how much you decide to run it.

14 CHAIRWOMAN SHOWALTER: Thank you.

15 JUDGE SCHAER: Any redirect?

16

17 REDIRECT EXAMINATION

18 BY MR. GALLOWAY:

19 Q. Dr. Weaver, Bench Request No. 9, as you
20 indicated, includes the so-called impact analysis.

21 A. Yes. There is a file whose name is,
22 "impact," and what's inside of that file is the market
23 clearing price model.

24 Q. Does that impact model reflect a reasonable
25 forecast of PacifiCorp's future costs if Centralia is

00681

1 sold?

2 A. It reflects a reasonable projection of the
3 market clearing price input that would be used to
4 establish that replacement power cost, yes.

5 Q. Is there uncertainty associated with that
6 estimate?

7 A. Absolutely. The biggest purpose for having a
8 model to produce these kinds of prices or price
9 projections is we really don't know what they are, what
10 the output is going to be. Those of us engaged in
11 doing forecasting know one thing about our work, and
12 that's that it's always going to be wrong. What we
13 want is a model that allows us to vary the inputs and
14 find out what the outputs will be.

15 The market clearing price model goes by the
16 name, for some reason I don't understand, "impact," and
17 Bench Request 9 response is the model that is used to
18 produce the three market clearing price projections
19 that are established as high medium and low evaluation
20 of the plant. There is a possibility that the
21 high-priced projections included could happen, and if
22 that happens, then, indeed, our customers will be
23 better off had we kept Centralia. I believe there is
24 an opinion these days that the low projection produced
25 will come about, and if that happens, then, of course,

00682

1 not only the 42 million benefit but a much higher
2 benefit to our customers would accrue.

3 One other point, at least the two mid and
4 high range projections eventually cross the Centralia
5 cost. The low range projection never does cross it.
6 In the medium case, the number 2014 that I said early
7 is based on the fact that eventually the market
8 clearing price projection in the base case catches up
9 with the cost of Centralia. After that happens,
10 starting in 2014, we're better off not having sold
11 Centralia, but until then, we are better off for a long
12 time having sold it, and I think we all agree, as
13 someone said this morning, that the closer in we are,
14 the more reliable the projections are. I think that's
15 definitely the case.

16 Q. So to the extent there is uncertainty in your
17 model, the uncertainty increases as you go out further
18 in time?

19 A. Certainly.

20 MR. GALLOWAY: Thank you.

21 JUDGE SCHAER: Is there anything further for
22 Dr. Weaver? Mr. Adams?

23

24 RE CROSS EXAMINATION

25 BY MR. ADAMS:

00683

1 Q. Dr. Weaver, just to follow-up on your last
2 response, I think you indicated that the medium and
3 high projections cross the Centralia line around 2014.

4 A. The medium does about 2014. The low never
5 does, and, in fact, I believe the high is always higher
6 than the Centralia model, but for a long time, not very
7 much higher, and then it gets to be a lot higher.

8 Q. What exhibit are you referring to?

9 A. I'm not really referring to an exhibit. I'm
10 just remembering the comparisons that are in the
11 Centralia model and backup. The way we calculated the
12 benefit is by presented valuing those streams, and the
13 stream of Centralia sold versus Centralia kept revenue
14 requirements are the two streams that I'm talking
15 about.

16 Q. Is that part of Bench Request 9?

17 A. Yes. That's just some of the lines that are
18 in Bench Request 9 on the keep case and the sell case.

19 Q. Do you know the tab?

20 A. The two tabs are the keep revenue requirement
21 tab and the sale revenue requirement tab, and what's
22 being compared there is the revenue requirement in the
23 two cases.

24 Q. Are you talking about the total system
25 revenue requirement crossing?

00684

1 A. Yes.

2 Q. Is there anyplace in your model where the
3 cost of placing Centralia is shown crossing the medium
4 forecast?

5 A. You mean the actual market prices? The
6 comparison is between the revenue requirement if we
7 sold Centralia compared to the revenue requirement if
8 we keep Centralia, and those differences are driven by
9 the market price differences.

10 Q. Is there a forecast within your model that
11 shows forecast for kilowatt hour costs?

12 A. No. It's just total revenue requirement.

13 MR. ADAMS: Thank you.

14 JUDGE SCHAER: Anything further for
15 Dr. Weaver?

16 CHAIRWOMAN SHOWALTER: I've got a follow-up.

17

18 FURTHER EXAMINATION

19 BY CHAIRWOMAN SHOWALTER:

20 Q. You determined the net present value of the
21 revenue projections high, low, and medium.

22 A. Yes.

23 Q. But you also acknowledge that the further out
24 we go, whether its high, medium, or low, the less
25 certain, the less reliable that particular out-year

00685

1 prediction is.

2 A. Yes.

3 Q. Does that mean that it would be appropriate
4 in some kind of model -- in essence, what I think of is
5 shrinking the amplitude of out-year projections. I'm
6 not sure that's the right term, but how would one give
7 less weight to the out years of a projection?

8 A. Well, one way, obviously, is just in
9 computing present value. The out years are discounted
10 more because they are further out. I think that's one
11 of the prime reasons for doing discounting is because
12 out years are less reliable. One other way -- I can
13 arbitrarily say we can make 23-year projections, but we
14 are only going to think about 10 years and stop.

15 Q. But on your first point, is that what a
16 discounts rate is shrinking the effect of it?

17 A. It shrinks the contribution to the present
18 value of both revenue requirement streams associated
19 with the out years. I am wanting to say that should,
20 therefore, shrink the impact on those total present
21 value sums of the difference between them as well.

22 Q. For example, if you are figuring out is this
23 the same or different, if you are thinking about
24 interest rates, and you are projecting out 10 or 20
25 years, you apply an interest rate and, of course, it

00686

1 compounds it. If you work it backwards, it comes
2 backwards, but does that mean -- if I had some kind of
3 bond or something with a known interest rate, I could
4 calculate the net present value of it at any time --

5 A. Yes.

6 Q. -- based on a known interest rate.

7 A. Right.

8 Q. Well, that's different than an unknown is
9 what I'm trying to get at.

10 A. I guess the thinking would be with a bond,
11 you have a contractual right to expect the specific
12 revenue stream. Somebody is going to be breaking the
13 law if they don't pay you what they owe you. The
14 projections we are making here aren't of that sort.
15 They reflect our best estimates, our best analysis
16 about what the future values are going to be, but we
17 don't have a certainty as to what those future values
18 are going to be. The result of that tends to be that
19 you want to impose a higher discount rate for these
20 more uncertain future values than you would in a bond
21 where the value is out there, but you are very likely
22 to know what it is.

23 Q. But of the net present value that you did in
24 your revenue stream projections, did those discount
25 rates take into effect the kind of uncertainty I'm

00687

1 taking about?

2 A. Again, I think I established a minute ago
3 that we used 7.83 percent or something close to that,
4 and that really was an attempt to just apply standard
5 regulatory discount rate to this analysis. It may well
6 be that a healthier discount rate maybe should have
7 been used, could easily have been replaced, like the
8 one we used to replace by the discount rates to reflect
9 that but we didn't do that.

10 Q. But I think you are saying that the discount
11 rate itself -- I think you are saying it does have the
12 effect of accounting for the uncertainty in the out
13 years.

14 A. That's one of the purposes it's supposed to
15 serve. It's up to the judgment of the person
16 exercising judgment to decide whether there is
17 additional adjustments that person might want to make
18 for the greater uncertainty in the out years. The
19 possibility would be to have higher discount rates.

20 CHAIRWOMAN SHOWALTER: Thanks.

21 JUDGE SCHAER: Is there anything else for
22 Dr. Weaver?

23

24 RE-RE-CROSS-EXAMINATION

25 BY MR. ADAMS:

00688

1 Q. As part of your modeling, have you inflated
2 certain costs out at about the inflation rate?

3 A. Yes.

4 Q. What inflation rate did you use?

5 A. That's also in that same exhibit. Inflation
6 is assumed to be three percent per year.

7 Q. And what years, roughly, were those applied
8 to?

9 A. In general, all years starting with the base
10 year. Some costs were based on a more specific kind
11 of assumption, but generally, inflation seems to run
12 through the whole analysis.

13 Q. So although you inflate these costs at 2.5
14 percent or three percent, when you discount to present
15 value, you discount it back at 7.8 percent?

16 A. 7.82.

17 Q. So the present evaluation methodology tends
18 to, if you will, reduce in size the most of the
19 farthest out date in your analysis; does it not?

20 A. Yes, it does. That was one of the points I
21 was trying to make, and I think you said it better than
22 I did.

23 JUDGE SCHAER: Thank you for your testimony.
24 Let's go off the record for a moment to have the next
25 witness assume the stand.

00689

1 MR. ADAMS: Your Honor, I was going to
2 suggest that I'm concerned about the time, and I think
3 you have a four o' clock time; is that correct.

4 JUDGE SCHAER: We'll just proceed, Mr. Adams.
5 If we need to go past 4:00, we will.

6 (Discussion off the record.)

7 JUDGE SCHAER: Let's be back on the record
8 after a brief recess in which another witness assumed
9 the stand and certain cross-exhibits were handed out.
10 Would you call your witness, please, Mr. Adams?

11 MR. ADAMS: I'd call Mr. Jim Lazar, Your
12 Honor.

13 (Witness sworn.)

14

15 DIRECT EXAMINATION

16 BY MR. ADAMS:

17 Q. Mr. Lazar, would you state your name and
18 spell your name for the reporter, please?

19 A. My name is Jim Lazar, L-a-z-a-r.

20 Q. Would you give us your business address?

21 A. Business address is 1063 Capitol Way South,
22 Suite 202, Olympia, Washington.

23 Q. Mr. Lazar, have you had occasion to prepare
24 and prefile testimony and exhibits in this proceeding?

25 A. Yes, I have.

00690

1 Q. Your testimony been marked T-500; is that
2 correct?

3 A. Yes, it has.

4 Q. And then you include Exhibits 501 through
5 506; is that correct?

6 A. That's correct.

7 Q. And am I correct that you have filed now a
8 replacement Exhibit 501 called Exhibit 501 Revised?

9 A. That's correct.

10 Q. And you have provided to the parties and the
11 Bench an errata sheet which shows where in your
12 testimony changes are occurring as a result of that
13 changed Exhibit 501?

14 A. Yes.

15 Q. Could you briefly take us through the changes
16 to the testimony?

17 A. You want me to read all the changes in the
18 testimony into the record?

19 MR. ADAMS: Other witnesses have done that,
20 Your Honor.

21 THE WITNESS: It's about as tedious as it
22 gets.

23 JUDGE SCHAEER: I'm not happy to listen to it.
24 Is this list correct, Mr. Adams?

25 MR. ADAMS: Yes.

00691

1 JUDGE SCHAER: Then I would like you to just
2 include that, and we will identify that as a part of
3 Exhibit 500. Go ahead, please.

4 Q. (By Mr. Adams) Mr. Lazar, accompanying your
5 revised Exhibit 501 was an errata sheet of changes to
6 be made to T-500 based on changes in Exhibit 501
7 Revised; correct?

8 A. Yes, that's correct, and at the top of the
9 errata sheet, there is an explanation of what changed
10 in Exhibit 501 as well.

11 MR. ADAMS: Your Honor, if any party needs
12 that, we'd be happy to provide it, and I guess I would
13 ask that it be attached as part of T-500.

14 JUDGE SCHAER: I will include this sheet,
15 which states at the top, Revised Exhibit 501 and
16 related testimony as a portion of Exhibit T-500,
17 Mr. Adams.

18 COMMISSIONER HEMSTAD: I have one question,
19 Mr. Adams. Are the work papers accompanying the
20 exhibits of Jim Lazar that came with the revised
21 exhibit, are they part of the Exhibit 501?

22 MR. ADAMS: No, they are not. They were
23 provided -- I think they are not an exhibit. They are
24 not a part of the record. We just provided that as
25 backup.

00692

1 THE WITNESS: I think they are actually
2 provided in response to a Bench request. What was
3 asked for was the spreadsheet model and written copy of
4 what was underlying 501, and this was provided in
5 response to that request.

6 MR. HARRIS: I've included them also as a
7 cross-examination exhibit.

8 JUDGE SCHAER: We did not receive those
9 through this, but we did receive them as a result of
10 Bench Request 8, and I don't propose to mark this cover
11 letter as part of Exhibit 500 but only the errata sheet
12 which follows, so I believe that correctly describes
13 what we will have in the record.

14 COMMISSIONER HEMSTAD: Just so I'm clear, is
15 Bench Request 8 an exhibit at this point?

16 JUDGE SCHAER: It is not, but Mr. Harris has
17 just indicated that response is one of the exhibits he
18 proposes to offer.

19 Q. (By Mr. Adams) Mr. Lazar, as revised and
20 including the errata sheet you filed with the Revised
21 Exhibit 501, is your testimony true and accurate to the
22 best of your knowledge?

23 A. Yes, I believe it is.

24 Q. Is the same true for Exhibits 501 Revised
25 through 506?

00693

1 A. Yes.

2 MR. ADAMS: I would move the exhibits of
3 T-500 and 501 through 506.

4 JUDGE SCHAER: Are there any objections?
5 Those documents are admitted.

6 MR. ADAMS: Your Honor, the witness is
7 available for cross-examination.

8 JUDGE SCHAER: Mr. Harris, did you have
9 questions of Mr. Lazar?

10 MR. HARRIS: I do have questions. Could you
11 first go ahead, Your Honor, and mark the
12 cross-examination exhibits for identification?

13 JUDGE SCHAER: Yes. I'm going to mark for
14 identification as Exhibit 507 a series of single-page
15 document and three multipage documents, which are
16 identified as to response to Puget Sound Energy Request
17 7 at the top, and the cover sheet describes the three
18 documents which follow as part of Exhibit 507.

19 I'm going to mark for identification as
20 Exhibit 508 a document, again, with a one-page sheet,
21 which is headed, Response of Public Counsel witness Jim
22 Lazar to data request of Puget Sound Energy, which
23 appears to be Request 11, and there is the single-page
24 sheet and then three multipage attachments identified
25 on the cover sheet.

00694

1 As Exhibit for Identification 509, we have
2 the response of Jim Lazar to what appears to be Puget
3 Sound Energy Request No. 13, a single-page document.
4 As Exhibit 510 for identification, we have the response
5 of Jim Lazar to Puget Sound Energy Request 14, another
6 single-page document.

7 As Exhibit 511 for identification, we have
8 the response of Jim Lazar to Puget Sound Energy Request
9 No. 22. It's a single-page document. As Exhibit 512,
10 we have the document entitled at the top, PSE Data
11 Request No. 25, and is all of this in response to 25,
12 counsel.

13 MR. HARRIS: Yes, it is.

14 JUDGE SCHAER: And attached to this are
15 certain work papers?

16 MR. HARRIS: That's correct.

17

18 CROSS-EXAMINATION

19 BY MR. HARRIS:

20 Q. Good afternoon, Mr. Lazar. Could you turn
21 for a moment to Page 5 of your testimony? That's
22 Exhibit 500.

23 A. Yes.

24 Q. The graph that's shown there in the middle of
25 the page, is that graph no longer correct, given the

00695

1 changes that you've made to your analysis?

2 A. Yes, that's correct, Mr. Harris. There is
3 three drafts in my testimony --

4 Q. Hold on, and we'll just take one at a time.
5 Would that be appropriate to cross that out at this
6 point?

7 A. I have printed out updates of the graphs if
8 it's desired to --

9 Q. I'm just asking whether this graph is
10 correct, and if it's incorrect, it should be crossed
11 out at this time.

12 A. This graph is no longer correct.

13 Q. You mention other graphs. Does that include
14 the graph on Page 24?

15 A. Yes, it does.

16 Q. I realize the difficulty of making
17 corrections to graphs in testimony. I just want to
18 make sure we don't leave graphs in that are no longer
19 correct. Should the graph on Page 24 also be crossed
20 out?

21 A. I will say it is no longer correct. That's
22 also true for the graph on Page 3.

23 Q. So the Commission should not rely on any of
24 those three graphs, at least as presented in Exhibit
25 500.

00696

1 A. All three would be squashed down relative to
2 what's shown here visually.

3 Q. So just so we can clean this up, the graph on
4 Page 3 is incorrect, the graph on Page 5 is incorrect,
5 and the graph on Page 24 of Exhibit 500 is incorrect.

6 A. Yes.

7 Q. Could you turn for a moment to Page 15 of
8 your testimony, and we are still in Exhibit 500. You
9 see starting at Line 14, part of your critique of PSE's
10 presentation is, you state, "There is no explanation
11 whatsoever in PSE's evidence of why they presented a
12 lower forecast of future market prices than was
13 submitted in the Colstrip proceeding"; do you see that
14 testimony?

15 A. Yes.

16 Q. Is that based on the numbers that you present
17 in what is now Revised Exhibit 501?

18 A. Yes, at Page 2.

19 Q. So we are on Page 2 of Revised Exhibit 501.
20 You are talking about the columns labeled, Aurora,
21 Colstrip, PSE, and Centralia PSE?

22 A. Yes.

23 Q. Whether you made that critique, did you
24 realize that the numbers that you present for the
25 Aurora, Colstrip, PSE are all shifted by a year; that

00697

1 you've actually put them in the wrong year?

2 A. No, I did not.

3 Q. Would you accept that that may make a
4 significant difference if they are, in fact, in the
5 wrong year and they've all been shifted by a year?

6 A. If I have shifted them by a year, yes, it
7 would make a measurable difference.

8 Q. Would you accept subject to check that we've
9 checked your numbers, and they are off by a year?

10 A. I can check that during the next break.

11 Q. I want to turn now to Exhibit 114, which has
12 already been admitted in this proceeding. It's a
13 rebuttal exhibit of PSE's. I provided you a copy. I
14 just want to look at the first page of Exhibit 114
15 where there is quite a bit of summary data presented;
16 do you see that?

17 A. Yes.

18 Q. And you see the numbers, they vary from
19 positive numbers, fairly high positive numbers to
20 negative numbers and then summary of net present value
21 analyses; do you see that?

22 A. Yes, I do.

23 Q. As I understand your approach -- when you
24 look at one of these potential sales, I realize you
25 have disagreements with the numbers, but if the Company

00698

1 brings in a case where it can show that there are net
2 benefits associated with the sale, you don't have any
3 problem with the principle that there may be sharing of
4 those benefits between ratepayers and shareholders, do
5 you?

6 A. No. If there are net benefits, I don't have
7 a problem with the notion of some sharing.

8 Q. For example, if the Commission determined for
9 whatever reason that because there is so much
10 uncertainty associated with the out years, because
11 there are qualitative risks that increase in the out
12 years, because of any number of factors, to focus on
13 net present values that are shorter than what you
14 suggest are appropriate, say, for example, when you
15 look at the line that's marked medium market scenario
16 about a third of the way down the page, and you look
17 across and you see in the far right column, you see the
18 negative 180 million 75 thousand; do you see that
19 number?

20 A. Yes.

21 Q. If the Commission were to focus on earlier
22 years and stop the analysis and not place weight on
23 those out years and determine that there was, even
24 putting the qualitative factors aside, there was a net
25 benefit associated with the sale, then you wouldn't

00699

1 have a problem with some sharing of that benefit
2 between shareholders and ratepayers, would you?

3 A. No. I would then look to reimbursing the
4 shareholders and ratepayers for their investment in the
5 plant and dividing the remaining gain in some equitable
6 fashion between them.

7 Q. I want to jump to a new subject. I'd like to
8 just highlight at a high level what you view as a the
9 key differences between your analysis of the likely
10 benefits of keeping versus selling the Centralia
11 facility and the analysis that we submitted. Would it
12 be fair to say that now with your revised analysis, the
13 differences are really three differences, and those
14 differences would be, what's the appropriate discount
15 rate to apply. What's the value of capacity associated
16 with the plant, and what's the appropriate analysis
17 period, how far out should we take the analysis. Is
18 that a fair summary?

19 A. There is a fourth one, and that is the
20 dispatch credit. The Company used a five-percent
21 dispatch credit throughout its analysis. I used 1.71
22 mills, which escalated the rate of inflation over time,
23 and those are somewhat different also.

24 Q. Let's see if we can quantify or identify
25 which of these four differences produces significant

00700

1 difference in projected values. Does the discount rate
2 make much difference?

3 A. It's not a huge difference. It's about a
4 10-percent difference in the bottom line.

5 Q. This capacity value that you talk about,
6 you've attributed some value to that. Is it about 90
7 million dollars?

8 A. My testimony indicates that the present value
9 of 1 mill over the life of the plant is 93 million
10 dollars.

11 Q. I want to stick with this capacity value for
12 just a minute. That's a value that is principally a
13 value to BPA, isn't it?

14 A. It's clearly a value to BPA. It is also a
15 value to the owner of the project. Mr. Buckley and
16 Mr. Elgin spoke about the value of the plant
17 strategically, and Mr. Buckley actually quantified a 1
18 mill per kilowatt power firming credit in his analysis.
19 It's the same one that I used, and I think it's -- I
20 got my 1 mill from Mr. Johnson, Avista's witness, so we
21 may be measuring different things, but we are all
22 measuring it in the same quantity.

23 There is a transmission system support
24 function of Centralia, and that's addressed in the
25 exhibit that Staff put in early in this proceeding, a

00701

1 Bonneville document of a couple hundred million dollars
2 of transmission system value that having a big plant in
3 that location provides, and that's the value to BPA.
4 That's more than 1 mill. That's 2. something mills,
5 but it's a value to the transmission system, and the
6 owners of Centralia use that transmission system so
7 they benefit from it. If that cost wound up in
8 transmission rates, we would all pay some of it, but I
9 can't tell you how much Puget Sound Energy would pay if
10 the plant were no longer available for that
11 transmission support function, and the transmission
12 system had to be beefed up to compensate for that.

13 Q. Would you agree that transmission system
14 benefit is fairly difficult to quantify with any
15 precision, and also is a difficult value for the owners
16 themselves to extract from BPA?

17 A. Let me divide your question. The answer to
18 the first part, and I'm sorry, I don't have the exhibit
19 number of the Bonneville document that Staff put in,
20 the Bonneville study of March 4th, '99, but it
21 quantified 146 million dollars in replacement
22 generation costs in the Northwest and Canada, and 226
23 million in the Pacific Northwest, and California 370
24 million dollars. I don't know if it's hard to
25 quantify, but Bonneville quantified it and that's in

00702

1 the record, so it doesn't seem to be hard to quantify.
2 The answer to the second part of your question,
3 actually extracting that value for the Centralia owner,
4 I think, is more problematic.

5 Q. Do you think the new owner may be in a better
6 position to extract that number than the current
7 owners?

8 A. They may be, or they may be in a worse
9 position. They would only own one facility in the
10 region and would, therefore, not be as vulnerable to
11 what I'll call Bonneville retaliation. If they
12 asserted control over the plant and tried to shut it
13 down on a cold day, Bonneville doesn't have any way of
14 getting even with them as easily as they do some of the
15 utilities. On the other hand, they may be more
16 vulnerable. They only own one plant in the region, and
17 its only connection to the rest of region is over the
18 Bonneville transmission system right now.

19 Q. That could change over time.

20 A. That could change over time. They would face
21 different challenges than the owners, certainly.

22 Q. And they may be in a better position to
23 extract that value than the current owners?

24 A. They may be.

25 Q. The last factor, I think you would agree, is

00703

1 the most important factor, and that's the length of the
2 analysis that should be applied, which ties together
3 with the life of the plant?

4 A. Yes.

5 Q. That has the biggest effect when you are
6 looking at your analysis versus PSE's analysis or some
7 of these other analyses.

8 A. Yes. And that holds true whether we use my
9 discount rate that was used in the Colstrip case of
10 7.16 percent or the 7.69 percent that Puget has used or
11 the 7.8 something that Pacific has used and the 8.
12 something percent that Avista has used. The higher the
13 discount rate, the less difference it makes, but in any
14 of those what I would consider fairly high discount
15 rates, the out years still have a lot of impact.

16 Q. Turn for a moment to what's been marked for
17 identification as Exhibit 507. Do you recognize that
18 as response to our Data Request 7 to you?

19 A. Yes, I do.

20 Q. Does that include your response, together
21 with attached documents, that address the issue,
22 generally, of the estimated life of coal plants and
23 also the Centralia facilities?

24 A. Yes. It contains two documents that I
25 produced in 1984 and one that I produced in 1976.

00704

1 MR. HARRIS: We'd offer Exhibit No. 507.

2 JUDGE SCHAER: Any objection? Document is
3 admitted.

4 Q. (By Mr. Harris) Turning to what has been
5 marked for identification as Exhibit 508, do you
6 recognize that as your response to our Data Request No.
7 11?

8 A. Yes.

9 Q. This includes a description of documents that
10 relate to the issue of a carbon tax, which we've
11 discussed off and on today, and you had included some
12 attached documents that address that issue.

13 A. Yes. One of them was prepared by me, one by
14 the Northwest Power Planning Council and one my Kevin
15 Bell.

16 Q. And these were the documents that you
17 provided that are attached to your data response.

18 A. Yes.

19 MR. HARRIS: We'd offer Exhibit 508 also.

20 JUDGE SCHAER: Any objection? Document is
21 admitted.

22 Q. Turning to Exhibit 509, do you recognize that
23 as your response to PSE's Data Request 13?

24 A. Yes.

25 MR. HARRIS: We'd offer Exhibit 509 also.

00705

1 JUDGE SCHAER: Any objection? Document is
2 admitted.

3 Q. I'll ask you the same question about 510,
4 what's been marked for identification as Exhibit 510,
5 do you recognize that as your response to our Data
6 Request 14?

7 A. Yes.

8 MR. HARRIS: We'd offer Exhibit 510.

9 JUDGE SCHAER: Any objection? The document
10 is admitted.

11 Q. Just two more documents here, Mr. Lazar.
12 It's what's been identified for identification as
13 Exhibit 11, do you recognize that as your response to
14 our Data Request No. 2?

15 A. Yes.

16 MR. HARRIS: We'd offer Exhibit 511.

17 JUDGE SCHAER: Any objection? Document is
18 admitted.

19 Q. Finally, this multipage document that has
20 been marked for identification as Exhibit 512, do you
21 recognize that as your response to our Data Request 25,
22 and does it include your work papers for the Revised
23 Exhibit 501?

24 A. Yes, I do .

25 Q. And you provided these both in paper and

00706

1 electronic format?

2 A. That's correct.

3 MR. HARRIS: We'd offer Exhibit 512 also.

4 MR. ADAMS: The only question I have, if the
5 witness could answer, if there is any confidential
6 material in this document?

7 THE WITNESS: This is the redacted version of
8 the work papers. Pages 8 through 11 are missing from
9 this version. Those are the pages that contain
10 material from PacifiCorp's response to Staff Data
11 Request No. 1, of which PacifiCorp asserted continuing
12 confidentiality, and they were not provided to parties
13 that had not received the response to Staff Data
14 Request No. 1, which is now in the record as Exhibit
15 something, Bench Request 9.

16 MR. HARRIS: With that explanation, we'd
17 offer what's been marked for identification as Exhibit
18 512.

19 MR. ADAMS: No objection.

20 JUDGE SCHAER: That document is admitted.

21 MR. HARRIS: No further questions for this
22 witness.

23 JUDGE SCHAER: Mr. Galloway, did you have
24 questions.

25 MR. GALLOWAY: Yes.

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CROSS-EXAMINATION

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BY MR. GALLOWAY:

Q. Mr. Lazar, your testimony indicates that you were a participant in this Commission's consideration of PSE's proposal to sell its interest in the Colstrip unit.

A. Yes.

Q. Ultimately, the decision that the Commission made was to require that all of the gain from sale be allocated to customers?

A. Yes.

Q. Do you know what decision PSE has made with respect to going forward with the sale in light of the Commission's order?

A. There was a data response that indicated they had made a decision to not sell and have appealed the order.

Q. In this case, you are recommending the Commission deny approval, are you not?

A. That is correct.

Q. Do you understand that if this Commission denies approval that PacifiCorp is contractually obligated with the other owners to cancel the contract under which the scrubbers are being constructed?

A. I don't recall seeing an exhibit or testimony

00708

1 to that effect.

2 Q. So you don't know that; you don't know one
3 way or the other.

4 A. I don't know no one way or the other.

5 Q. Do you know that if the scrubber contract is
6 terminated that it would result in a day-for-day
7 closure of the plant at the time the scrubbers are
8 required while some new arrangements are made among the
9 owners for the construction of the scrubbers?

10 A. I don't believe that's the case. I believe
11 the obligation is to reduce the sulfur emissions. My
12 understanding is that it doesn't really matter how that
13 occurs.

14 Q. How do you propose that sulfur emissions be
15 reduced in the absence of scrubbers?

16 A. Low sulfur coal.

17 Q. Do you believe that scrubbers can be avoided
18 with the use of low sulfur coal?

19 A. Mr. Galloway, we are now touching on
20 information that I know is a result of work I've done
21 for other clients that your company has me under a
22 confidentiality agreement in a different proceeding,
23 and I'm a little hesitant to cross that line, but with
24 your permission, I'll respond.

25 Q. You have my permission.

00709

1 A. The analysis that I did three years ago for
2 the EPA and Mt. Rainier National Park looked at an
3 alternative of using external coal rather than
4 constructing the scrubbers and concluded that it was a
5 -- I'll say a competitive -- alternative to the
6 scrubber decision.

7 Q. Is there low sulfur coal available -- and I'm
8 asking you a chemistry question, not an economics
9 question. Is there low sulfur coal available on the
10 market that is of sufficiently low sulfur levels to
11 permit the plant to be operated at its current capacity
12 levels?

13 A. That was my understanding. In the work that
14 I did previously, PacifiCorp provided estimates of the
15 cost of external coal as an alternative to using the
16 scrubbers, and my analysis did not look to the chemical
17 nature of that coal but accepted the external coal
18 option that was calculated by PacifiCorp at face value,
19 and then I did later analysis when looking at if you
20 were burning external coal, which is more expensive,
21 you would run the plant less because there was more
22 months of the year when it would be uneconomic, so you
23 would produce a little less power, but the assumption
24 going in was that the external coal option was an
25 option to the scrubber alternative.

00710

1 Q. But you don't independently know the answer
2 to my chemistry question; that there is coal available
3 on the market that permits the limits to be met.

4 A. No. I trust that PacifiCorp's external coal
5 analysis to analyze that.

6 Q. If your recommendation is adopted and the
7 plant is not sold in future proceedings, will Public
8 Counsel support the collection through prices of all
9 prudently incurred costs associated with the Centralia
10 Plant and Mine?

11 A. I'm an independent consultant to Public
12 Counsel. I can answer for what I would recommend to my
13 client, but I can't tell you what the client would do.

14 Q. So you don't know what their position would
15 be?

16 A. I don't know what their position would be.

17 Q. As I understand at least the quantitative
18 side of the conversation we are having, the principle
19 factor that creates a difference in views is which
20 market price forecast do you use; is that correct?

21 A. I went through that with Mr. Harris. That's
22 the largest issue, and life of the plant.

23 Q. In your case, you've relied on the forecast
24 developed by the Northwest Power Planning Council; is
25 that correct?

00711

1 A. Well, my Exhibit 501 presents a total of nine
2 scenarios, and my base analysis relies on the Power
3 Council's forecast, and Page 1 of that exhibit shows
4 which forecasts were relied on for which analyses.
5 Analysis 6 is termed the Colstrip equivalent, and that
6 is the one that is currently an issue that I've
7 accepted subject to check for Mr. Harris, and it may be
8 incorrect if his representation to me is confirmed, and
9 I'm fairly confident he's right.

10 Q. Is the Northwest Power Planning Council
11 forecast synonymous with the Aurora Model that has been
12 talked about from time to time?

13 A. The Northwest Planning Council forecast was
14 produced using the Aurora Model, but Puget has a
15 license to use Aurora and has produced, at least in the
16 Colstrip case, its own analysis using the same model.

17 Q. So to the extent you use the Northwest Power
18 Planning Council model for your base case, you sort of
19 inferentially used the Aurora Model for your base case.

20 A. That's correct.

21 Q. Have you made an independent review of the
22 Aurora Model to determine its reasonableness and
23 appropriateness?

24 A. I have done some review of the Aurora Model
25 and made recommendations to the Counsel staff for

00712

1 modifications to their assumptions, but I did not
2 review all of the assumptions nor do I have an opinion
3 on the reasonableness of the assumptions.

4 Q. I believe in your testimony you characterized
5 the Northwest Power Planning Council forecast as
6 unbiased.

7 A. Yes.

8 Q. What is the relationship between the
9 assumption one uses for future market prices and the
10 amount of demand-side resource that can be justified?

11 A. Pretty minor. Nearly all of the
12 cost-effective demand-side resources are much cheaper
13 than the market price forecasts. There are a few
14 measures at the margin that become cost-effective at
15 higher prices or becoming not so cost-effective at
16 lower prices.

17 Q. Similarly, in respect to renewable resources,
18 the higher market price assumptions that you assume,
19 the more renewable resources appear to be
20 cost-effective.

21 A. Yes. The answer is a little different though
22 as you cross some thresholds. The amount of renewable
23 resources becoming available changes sort of in quantum
24 jumps, whereas the amount of demand-side resources is
25 pretty steady and gradual.

00713

1 Q. But gradually, the phenomenon is the same for
2 both.

3 A. Yes.

4 Q. Does the Aurora Model assume the addition of
5 new power plants in the region?

6 A. It was originally my understanding when I
7 prepared my testimony that the development of new power
8 plants not already under construction are driven
9 exclusively by the need for power, not power demand.
10 I've reviewed the rebuttal testimony that indicated
11 there are a few power plants that are assumed in the
12 early years of the model, and I have not independently
13 checked to see if I had previously misunderstood what
14 happens in the early years.

15 Q. But there are power plants under construction
16 that reflect in the model?

17 A. That's my understanding, yell.

18 Q. And those will be coming on line, presumably,
19 in the next year or two?

20 A. Yes.

21 Q. Based on your review of the Aurora Model,
22 those are required in order to meet load in the region?

23 A. Those that are already under construction are
24 not driven by the need to meet load.

25 Q. Do you think that they will be idle?

00714

1 A. No. If they are high-efficiency new power
2 plants and if they are built, they will be run, and if
3 their output isn't needed, something else will get
4 pushed aside.

5 Q. So you will agree that some plants are needed
6 in this period going forward the next few years, based
7 on your analysis.

8 A. I haven't done that analysis. I've used the
9 Aurora price forecasts, but I haven't done an
10 independent assessment of whether we need the power. I
11 sort of have a gut feeling that yes, we do, and these
12 plants are being built because somebody thinks they can
13 sell the power and make some money, but I haven't
14 independently done an analysis of the type you
15 describe.

16 Q. Do you agree with Dr. Weaver's testimony that
17 all of these kinds of forecasts contain an element of
18 uncertainty?

19 A. I certainly agree that all forecasts contain
20 an element of uncertainty.

21 Q. Do you agree with his conclusion that the
22 farther out you carry the analyses into the future the
23 greater the uncertainty becomes?

24 A. Not exactly. The uncertainty compounds over
25 time, and it is magnified over time, but it's not a

00715

1 greater level of uncertainty. It's just a cumulative
2 effect of the same level of uncertainty multiplied over
3 a period of time.

4 Q. But you will agree, will you not, that it's
5 pretty hazardous business to be predicting what's going
6 to be going on in this business out 15 or 20 years in
7 to the future, isn't it?

8 A. No more hazardous than I think it would be to
9 try not to forecast that.

10 Q. For example, there is a time in the early
11 1980's that you were forecasting that there would not
12 be a need for new power plants during the era that we
13 are just about to go into, weren't you?

14 A. I can recall an analysis in the early '80's
15 forecasting flat growth in the mid '80's, but I'm not
16 recalling what you are refer to. I'm not denying it.

17 Q. Didn't you testify before the Idaho
18 Commission that in part because of the incidence of
19 genital herpes among childbearing individuals that the
20 birth rate would decline over the period we've been in
21 and new power plants would not now be required?

22 A. Not exactly, Mr. Galloway. I testified
23 before the Idaho Commission that I had made such a
24 presentation to a meeting of a group of energy
25 economists that took place in Seattle on April 1st, I

00716

1 believe, 1984.

2 MR. GALLOWAY: I have nothing further.

3 JUDGE SCHAER: Go ahead, Mr. Dahlke.

4

5

CROSS-EXAMINATION

6 BY MR. DAHLKE:

7 Q. Mr. Lazar, I would like to ask you about the
8 qualitative factors that you discussed in your
9 testimony beginning on Page 22, and I think on Page 23
10 you indicate that you believe there is very little
11 cause for concern with regard to the ownership
12 structure for Centralia; is that correct?

13 A. Yes, that's correct.

14 Q. Isn't it the case that there are several
15 owners that are public agencies and eligible to
16 purchase power from the Bonneville Power Administration
17 that are also owners of the Centralia project?

18 A. Yes.

19 Q. With regard to those owners, do you know
20 whether or not they are attempting to establish a right
21 to purchase power from Bonneville beginning in the year
22 2001 to replace their share of Centralia?

23 A. Everyone is in subscription negotiations with
24 Bonneville, and I don't know that they are attempting
25 to secure replacement for Centralia, but I think they

00717

1 would be imprudent not to, so I assume they are.

2 Q. So it would be reasonable for us to assume
3 that that's at least one possible outcome of the
4 subscription process.

5 A. It's one possible outcome. I'm an advanced
6 amateur, maybe not an expert on this subscription
7 process. There is an issue about the sale of power
8 plants within and outside of the region that has been a
9 flurry of paper on, and I would say the certainty of
10 their being able to replace the power is less than 100
11 percent.

12 Q. To the extent that they were successful in
13 that endeavor, wouldn't it be the case that those
14 agencies would be looking at a different replacement
15 cost for power than the one that you've included in
16 your study?

17 A. Yes. If they could replace the power of what
18 Bonneville PF purchases, then it would be less
19 expensive than the forecast that underlies my base
20 analysis.

21 Q. As I understand your testimony about how well
22 these parties are going to get along in the post 2001
23 time period, you suggested that it was the economics of
24 operation that were going to drive the parties to a
25 common agreement in the ownership structure. Would you

00718

1 agree that if, in fact, those agencies have a different
2 alternative cost of power to look at than the nonpublic
3 agency owners, there could be serious problems in the
4 ability of the owners to come to agreement on capital
5 investment, such as scrubbing in the plant?

6 A. I think there could be some serious issues.
7 I don't see them as insurmountable. If you take just a
8 minute, Mr. Dahlke, and turn to my Exhibit 504. The
9 first two columns of that show the fixed cost and O and
10 M cost for Centralia taken from Avista's -- the O and M
11 costs are taken from Avista's for Form 1 reports, 1986
12 24 mills and steadily been gradually tending down since
13 then.

14 During many of those periods, power was
15 available at lower placement costs and somehow, these
16 owners managed to keep this plant running at the very
17 high availability and fairly high capacity factors that
18 we've made an exhibit in this proceeding. They worked
19 together for a long time, frankly, when economics were
20 a lot worse. Going forward, I see the economics as
21 being a lot better, and if we made it through the last
22 15 years with the current ownership structure, I think
23 the new streamlined ownership structure should work
24 better.

25 Q. In connection with your testimony on the

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1 qualitative factors, did you undertake to interview any
2 of the owners or owners' representatives concerning
3 management?

4 A. I didn't do that in the context of preparing
5 this testimony. I have, however, talked with people at
6 Seattle and Snohomish, in particular, about the future
7 of Centralia independent of this analysis.

8 Q. You didn't speak to anybody at Avista
9 Corporation?

10 A. I did speak with people at Avista Corporation
11 in preparing my testimony. I understand Mr. Perks is
12 your owner's representative. I didn't speak with
13 Mr. Perks.

14 Q. Would you agree, generally, that Mr. Perks
15 would be in a better position to make a judgment about
16 the ability of that committee to function in the post
17 2001 time period than you are without having gone
18 through that interview process?

19 A. I'm not sure. I think I may have a better
20 handle on the economics of the plant, and he certainly
21 has a better handle on the personalities, so I think
22 both are important. I think that the economics will
23 drive a rational result. I understand that the
24 personalities and the interests of the parties are
25 different and may complicate that.

00720

1 Q. Would it be fair to say that if you were
2 wrong in your conclusion that the ownership structure
3 will function properly in the next 20-year time period
4 that the consequences of being wrong are fairly
5 serious, given the challenges that this plant currently
6 faces?

7 A. No, I don't think so. I had a discussion
8 with Mr. Galloway about the external coal option, and
9 when I examined the external coal option, I described
10 it as competitive. The scrubbers aren't built, and the
11 EPA holds the plant to 10 thousand tons a year of
12 sulfur dioxide emissions. The alternative is to burn
13 clean coal.

14 I actually worked as a consultant to one of
15 the partners many years ago on a clean coal option that
16 was being considered for the plant quite awhile ago.
17 There are alternatives other than building the
18 scrubbers that would keep the plant running.

19 MR. DAHLKE: That's all I have.

20 JUDGE SCHAER: Thank you. Mr. Cedarbaum, did
21 you have questions for Mr. Lazar?

22 MR. CEDARBAUM: No.

23 MR. LAVITT: I do.

24

25

00721

CROSS-EXAMINATION

1

2 BY MR. LAVITT:

3

Q. Just looking back in your testimony to Page
4 24, we discussed preservation of employment at
5 Centralia. You agree that preservation of employment
6 does constitute a component of the public interest; is
7 that accurate?

8

A. In preparing my testimony in this proceeding,
9 I relied on Commission's determination of the public
10 interest contained in the Colstrip decision, and
11 preservation of employment was not among those four
12 points. So within the context of this testimony, I
13 didn't consider that to be part of the public interest.
14 I did, however, consider it to be interesting and
15 important.

16

Q. So when you say this is to be a nonissue,
17 then at the end of the last sentence of that paragraph
18 on Line 26, would it be accurate to put that this is to
19 be a nonissue here? Would that be specifically what
20 your testimony would say?

21

A. No. I assign a close to zero probability to
22 a scenario that would have the plant closed. I assign
23 a very low probability to a scenario that would
24 have the mine close, so I think this plant will operate
25 with TransAlta as an owner or with the seven percent of

00722

1 current owners as owners or with a consolidation of
2 ownership similar to that that Mr. Ely described here
3 last Friday.

4 I think the plants will run. The economics
5 are quite robust, and even Mr. Johnson's exhibit that
6 shows just the operating costs of Centralia as being
7 way below the low forecast, I just think the plant is
8 going to run. I think there is going to be employment.
9 I think there will be less employment under TransAlta
10 than there has been to date, but I also think there
11 will be less employment under a consolidated ownership
12 than there has been to date because I think that the
13 owners are going to squeeze more efficiency out of the
14 operation, whoever they are.

15 Q. Let me give you a hypothetical. I understand
16 your position is you think it's going to run. The
17 economics of it are robust, as you say, but if the
18 plant were to close as a result of a Commission
19 decision, hypothetically not approving the sale
20 application, would that be in the public's interest, is
21 my question?

22 A. One can't really know that. If it closes,
23 and a lower cost resource replaces it, then that
24 closure is in the public interest. If it closes, and a
25 higher cost resource replaces it, that's not so good.

00723

1 The public interest clearly is in having economical,
2 reliable, and to some extent, environmentally friendly
3 resources. We've talked all around the environmental
4 issues of this plant. That's a negative, so replacing
5 it with a gas plant, as Ms. Hirsh testified from her
6 perspective, would be a positive. I tend to focus more
7 on the economics as I've done. What happens if there
8 is a carbon tax contingency plan, if you will.

9 MR. LAVITT: No further questions.

10 JUDGE SCHAER: Commissioners, do you have
11 questions of Mr. Lazar?

12 CHAIRWOMAN SHOWALTER: I have a couple.
13 (Recess.)

14 JUDGE SCHAER: At this point in the
15 proceeding, we have the Commissioners cross-examination
16 of Mr. Lazar.

17

18 EXAMINATION

19 BY CHAIRWOMAN SHOWALTER:

20 Q. One question, Mr. Lazar. You were asked
21 about the Aurora Model and whether it does or does not
22 assume construction of new power plants, and I think
23 you indicated it probably does for ones in the near
24 future.

25 A. It's my understanding now that in the

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1 immediate years, there are some plants -- in the first
2 couple of years, there are some plants that are assumed
3 to be built, and after that, plants are only built if
4 there are loads willing to pay a price adequate to
5 justify construction, and under those circumstances, it
6 builds as many as are required.

7 Q. So if the forecast sees a big increment in
8 load, it's going to assume there is something built to
9 answer it?

10 A. I guess I would say it builds something. It
11 causes something to be built or it directs something.
12 I'm using the word assumption to reflect something
13 hard-wired in and what happens after the first couple
14 of years is, the model says, Do we need a power plant?
15 If the market says yes and build a power plant, then
16 we'll process it.

17 Q. The question of the out years, I think the
18 distinction I'm trying to think about is the
19 distinction between the probable life of the plant,
20 which we don't know but we assume is going to be there
21 for a good long time or a period of time, versus the
22 uncertainty of the environment that the plant will be
23 operating in in those out years.

24 I'm thinking of my daughter who is 16, and
25 I'm sure she's probably going to be around in 30 years,

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1 but what kind of world she will be living in, what she
2 will be doing, I haven't a clue. I can predict in the
3 near term she's probably going to college with a fair
4 amount of certainty, and after that, things get kind of
5 hazy, and after that, I really don't even know the
6 general world she will be operating in, so I'm trying
7 to think about that issue with respect to this coal
8 plant, meaning I'm less concerned about the ability of
9 the coal plant to operate as it is known today or with
10 some additional scrubbers than I am with what kind of
11 context it's operating in, and so I'm wondering with
12 respect to these forecast models whether they take into
13 account that sort of uncertainty, and I think you had
14 said that, in your view, the uncertainty, the level of
15 uncertainty we have about the future is kind of the
16 same. It just gets compounded out over the out years.
17 If that were true, isn't a forecast model with a single
18 discount rate appropriate, because whether it's 7.16 or
19 7.51, it's going to compound, and in effect, reduce the
20 effects in the out years. Is that correct that if you
21 just assume the level of uncertainty is the same, but
22 it compounds over the years, you would use a single
23 discount rate?

24 A. Yes. Let me describe what I think the
25 discount rate has done in all of these analyses, and

00726

1 frankly, the difference between the seven- to
2 eight-percent range that we are all in is not the most
3 important thing. The point is, we're all assuming
4 two-and-a-half to three percent inflation and a seven-
5 to eight-percent discount rate.

6 If we had no uncertainty about the future, we
7 would discount those costs and we would just deflate
8 them. The discount rate is there to reflect risk,
9 various types of risk, where you know of reasons that
10 electric utilities have different costs of capital than
11 other kinds of companies is that the perceived level of
12 risk they face is different, and we are finding now
13 that people -- someone went through this with
14 Mr. Elgin -- that investment in power plants is
15 inherently riskier than investment in distribution
16 plants, and investment in nuclear plants, in
17 particular, was at the time perceived of as very risky.

18 I think that the fact that we've all used
19 pretty healthy discounts rates is, what I consider far
20 more than a risk-free rate, is a way of reflecting that
21 uncertainty. If I change the discount rate in my base
22 analysis from 7.16 percent to just deflation at
23 two-and-a-half percent, my 807 million dollar advantage
24 of the plant over market becomes 1.25 billion. Makes a
25 big difference if they take the risk element out of the

00727

1 analysis. I think the risk element is legitimate. It
2 should be there, and I do think that it should be a
3 relatively constant discount rate, unless we have
4 knowledge that technological changes in the future are
5 going to occur in some quantum different fashion than
6 they have in the past.

7 Q. Supposing you don't have knowledge that that
8 will happen but you can predict with some probability
9 that it might. Let's take fuel sales or something like
10 that that could even threaten the grid itself, in terms
11 of the economic liability of it, perhaps. If you were
12 doing this on a micro basis, you might give a
13 probability to that happening and work it back as to
14 what happens to the grid and other things, but is the
15 discount rate a substitute for that kind of quantum
16 difference, or is it assuming kind of the world we know
17 in electricity, and you just don't know where you will
18 be in it or where populations grow, the basic dynamics
19 we know today in the electric world just with some
20 uncertainty versus the quantum leap?

21 A. I think there are other kinds of analysis
22 that make sense to do to take that into account. For
23 example, if you think that technological innovation is
24 going to come and going to be substantial that rates
25 for line cycle plants will go from 60 percent to 70

00728

1 percent to 80 percent over the next 20 years. Then you
2 should be looking at the low price forecast world. If
3 you think that's probable, then you should approve sale
4 of the plant, and we should go look at how to the
5 divide the money, and I'd like to carry that on. If
6 the Bench thinks that the low price world is a
7 plausible scenario, and no one has really testified it
8 is, but if you think it is, we should talk about that,
9 because under the low price forecast, we should take
10 the money and run, which was my initial reaction to the
11 proposed sale. If you think that natural gas depletion
12 is going to cause gas prices to go up faster than
13 inflation -- I think, personally, that's a more likely
14 probability -- then you should be looking at the high
15 price forecasts, in which case there is no contest. We
16 shouldn't sell.

17 Q. Both the low and high forecast seems a
18 constant discount rate, and I think I'm interested in
19 the question of whether it makes sense, whether there
20 would be any justification for using a different
21 discount rate for the out years. No one has done that.
22 I'm just exploring these concepts and wondering why
23 that isn't appropriate.

24 A. I think Dr. Weaver, I think it was, gave a
25 response that's pretty similar to the one I'm going to

00729

1 give you, which is we use the utilities net cost of
2 capital as the discount rate because that is the
3 discount rate that causes an expenditure today and put
4 in rate base to save a dollar tomorrow to be equal to
5 the value of the dollar that we save tomorrow. That's
6 mathematically the one discount rate that works for
7 utility investments. It equates savings over time to
8 an investment today, and built into that is an element
9 of risk.

10 I've not seen anything in the literature
11 looking at applying different discount rates over time.
12 One thing that we did quite a lot of, I'll say in the
13 should we keep WPPSS era of the mid '80's, was to use
14 Monte Carlo models to test the effect of the uncertain
15 changes in fuel costs. In certain population changes,
16 we ran the same model 100 times with different
17 assumptions as to population growth and fuel price
18 growth to see over a whole range of possible
19 assumptions what combination of resources had the most
20 attractive of economics, and what we found was that
21 shortly time resources had a big advantage over cold
22 nuclear plants because you didn't decide to build them
23 until you were pretty sure you weren't going to have a
24 need for them.

25 Q. Another question, I think you say here that

00730

1 -- it's in your direct testimony, Exhibit 500 or 500
2 Revised?

3 A. Testimony is 500.

4 Q. Page 11 and 12 that in your view, the sale
5 price would have to be a billion dollars to make it
6 worth doing; is that right?

7 A. On the raw economics alone, yes.

8 Q. If you remember the CEO of a new co-op of
9 customers that had formed a substantial size, would you
10 propose buying Centralia for a billion dollars? Would
11 you say that's a good deal?

12 A. No. A co-op would become within five years
13 entitled to buy from Bonneville at the PF rate, and
14 that's going to bias their analysis.

15 Q. That was a bad example.

16 A. Mr. Dahlke and I discussed if you have access
17 to the Bonneville system, your economics are very
18 different.

19 Q. Supposing you were the CEO of a co-op in
20 Montana. I'm trying to think of a bunch of buyers that
21 haven't got rights to Bonneville. Maybe it's outside
22 of the region. I don't know where it is. Maybe it's
23 in Canada. I'm just saying if you represented a bunch
24 of customers who needed some resource, and you were
25 located within some distance so you get rid of those

00731

1 little problems -- you see what I'm getting at -- would
2 you say that they should buy it for a billion dollars?

3 A. Let me try a hypothetical that I think
4 follows your example. I'm the purchasing manager for a
5 group of industrial customers that have been given open
6 access and want power. I would be willing to pay more
7 than TransAlta is willing to pay for two reasons:
8 First, I know I've got customers. I've got somebody
9 that wants the power, and exempt wholesale generator
10 doesn't have quite that level of certainty that Boeing
11 or Weyerhaeuser or Georgia Pacific would have, and that
12 eliminates one kind of risk, and the other reason that
13 I would pay more is that I'm making a decision in
14 January of 2000 and have the benefit of knowing that
15 the market for power is substantially above what it was
16 in April of '99 when TransAlta bid for the plant.

17 Q. Let me put you back in time when the bidders
18 put in their bids, maybe. I think for now that would
19 interest me. If you represented that same group, would
20 you have put in a bid for a billion or something a
21 little less, maybe?

22 A. It would have been less because as we
23 discussed, the market price is a significant issue, and
24 that's what's changed so much between April and today.
25 But I would still have the certainty of having a load.

00732

1 An independent power producer has a significantly
2 higher cost of capital than a monopoly utility, and I
3 would put a group of large customers that could use the
4 power themselves in the same category as a monopoly
5 utility. They know they've got customers that need the
6 power.

7 Q. If they are going to be around for a
8 substantial period of time and without other options or
9 if they bound themselves to their group.

10 A. Or if they think they can sell the power in
11 the marketplace if and when they don't need it for a
12 market price that gives them an attractive terms on
13 their investment.

14 Q. Do you think the reasons the bids aren't as
15 high as you were saying or that first-year forecast is
16 based on later numbers than the bidders had --

17 A. That's one difference.

18 Q. And also that they are in a different
19 position in terms of respect to customers.

20 A. There is the issue of what were the other
21 bids, and you don't know what the other bids were for
22 this plant --

23 Q. I'm just asking if you would have bid higher
24 than the TransAlta bid, which we do know?

25 A. And I said yes, and I don't know what I can

00733

1 say about the other bids.

2 Q. I don't want you to address the other bids,
3 but one issue I'm trying to get at is whether your
4 testimony implies that the customers see a greater
5 value in Centralia than the bids reflect, for some
6 other reason, then they are sort of stuck where they
7 are. I'm trying to imagine them as being part of the
8 competitive process because that's part of what we
9 would do here, and there is such a large difference
10 between the value you place on Centralia from the point
11 of view of the customers and the bid that prevailed
12 here that. I'm trying to account for that really
13 significant difference.

14 A. Well, first of all, the difference isn't that
15 great between me and Puget and me and Avista, based on
16 Mr. Johnson's later forecast. We're not that far
17 apart.

18 Q. How far is "not that far," if you will remind
19 me.

20 A. Puget's rebuttal Exhibit 114 in its base
21 analysis calculates a negative present value of 1.8
22 million dollars for Puget's seven percent share. If I
23 extend their analysis out to 26 years and scale it up
24 to 100 percent of the plant, it's a negative by 250
25 million dollars. That's not too far from my base

00734

1 analysis.

2 Q. Compare those two numbers for me again?

3 A. It becomes a negative 250 million dollars,
4 which keep is cheaper than sell by the present value of
5 250 million dollars.

6 Q. Compared to Puget's...

7 A. That is the effect of using the computer
8 analysis, but extending it to 26 years and scaling it
9 up to the plant because those are two things that are
10 in my analysis and I think are irrelevant. We are
11 talking about the whole plant not just about seven
12 percent; although, my analysis is on a whole-plant
13 basis.

14 I haven't done a similar thing with
15 Mr. Johnson's analysis that was resulted from his
16 November '91 market price, but it's a negative 25
17 million dollar present value for their 15 percent, so
18 you multiply that by seven and that's for a 20-year
19 analysis. You scale that up to 26 years and you,
20 again, are in the same range of the negative 250
21 million dollars.

22 The differences between me and Puget are the
23 discount rate, the dispatch credit, the capacity value.
24 Frankly, I think Puget has done a better job than I did
25 on the dispatch credit. Going over it today, I would

00735

1 adopt Puget's way of looking at the dispatch credit of
2 five percent rather than what I took from Avista, but
3 they are not different in a big way. It's a fraction
4 of a mill difference, only 50 million dollars there.
5 They are not that far apart.

6 The one that is out on its own at this point
7 is Pacific's. It's an old analysis based on old
8 assumptions. I think on flawed assumptions. The one
9 thing that I think is quite positive about it is it's a
10 24-year analysis, but their market clearing price
11 model, in my opinion, is not a very useful tool.

12 Q. Final question is you are using some newer
13 forecasts which we have that benefit of but the bidders
14 didn't. How do you allow, if you assume that sales are
15 appropriate from time to time, in that a bidding
16 process as good as any to establish a value to the
17 potential buyers, how do you address that we are going
18 to be in a proceeding second guessing that some months
19 later, maybe a year later, you almost could never catch
20 up with the process. If we insisted that our
21 information is the accurate information by which to
22 judge the transaction and, say, disallowed it. Would
23 there be another set of bidders in a few months and
24 then we would get around to that eight or nine months
25 later. How do you address that problem?

00736

1 A. I think it's a very legitimate concern. It's
2 one I've given quite a bit of thought to. First of
3 all, I think it would be a serious mistake for this
4 commission to use anything other than the best
5 information available to you today to make a
6 determination of this sale that's before you in this
7 proceeding is in the public interest. I think that you
8 should use the new Aurora forecast; that you should use
9 whatever else you've learned in these three days of
10 hearings to make your decision here, but that then
11 leaves the question that you pose. Does this work? I
12 think the answer is, No, it doesn't work very well.

13 I would think that a much more sensible way
14 to proceed with asset sales is in several steps:
15 First, in the least-cost planning process to genuinely
16 undertake an industry-wide review of whether or not
17 these companies should be selling off some of their
18 generating assets, and look at, Will there be
19 customers, questions, are there technologies involving
20 questions? Are there capacity values? Are there
21 transmission considerations? Do it with the least-cost
22 planning process first to determine if we should sell
23 or not try to sell.

24 Second, if you identify us as our candidates
25 for sale, I would think that a simultaneous process in

00737

1 which the companies start a bid process that's not as
2 subjective as this one -- I don't consider this to be a
3 bid or auction process. This is a negotiated sale. It
4 was a nonconforming bid. If everybody is bidding on
5 the same thing, you take the high bid, but everybody
6 wasn't bidding on the same thing, but you open a bid
7 process where everybody is bidding on the same thing,
8 identify what you are going to sell, and
9 simultaneously, the companies come before the
10 Commission and say, We are proposing to sell these, and
11 we want to have a proceeding to establish a reserve
12 price, and the Commission issues its order establishing
13 the reserve price after the bids are submitted and
14 prior to when the bids are opened as you coordinate the
15 process, so the Commission said, If you can get five
16 million dollars for Centralia, take it, and the bids
17 come in at 540 million dollars and they are above the
18 reserve price and you take it. It comes in at 440
19 million dollars, it's below the reserving price and you
20 don't take it, and the bidders have the benefit of the
21 knowledge of the record, and the Commission has the
22 benefit of the knowledge of the record, and everybody
23 has some certainty because you are making decisions
24 based on the same information, and if the plant is
25 worth more to TransAlta because they are in a better

00738

1 position to cut their labor content at the plant or
2 integrate into their own operations or have shared coal
3 plant maintenance teams or somehow can own this plant
4 more cheaply than others, than she should own it. I
5 think you have a proceeding to set a reserve price, and
6 that reserve price is set at the same time the bids are
7 received, so everybody is at the same point in time
8 making a decision.

9 Q. You have to have either a proceeding or take
10 some time of some kind to figure out that reserve
11 price, wouldn't we? Just as we are taking time to
12 figure this out.

13 A. But we are doing this sequentially. They
14 started this process in October of '98. They received
15 bids in April of '99. Had they started a proceeding
16 before the Commission in October of '88 and came to the
17 Commission and said, We want to sell, and had six
18 months for the Commission to render a decision on a
19 reserve price at the same time that the market, the
20 bidders, are rendering a decision on the market price,
21 you can use the same six months for the bidders to do
22 their analysis and for the Commission to do its
23 analysis, then you wind up in sync, but as I said, I
24 don't think that you should assume things should be
25 sold. I think it would have been a mistake to come

00739

1 forward in '98 without a least-cost plan that says we
2 should sell some stuff, but I think it's possible to
3 synchronize things, and I think it's desirable to
4 synchronize things.

5 I don't think, however, for the Commission to
6 make a decision based on what the bidders knew or could
7 have known eight months ago or nine months ago makes
8 any sense. I think you need to use the information
9 you've got today to make your decision, because it's
10 today -- if we sold it nine months ago, we would have
11 gotten revenue and collected nine months of revenue
12 when the plant was quite possibly above market, and
13 we've lost some time. If we sold it in '86, we would
14 have saved a lot of money, but we are being asked to
15 sell it now. We will only get money going forward. We
16 should only look at the costs and benefits going
17 forward from this point in time.

18 CHAIRWOMAN SHOWALTER: Thanks.

19

20

EXAMINATION

21 BY COMMISSIONER HEMSTAD:

22 Q. I was going to pursue some of those questions
23 that the Chairwoman asked about timing. You deposit
24 what you think might be a better system for dealing
25 with these asset sales, but we don't have that in front

00740

1 of us. We have this discreet sale and the timing that
2 has occurred, but under your scenario, doesn't it
3 follow that, at least from the perspective of the
4 prospective bidders and the buyer, the situation is
5 then the buyer is bound, but the sellers, at least
6 through the Commission, are not; doesn't that follow?

7 In other words, if we say, No, the
8 circumstances have changed, whatever they may be --
9 they can be quantitative or qualitative -- we say now
10 it's our judgment that this is not a good sale, and we
11 reject it so it doesn't occur. So that gives, at
12 least, the sellers the circumstance now they also
13 decide they would be better off, but doesn't that
14 factor affect the willingness of the bidders bid and
15 what price they will, in fact, bid if they know there
16 is that second-look environment before the sale can
17 proceed?

18 A. Yes, I think you are exactly correct; that
19 having a nine-month lag between when the bids are due
20 and a decision is rendered by the Commission causes
21 bidders to bid less than they would because they have
22 to take into account more uncertainty. They don't get
23 possession right away. When I go to a car auction or a
24 farm auction and I bid \$83 for a dresser or \$256 for a
25 Volkswagon, I either carry it home or drive it home and

00741

1 it's mine, and I bought it, and there is no second
2 guessing. That's why I think that synchronizing the
3 process makes a lot of sense. I think bidders would be
4 willing to bid more under a synchronized processed
5 because they know they are going to get a decision
6 right away. I think the bidders ought to be able to
7 have access to the record. Markets work best when all
8 the buyers and sellers have perfect information. I
9 don't think we should be trying to deceive anyone,
10 trying to find if there is someone that can get more
11 value out of something than we can.

12 So synchronizing the process, starting with
13 the least-cost planning process, and then identifying
14 assets that are appropriate to sell and then setting a
15 proceeding to set reserve prices so the Commission is
16 deciding what the reserve price is the day after the
17 bids come in and the day before the envelopes are
18 opened, more or less, so there is synchronization
19 between the day the reserve price is set and the day
20 the bid is tendered.

21 Q. Analogizing this circumstance to a prudent
22 review on the decision to build, there, of course, we
23 don't get a second look. We ask the question what to
24 do. In such an instance such as here, the group of
25 utilities know at the time that they decided to build

00742

1 the plant, and then with a broad range of
2 reasonableness do they make an appropriate decision.
3 We don't attempt to second-guess that decision with
4 later information. That could say, Well, you shouldn't
5 probably have done it now that prices have gone up or
6 down. Why isn't this similar to that? We ought to be
7 looking at this in the context of what the utilities
8 knew at the time they went to market with the bids.

9 A. If your job was to regulate in the interest
10 of the bidders, I would say that making a decision
11 based on what the bidders knew at the point in time
12 they made their decision would be appropriate. I don't
13 think that's your charge. I think your charge is to
14 determine whether this sale at this time is consistent
15 with the public interest, and you have the luxury under
16 the current procedure of knowing more than was known
17 before.

18 One of the reasons that I put multiple
19 scenarios into my exhibits was to show what happens if
20 we take Pacific's 24-year analysis and stretch it to
21 26? What happens if we take Puget's analysis and
22 stretch it to 26 years? What happens if we take
23 Avista's analysis and stretch it to 26 years? Because
24 I sort of produce a result that says, This is probably
25 not a good deal. I didn't do just a single scenario

00743

1 based on the newest forecast. I think it's best to use
2 the newest forecast, but I looked at a range of
3 outcomes. I think the 19-year analysis that Puget has
4 done is just woefully unacceptable. This plant has
5 major capital investments underway, has been given 30
6 years of scrubber credits by the EPA. There is more
7 than 30 years of coal there. There is lots of reasons
8 to think the 19 years is just wrong, and even if you
9 use the older forecast, I think you get to the same
10 answer, if you look at the reasonable look at the
11 remaining plant life.

12 Really, the only circumstances under which I
13 can see that will make sense to sell if is if you think
14 a low price forecast is what's going to materialize,
15 and then we should talk about what is the real gain
16 here? And I don't think the applicants have presented
17 that in a fair fashion. Since my testimony is you
18 shouldn't sell it and spend a lot of time on what you
19 should do with the money if you do so. Staff has
20 addressed that; ICNU has addressed that; the Energy
21 Coalition has addressed that, but I haven't. If you
22 think it's plausible, I'm happy to.

23 CHAIRWOMAN SHOWALTER: You are trying to get
24 beyond your own direct, I think.

25 Q. I want to pursue that point. I think I heard

00744

1 you answer in response to a question from Mr. Harris
2 that if you came to the conclusion that there are net
3 benefits from such a sale as this, speaking more
4 hypothetically, then you would not have a problem with
5 some sharing arrangement between the shareholders and
6 the ratepayers. Did I understand that to be your
7 answer?

8 A. Yes.

9 Q. Then you are in substantial disagreement with
10 ICNU and the Staff on that issue.

11 A. I haven't told you how much I think the
12 shareholders should get, so you don't know how
13 substantial our disagreement is. Philosophically, I
14 disagree --

15 Q. I want to pursue that conceptual difference.
16 Why do you think in that kind of circumstance that the
17 sharing of the benefits in some proportion would be
18 appropriate?

19 A. I am a firm believer that regulation should
20 provide incentives for utilities to do their best; that
21 utilities would do really good, should make more money
22 than utilities that do really bad. I think we have one
23 utility in this proceeding that has done pretty good.
24 I think we've got one utility in this proceeding that
25 has done pretty bad, and frankly, it bothers me to see

00745

1 them treated the same.

2 The record of incentive regulation is a
3 little spotty, and I'm frankly a part of that spotty
4 history. In 1979 or '80 legislative session, I
5 encouraged Senator Bottiger to pursue a two-percent
6 bonus rate of return for utilities to invest in
7 conservation, and what we learned was if you give them
8 a higher rate of return for what they invest, you've
9 encourage them to invest, but not to invest in anything
10 that actually works, just to spend a lot of money, and
11 we wound up with Puget funding a lot of heat pumps.

12 It's not important, but we tailored it wrong.
13 I worked in the development of a conservation
14 insensitive for Puget around 1990 or so, which if they
15 could achieve more than a target level of conservation
16 they got a bonus, and what they did is quintupled the
17 funding for the cheapest programs and cut the funding
18 for more expensive programs, and gave us the whole lot.

19 COMMISSIONER HEMSTAD: That is off the point.

20 THE WITNESS: Incentives do work. We have to
21 craft them carefully so they produce the desired
22 result. I think there ought to be incentives, and I
23 think taking 100 percent of the gain doesn't produce an
24 incentive. Giving them seven percent multiplied by
25 really big numbers is enough to get them to hustle, and

00746

1 I would say that a similar kind of percentage would be
2 enough to get utilities to work pretty aggressively to
3 maximize the return on the sale of a big piece of real
4 estate, which is what this is.

5 Q. Your position sort of builds yourself into a
6 box here. If the Commission ultimately concludes that,
7 based on whatever factors, a sale is desirable or is
8 appropriate, then we have that question on what to do
9 with the gain in front of us, and you haven't provided
10 us with any kind of assessment of how that should be
11 dealt with, because that's more of a statement than a
12 question.

13 A. I think you need to look at what is the real
14 gain. Avista's exhibits allow you to do that because
15 of the way they laid them out. Exhibits 312 and 313,
16 the plant in service, that is what this thing cost, the
17 original cost plus all the improvements. About 57
18 million dollars, the sale price for Avista, 15 percent,
19 67 million. There is 10 million dollars of real gain.
20 That's what should be divided if you decide it should
21 be sold.

22 First, you should make the shareholders whole
23 for their capital contribution. That is the
24 undepreciated book value at 17 million. You should
25 also make the ratepayers whole for their capital

00747

1 contribution that's about 40 million. The accumulated
2 contribution should be paid off the plant in service
3 and then you divide the real gain. Divide the real
4 gain in some equitable fashion. It's your job to be
5 equitable.

6 The applicants have said the plant in service
7 is irrelevant. All that matters is the undepreciated
8 book. Shareholders get our capital back, and then we
9 split it up; that is, everybody gets their money back
10 and then you split it up on this plant, which hasn't
11 depreciated but has appreciated. It's worth more than
12 its cost. If you think it should be sold, and you get
13 there by believing a low price forecast, then you look
14 at where is the real gain, and you take the difference
15 between the selling price and a cost, not between the
16 selling price and the net book value, just ignoring all
17 the capital ratepayers have put into the plants. I
18 think that dividing the real gain is an appropriate way
19 to proceed when you conclude that selling is the right
20 thing to do, if you first decide this is a keeper or
21 should we sell. At this point, really, only Pacific's
22 analysis comes down on the side of, should we sell
23 under raw economics.

24 COMMISSIONER HEMSTAD: That's all I have.
25 Thank you.

00748

EXAMINATION

1

2 BY JUDGE SCHAEER:

3 Q. Mr. Lazar, I'd like you to look first at your
4 Revised Exhibit 501, Page 7, please.

5 A. Yes.

6 Q. This is your base case analysis; is that
7 correct?

8 A. Yes, base analysis I entitled it.

9 Q. Moving down to the line called "value of
10 power," which is about two-thirds of the way down the
11 page?

12 A. There is one that says, "value of power
13 before shaping."

14 Q. No. I'm about two-thirds of the way down the
15 page, and there is one that says "cost of power." The
16 next line says "value of power."

17 A. Yes.

18 Q. Now I would like to you move over to the
19 right of the column entitled 2000, and there you should
20 see the number 233.47; is that correct?

21 A. Yes.

22 Q. Now moving up a few lines to the line
23 entitled "value with dispatch benefit," at that point
24 you add 1 mill capacity benefit; is that correct?

25 A. A couple of lines above that, value of power

00749

1 before shaping 26.92 mills comes directly from the
2 Aurora Model. Then in the first year, I have a 1.71
3 mill per kilowatt hour dispatch benefit. The sum of
4 those two is the 28.63, with the dispatch benefit, and
5 then the next line is the preceding line plus 1 mill
6 for capacity, and the difference is that the dispatch
7 benefit increases over time as a proportion of the
8 underlying Aurora result similar to what Puget does.
9 The 1 mill does not increase. It remains constant in
10 nominal terms for the analysis.

11 Q. Looking at the year 2000, you see the two
12 amounts, 28.63 and 29.63?

13 A. Yes.

14 Q. Which of these two numbers did you intend to
15 use in computing the value of power number and the
16 value of power in line of 223.47?

17 A. 29.63, the second number.

18 Q. Would you accept subject to check that the
19 number 28.63 was used instead?

20 A. Let me take just a moment to go ahead and
21 check that. Yes, that's correct.

22 Q. On the same page of your exhibit, please move
23 down to the line item called, value of plant versus
24 market, net value of plant versus market. The first
25 number to the right of column titled "source" is

00750

1 721.0568; correct?

2 A. Yes.

3 Q. Is that number the total net present value
4 amount of market power in excess of Centralia power?

5 A. Yes.

6 Q. Then in your opinion, there are no power cost
7 savings except in the year 2001 from selling Centralia
8 and replacing it with market power?

9 A. Yes, that's correct, and if I were to correct
10 the error that you just identified of my using a value
11 with dispatch benefit rather than the value with the
12 capacity benefit, even that would change.

13 Q. Would the change make it higher?

14 A. There would be no years with net power cost
15 savings.

16 Q. Your analysis represents the entire plant and
17 not just the PSE, PacifiCorp and Avista shares; is that
18 correct?

19 A. That's correct. I did the plant analysis on
20 a whole-plant basis.

21 Q. If Centralia is sold as proposed to an exempt
22 wholesale generator, is it your view that any benefits
23 at below market power costs from this plant would be
24 lost to the region?

25 A. Yes. I think the market is big enough that

00751

1 the owner would obtain all the benefits.

2 Q. As a professional economist, looking back 20
3 or so years, how accurate would you say long-term
4 greater than five years, for example, forecasts of
5 power or other energy costs have been?

6 A. Well, I wouldn't differentiate between the
7 terms. I think all forecasts are wrong, have been
8 wrong, and will continue to be wrong, and we've been as
9 long in the short-run as in the long-run.

10 Q. How much faith would you have us put in the
11 twentieth year with the Power Planning Council forecast
12 you've used?

13 A. Given a 7.16 percent discount rate, actually,
14 very, very little. If you turn to Page 12 of this
15 exhibit --

16 Q. Which exhibit are you referring to?

17 A. Exhibit 501, on Page 7. In the last year,
18 there is a 145 million dollar nominal advantage over
19 market shown. This is in the third line from the
20 bottom of the calculations in the last year, 145.45 net
21 value of plant versus market. We are down in the
22 bottom right-hand corner of the calculations here. The
23 net value of the plant versus market is 145 million
24 dollars; that is, the power from the plant is 145
25 million dollars cheaper than market, but after we apply

00752

1 the discount rate --

2 CHAIRWOMAN SHOWALTER: You need to holdup
3 for a minute. I haven't got the revised one. That's
4 the confusion.

5 THE WITNESS: In the last year, the value of
6 power is 145 million dollars greater than the cost, but
7 because we apply so many years of what I consider a
8 fairly high discount rate to it, it only contributes 24
9 million dollars to the present value of the analysis,
10 so we are discounting it, if you will, by a factor of
11 six. That's how much weight I place in that year. One
12 sixth as much as I would replace in a similar result in
13 the first year.

14 Q. Is it correct that you argue that 100 percent
15 of the gain on sale plus the difference between
16 Centralia costs and market costs for the life of the
17 plant must be credited to ratepayers in order for them
18 not to be harmed by the sale?

19 A. Can you refer me to where in my testimony?

20 Q. What is your proposal as to what should be
21 done if the sale goes through?

22 A. My proposal if the sale goes through is that
23 only the net gain, is that the net gain should be
24 divided, but that's based on an assumption that there
25 is an economic advantage to the sale. If the sale were

00753

1 approved with an economic disadvantage, my testimony is
2 that somehow you need to make the ratepayers whole.
3 You need to make them some kind of guarantee that their
4 costs in the future will be no higher than they would
5 under the keep scenario.

6 Q. Am I correct that your testimony as
7 presented, which concludes that the plant should not be
8 sold, also states that if it is sold, 100 percent of
9 the gain on sale plus the difference between Centralia
10 costs and market costs for the life of the plant must
11 be credited to ratepayers in order for them not to be
12 harmed by the sale?

13 A. Page 27, I really state that conclusion that
14 selling utilities covenant they will continue to supply
15 the power at no cost higher than they'd experienced,
16 and at a minimum, the ratepayer should be reimbursed
17 for the above-market costs they paid to date.

18 Q. Suppose that the running cost of the plant
19 proved to be actually higher than market. Do you
20 propose that customers be shielded from this
21 eventuality by some kind of a cap?

22 A. No. Actually, as I discuss in my testimony
23 at Page 22, if the plant output becomes above market,
24 you shutdown. One of the things about keeping is it if
25 your forecast is wrong and the market goes down, you

00754

1 can shut it down, you don't have a lot of capital
2 invested. If your forecast is the market prices are
3 higher, than you get to run it. I say on Page 22, if
4 it becomes uneconomic, you shut it down.

5 If you shut a plant down while it still has
6 an undepreciated balance, then you come before the
7 Commission for a determination of what should be done
8 with the undepreciated balance. That's a stranded cost
9 case. They happen.

10 JUDGE SCHAER: Thank you. Is there anything
11 further from the Bench? Is there any redirect
12 Mr. Adams?

13 MR. ADAMS: Yes, but just brief.

14

15 REDIRECT EXAMINATION

16 BY MR. ADAMS:

17 Q. Mr. Lazar, Exhibit 507 deals with, I guess,
18 some of your earlier tones on the estimated life of
19 coal plants.

20 A. Yes.

21 Q. Do these address the extension of a life a
22 plant due to new capital investment?

23 A. The first one does in a sense in saying if a
24 plant isn't run all the time, it will last longer, and
25 this plant hasn't been run all the time. That's what

00755

1 the dispatch credit is all about is not running it all
2 the time. The second one, which is a term paper I
3 wrote in college in 1976 -- I don't think I need
4 to be embarrassed about the fact that I've learned a
5 little bit since then. The third one was testimony in
6 a rate proceeding and didn't at all address any kind of
7 life extension, and by then, I might have known a
8 little something but was beyond the scope of what I was
9 doing.

10 Q. So plants can be extended beyond or not?

11 A. Plants can be extended beyond their life
12 of -- many have been, and we've got examples in this
13 record of plants that have carbon plant, Dave Johnson
14 plant are expected to run for many years to come, even
15 though they were built in the '50's. You have to put
16 capital into them, and they have put capital into them.
17 The five-year capital is as much as the original
18 construction costs. It takes money to keep an old
19 truck running. This is an old truck. They are
20 budgeting to spend money to keep this old truck
21 running.

22 Q. On another subject, and I hope I'm not
23 venturing into this unnecessarily, but the Chairwoman
24 asked you some questions about Puget, and in
25 response you said -- I'm using rough numbers here --

00756

1 the disadvantage to ratepayers at extending Puget's
2 most recent numbers of about 250 million dollars, and I
3 thought I heard the Chairwoman asking, What is your
4 number, and I didn't hear an answer to that. I don't
5 mean to quote you on your question, Chairwoman, but I
6 think what is the relative comparison of the number you
7 gave for Puget versus the number that your analysis
8 would show would be helpful to the record.

9 A. The analysis that I've shown is that there is
10 a value to the power of 806 million dollars at market
11 over and above the cost of owning and operating the
12 plant, but as the Judge just identified, I left 1 mill
13 out. I didn't actually include the capacity benefit
14 that I testified that I had. That's 93 million
15 dollars, so that would add 93 million dollars to that.
16 That's 900 million dollars, roughly, above market is
17 the value of the power. That's the way I've done my
18 calculation.

19 Q. What do you view as Puget's number if you
20 extended out with the life extension that you assumed
21 in your analysis?

22 A. I did attempt to extend out Puget's analysis
23 that shows a 250 million dollar, and that shows a 250
24 million dollar benefit over market on both present
25 value numbers on 100 percent of plant basis.

00757

1 Q. Finally, I think you accepted a subject to
2 check number from Puget, and can you get on the record
3 what your response is?

4 A. Mr. Harris was correct that I had made an
5 error in the Colstrip column for avoided costs on Page
6 2 of my Exhibit 501. It's shifted down a column. The
7 prices should be higher. If the Exhibit 501 had used
8 those higher numbers, the Scenario 6 on Page 1 of
9 Exhibit 501, which is currently 734 million dollars
10 minimum required sale price would be more than that. I
11 haven't calculated how much more, but it looks like
12 I've understated that forecast by about 2 mills, and if
13 that's correct, then it's on the order of 150 to 200
14 million dollars higher than that scenario would show
15 for a minimum required sale price, and everything
16 necessary to make that calculation is in the record.
17 All of the work papers underlying what I've done are
18 there, so it's possible to reconstruct that scenario if
19 it's desirable to do so.

20 Q. Lastly, you indicated to Mr. Harris initially
21 that based on your changes to 501 that the graphs
22 contained in your testimony at Pages 3, 5, and 24, were
23 inaccurate. Did you make a run of those of showing
24 what they would be appropriately using your correct
25 revised numbers?

00758

1 A. Yes. I did print graphs using the numbers
2 that are in the revised exhibit, subject to all of the
3 caveats I've just given about the error that the Judge
4 identified in those final exhibits.

5 MR. ADAMS: Your Honor, I'd like to hand out
6 as an exhibit those three graphs consistent with
7 Exhibit Revised 501.

8 JUDGE SCHAER: You have handed me a
9 three-page document which I will mark for
10 identification as Exhibit 513.

11 Q. (By Mr. Adams) Did you prepare what's been
12 identified as 513?

13 A. Yes.

14 Q. Unfortunately, in the sorting process, they
15 got a little bit out of order. Am I correct that the
16 first page of 513 is the corrected graph shown on Page
17 24?

18 A. Yes.

19 Q. The second graph, cost and value of Centralia
20 power, is shown on Page 3?

21 A. Yes.

22 Q. And then the third graph, comparison of
23 Aurora Model results, is shown on Page 5?

24 A. Yes. And I would actually recommend we
25 detach that page and not use it because of the error

00759

1 that Mr. Harris identified. This graph is consistent
2 with what's printed in my exhibit, but as Mr. Harris
3 just demonstrated what's printed in my exhibit is
4 shifted in time, so it's just wrong and we shouldn't
5 use it, and we should scratch the graph that's on Page
6 5 and not use it.

7 MR. ADAMS: Your Honor, I would do that with
8 the approval of the Bench, if that's agreeable, just
9 tear off the bottom page.

10 Q. Looking then at the exhibit consisting of the
11 two pages with the correction of the graph on Page 3
12 and the correction of the graph on Page 24, is that a
13 fair representation of your testimony with its revised
14 Exhibit 501?

15 A. Yes, it is, subject to the discussion that I
16 had with Judge on the treatment of the 1 mill capacity
17 credit.

18 MR. ADAMS: I would move the admission of
19 Exhibit 513.

20 JUDGE SCHAER: Any objections? Mr. Adams,
21 we have taken out the third page of this exhibit, which
22 was your correction to the graph shown on Page 5.
23 Would it be possible to have a corrected graph provided
24 for Page 5 as well?

25 MR. ADAMS: Ask the witness.

00760

1 THE WITNESS: Yes.

2 JUDGE SCHAER: Would there be any objection
3 to having that graph entered in?

4 MR. HARRIS: No, Your Honor, and I was going
5 to bring this up on recross. I didn't know we were
6 going to go as far as introducing new exhibits and new
7 numbers based on the correction, but there is another
8 error in there that should be corrected, and I'll deal
9 with that on recross.

10 JUDGE SCHAER: I'm going to hold on admission
11 of Exhibit 513 until we learn what else we may be
12 facing. I think that a graphic demonstration of what's
13 accurate is useful, but I would like to make sure that
14 what we get is an accurate reflection of the witness's
15 testimony after any mistakes are corrected, Mr. Adams.

16 MR. ADAMS: That's fine.

17 JUDGE SCHAER: Any further redirect?

18 MR. ADAMS: No.

19 JUDGE SCHAER: Mr. Harris?

20

21 RE CROSS-EXAMINATION

22 BY MR. HARRIS:

23 Q. A follow-up on this exhibit, did you
24 understand and take account of the fact that the
25 Aurora, Colstrip, PSE numbers also include cost of

00761

1 transmission in those numbers, and did you take that
2 cost out for the purpose of this analysis?

3 A. It was my understanding that the Colstrip
4 numbers included transmission to the mid Columbia, and
5 I did not take them out.

6 Q. If you knew that the numbers included
7 transmission all the way over to the west side, it
8 would be appropriate to take that cost out, wouldn't
9 it?

10 A. If that were the case, it would be
11 appropriate to take that out.

12 Q. Will you subject to check that that, in fact,
13 is the case?

14 A. My testimony on Page 5, Line 7, says that the
15 Puget forecast was to mid Columbia, and so if I have
16 more than just mid Columbia transmission in there, that
17 would need to be corrected.

18 Q. Next subject, you were asked a number of
19 questions about uncertainty and discounting for
20 uncertainty. Would you consider future costs of
21 operating Centralia over the next 20 or 25 years to be
22 more uncertain, or would you consider the future costs
23 of buying replacement power in the market over the next
24 20 or 25 years to be more uncertain?

25 A. I would consider the market to be more

00762

1 uncertain. One of the things that is attractive about
2 Centralia is that it has relatively stable and
3 relatively predictable costs.

4 Q. Let's hold that thought, and I want to ask
5 you a few questions about discount rates. Aren't
6 there three pieces that really make up a discount rate:
7 the cost of money, which is sometimes equated to the
8 risk free rate of return; a liquidity premium, and then
9 a premium for uncertainty; would you agree with that?

10 A. Yes.

11 Q. If you were going to properly discount these
12 scenarios going out into the future, given the higher
13 degree of uncertainty associated with buying
14 replacement power in the market, might it not be
15 appropriate to apply a higher discount rate to reflect
16 that uncertainty in the market line and a lower
17 discount rate to the projected cost for Centralia, and
18 doing that would force the market line down to the
19 Centralia line.

20 A. No, I don't think so. And the reason for
21 that is that what we are trying to measure is the value
22 of Centralia compared to the market, and they are both
23 kilowatt hours. Frankly, we have no desire to consume
24 coal or carbon dioxide or even kilowatt hours. What we
25 want is the light and heat and cold milk and hot

00763

1 coffee. In that sense, what the market produces and
2 what Centralia produces are exactly the same commodity,
3 and it would be uncertainty about the desirability of
4 that commodity that I think is an appropriate
5 uncertainty to measure, but I'm not sure the fact that
6 one of them is more predictable than another would
7 change the discount rate. I think it does cause you to
8 want to look at some low and high scenarios, because
9 one of these is subject to more potential volatility.
10 I don't think it changes the discount rate.

11 Q. But do you agree that the future treatment,
12 the scenario where you are buying replacement power in
13 the market, that there is more uncertainty associated
14 with that than there is with the operating costs for
15 Centralia going forward?

16 A. There is more uncertainty associated with the
17 price of market than there is with the cost of
18 Centralia, yes.

19 MR. HARRIS: Nothing further.

20 JUDGE SCHAER: Mr. Galloway?

21

22 RE-CROSS-EXAMINATION

23 BY MR. GALLOWAY:

24 Q. A couple of parties asked you questions about
25 the use of external coal as an alternative to the

00764

1 scrubbers; do you recall that?

2 A. Yes.

3 Q. Do I understand it that you prepared your
4 testimony and testified today believing that it was
5 technically possible to return the plant at roughly its
6 current capacity factor if it were fueled with low
7 sulfur coal?

8 A. Yes. The external coal scenario that I
9 examined three years had external coal at higher coal
10 costs than alternative to the scrubber investments.

11 Q. Is it possible, or perhaps likely, that the
12 exercises you've described, which included a study from
13 PacifiCorp of an option to use all external coal, was
14 all done before the most recent rack order was put in
15 place, which lowered the emissions levels further?

16 A. Yes.

17 Q. And if I were to represent to you, as is
18 stated in the offering memorandum, that if under the
19 current racked order, if the plant were limited, were
20 fueled entirely with low sulfur external coal that its
21 capacity factor would be limited to 15 to 20 percent,
22 and I'd refer you to Page 140.

23 A. You've referred me to Page 140 of Exhibit
24 206, and I see that. That's something that I didn't
25 have and didn't know three years ago when I did the

00765

1 analysis that I described, and if it was the most
2 recent racked order, it wasn't available three years
3 ago.

4 Q. You testified that one of the advantages of
5 the keep scenario is if it turns out the plant is
6 uneconomic, you can just shut it down; do you recall
7 that testimony?

8 A. The option you retain, whether it's for a
9 week, a month, or a year or forever, you can shut it
10 down, if that's done now, and the plant is dispatched
11 when it's uneconomic.

12 Q. You said that was particularly, or it was
13 viable here, in part because you had a relatively
14 capital investment in the plant.

15 A. Yes.

16 Q. Under your forever or for awhile scenario,
17 that would also trigger an obligation to reclaim the
18 mine, would it not?

19 A. I don't know the answer to that Mr. Galloway.
20 I think there is an obligation to reclaim the mine. I
21 can't think of any good environmental reason why it
22 would change the date, but there may be a legal reason.

23 Q. If you close down the plant, you wouldn't be
24 taking coal out of the mine any longer, would you?

25 A. Probably not. I don't think there is another

00766

1 market for it.

2 Q. Do you understand that a mine owner is free
3 to leave the hole in the ground if there is no more
4 mining going on?

5 A. I don't know.

6 Q. And you've seen in PacifiCorp's testimony
7 estimates that if there was a requirement to reclaim
8 the mine immediately the next few years that the
9 exposure could be several hundreds of millions of
10 dollars?

11 A. Mostly I recall in the 100 to 200 million
12 dollar range, but it's a bunch of money.

13 Q. The numbers are in the testimony, for
14 whatever you are, and you don't dispute those numbers,
15 do you?

16 A. No. I dispute analytically what the Company
17 did with them, which is to compare on a present value
18 basis reclamation sooner versus later, because I think
19 it inequitably measures the environmental value.
20 Reclamation earlier is better than reclamation later,
21 and the fact that it costs more is an offset to that,
22 and we treated them as equals.

23 I've done this quite a bit in nuclear plant
24 decommissioning studies where we tried to say, Let's
25 look at having the plant cleaned up by a common point

00767

1 in time so we are doing an apples and apples
2 environmental comparison rather than assume that we do
3 decommissioning as soon as the plant shuts down, and
4 the same sort of logic applies here. If the plant is
5 going to run, we are going to have an environmental
6 issue for another 30 years. If we shut it down now and
7 we clean up the mine now, we've got many years less of
8 environmental issues. That's an apples and oranges
9 comparison.

10 Q. But that methodological point aside, you
11 don't dispute the magnitude of the sooner numbers, do
12 you, for reclamation exposure?

13 A. No.

14 Q. You understand that those numbers for the
15 nearer costs are very substantially in the order of 150
16 million or more than is currently accrued for
17 reclamation?

18 A. There is an earlier and a newer reclamation
19 study in several different reclamation options, and the
20 cheaper reclamation options don't leave as much as 150
21 million unfunded and more expensive ones do.

22 Q. But to use your words, a bunch of money that
23 would have to be found.

24 A. It's a bunch of money that's not currently
25 funded.

00768

1 MR. GALLOWAY: I have nothing further.

2 JUDGE SCHAER: Mr. Dahlke, do you have
3 anything more.

4 MR. DAHLKE: No. I do have a request when we
5 are done with Mr. Lazar regarding the testimony on
6 discount rates, but we can take that up later.

7 JUDGE SCHAER: Is there anything further for
8 Mr. Lazar? I would like a discussion of Exhibit 513,
9 Mr. Adams.

10 MR. ADAMS: That was the only issue I was
11 going to bring up is how you wanted to address that,
12 and I assume if you would like a corrected copy you
13 would like the assumptions listed with it so that we
14 know what has been corrected.

15 JUDGE SCHAER: I would like to see all three
16 charts in a format that has the corrections that
17 Mr. Lazar thinks need to be made so that the charts are
18 an accurate reflection of his testimony. I would like
19 all three of them to be provided. I'm wondering
20 whether these should be provided to the parties for
21 check before they come to the Bench, or whether they
22 should be filed and then use the process that we have
23 of allowing 10 days to object to them.

24 I'm more concerned all of the assumptions be
25 provided to the other parties. I think perhaps you

00769

1 should list them. I don't want additional testimony,
2 Mr. Adams. It's just would like them perhaps to say,
3 This mistake was fixed; this mistake was fixed.

4 MR. ADAMS: That's what I anticipated is just
5 a list of the changes mad so the parties know what
6 changes were made.

7 MR. HARRIS: I think it would be most
8 efficient, since we're the ones with the information
9 about this, that we actually coordinate with Mr. Lazar
10 and have Mr. Lazar coordinate with Mr. Elsie before he
11 gives them to all the parties, and I think all we need
12 is a few days to make sure we can make that happen.

13 THE WITNESS: I'm not clear on the request.

14 JUDGE SCHAER: Mr. Lazar, the request is that
15 you take these charts, that you fix the mistakes that
16 you acknowledge of your testimony today and the
17 questions that were requested from the Bench and
18 questions asked by Mr. Harris, that you produce
19 accurate charts, show the assumptions made and refile
20 them as Exhibit 513 with the Commission.

21 THE WITNESS: If I do that without correcting
22 Exhibit 501, then they won't match. Do you also want
23 Exhibit 501 to reflect the two errors in the Colstrip
24 figure and the error that you identified in the
25 capacity value corrected in Exhibit 501?

00770

1 JUDGE SCHAER: I would like revised pages to
2 Exhibit 501 filed as part of Exhibit 513, and I think
3 what would be most efficient from my perspective, Mr.
4 Adams, would be for you to coordinate with Mr. Harris,
5 and then I would like something that you have produced
6 and that Mr. Harris's clients have reviewed filed with
7 the Commission no later than next Monday.

8 MR. ADAMS: That's fine, Your Honor.

9 JUDGE SCHAER: Mr. Harris, are your people
10 going to be available to assist with that task?

11 MR. HARRIS: I can't say that with certainty.
12 If we can have until the end of the day Tuesday, I
13 think we will be fine.

14 JUDGE SCHAER: I want you to have it to
15 Mr. Harris no later than 8:00 a.m. Monday, and I would
16 like it filed by you before five o'clock on Tuesday,
17 Mr. Harris. Is that going to be workable, or Wednesday
18 at noon sound better?

19 MR. HARRIS: Sure. Tuesday at the end of the
20 day sounds fine. I would just suggest that since it's
21 Public Counsel's exhibit that they be the ones to file
22 after we get back.

23 MR. ADAMS: That's what I would anticipate.

24 JUDGE SCHAER: Is there anything further for
25 Mr. Lazar? Thank you for your testimony.

00771

1 I think we're left at this point, Mr. Adams,
2 with your desire to offer an additional exhibit; is
3 that correct?

4 MR. ADAMS: That's correct.

5 JUDGE SCHAER: And you, Mr. Galloway, wanted
6 to call up a sponsoring witness to sponsor the exhibit
7 and then to perhaps question that witness; is that
8 correct?

9 MR. GALLOWAY: That's true.

10 MR. DAHLKE: Before we do that, this is where
11 did I want to interject a request regarding the
12 discussions on discount that Chairwoman Showalter had
13 asked Dr. Weaver about his definition of the use of
14 discount rate in the studies, and that led to another
15 dialogue with Mr. Lazar concerning his studies, and my
16 client has requested, and to be fair I think it be
17 appropriate, that we find a way where we can identify
18 in the record what Avista's definition of discount rate
19 is as it was used in our studies so that those other
20 interpretations aren't applied to the choice of
21 discount rate that Avista Corp made and filed, which we
22 could do by asking Mr. Dukich those questions if we
23 want to recall him or by some form of stipulation that
24 would allow us to enter our methodology in the record.

25 JUDGE SCHAER: Have you discussed this issue

00772

1 with the other counsel?

2 MR. DAHLKE: I have not. I'm just raising it
3 here.

4 JUDGE SCHAER: Do any other counsel object to
5 allowing Avista to put that information in the record
6 at this point in the proceeding?

7 MR. ADAMS: Your Honor were, as I would
8 suggest that we do it by a prior circulation so we can
9 see what we are talking about, because I don't want it
10 to be an opportunity for an argument, but if it's a
11 strict definitional issue, I don't have a problem with
12 it. I just don't know what we are going to see.

13 JUDGE SCHAER: My inclination would be to
14 allow Mr. Dahlke to call Mr. Dukich and to ask
15 Mr. Dukich the question that he just outlined to let
16 Mr. Dukich answer it and be done with it, but I do
17 realize that this is something the Company could have
18 covered in its earlier testimony or its rebuttal
19 testimony, and so I would like to know if any of the
20 parties object to that?

21 MR. CEDARBAUM: I don't object to it.
22 Whatever seems most convenient.

23 JUDGE SCHAER: Let's do it now, and if you
24 decide for some reason if you need to respond or you
25 feel prejudice by not having time to prepare, let me

00773

1 know, and we'll deal with that problem. I'm guessing
2 there won't be a problem, so I think we should go ahead
3 and just deal with it. Do you mind waiting for your
4 witness, or would you like to go ahead?

5 MR. GALLOWAY: I think it's most sensible to
6 the that last so people can leave, but that creates the
7 intention of leaving an additional need to talk about a
8 further procedural schedule.

9 JUDGE SCHAER: I believe we've already set a
10 briefing date in this matter.

11 MR. GALLOWAY: I didn't know there was a
12 briefing date.

13 JUDGE SCHAER: It's in the prehearing
14 conference order. January 28th. Let's go off the
15 record for just a moment.

16 (Discussion off the record.)

17 JUDGE SCHAER: Go ahead, Mr. Dahlke.

18 MR. DAHLKE: Avista would recall Mr. Thomas
19 Dukich.

20 JUDGE SCHAER: Mr. Dukich, I will remind you
21 you are still under oath in this proceeding. Go ahead,
22 Mr. Dahlke.

23

24

25

00774

1 DIRECT ON RECALL EXAMINATION

2 BY MR. DAHLKE.

3 Q. Mr. Dukich, would you explain for the
4 Commission and for the record your understanding of the
5 use of the term "discount rate" as it was used in the
6 studies which the Company presented as a part of its
7 testimony in this proceeding?

8 A. Yes. Avista used 8.16-percent discount rate,
9 and that is meant to reflect, basically, the time value
10 of money or the cash flow adjustment to bring stuff to
11 a present value basis. It does not reflect the various
12 uncertainties of events that could occur in the future
13 and the different probabilities of those events,
14 whether that be a cost of different things or closures
15 or environmental regulations or changes in the law.
16 It's simply a financial number.

17 MR. DAHLKE: Thank you.

18 JUDGE SCHAER: Anything further for
19 Mr. Dukich? Thank you for your testimony.
20 Mr. Galloway, would you like to recall your witness at
21 this point.

22 MR. GALLOWAY: I would call Alex Miller at
23 this time, and I have about seven questions for him.
24 Three of them are not confidential. The rest are. I
25 don't know if you want to invoke a confidentiality at

00775

1 this point or three questions from now.

2 JUDGE SCHAER: Let's go off the record for a
3 moment.

4 (Discussion off the record.)

5 JUDGE SCHAER: At this point, go ahead
6 Mr. Galloway and recall your witness.

7 MR. GALLOWAY: At this time, PacifiCorp would
8 recall C. Alex Miller.

9 JUDGE SCHAER: Mr. Miller, let me remind you
10 that you remain under oath in this proceeding, and I
11 understand that you've been recalled as a sponsor to an
12 exhibit which Public Counsel wishes to circulate.
13 Would you do that at this time, please, Mr. Adams?
14 It's my understanding that this is an exhibit that has
15 received a super confidential designation; is that what
16 you are seeking?

17 MR. GALLOWAY: Yes.

18 MR. ADAMS: PacifiCorp is seeking. We are
19 trying to accommodate that desire.

20 JUDGE SCHAER: You agree with that
21 designation?

22 MR. ADAMS: I guess we will go along with it.

23 JUDGE SCHAER: That's all I'm asking. Off
24 the record.

25 (Discussion off the record.)

00776

1 JUDGE SCHAER: While we were off the record,
2 Mr. Adams distributed a document which I have marked
3 for identification as Exhibit SC, for super
4 confidential, 514. Go ahead, please, Mr. Adams.

5

6 CROSS ON RECALL EXAMINATION

7 BY MR. ADAMS:

8 Q. Mr. Miller, I understand you have in front of
9 you of what's been marked as SC-514; is that correct?

10 A. Yes, I do.

11 Q. Could you verify, at least from my
12 understanding of this document, that it was a document
13 presented to the board of PacifiCorp; is that correct?

14 A. There are two presentations in here which
15 were made to the board of directors. There is one
16 resolution from the board and one letter to the board
17 of directors.

18 Q. Just so I understand. There was a resolution
19 and two presentations or a resolution and one
20 presentation?

21 A. There were two presentations included.

22 Q. Am I correct the resolution basically
23 authorizes the sale?

24 A. That's correct.

25 Q. That resolution was done before the actual

00777

1 sale of the plant; is that correct?

2 A. Yes. The sale has not taken place yet.

3 Q. So in effect, is this an authorization to
4 proceed to sell?

5 A. To go forward with the auction, yes.

6 Q. Then looking at the document, could you
7 divide for me what are the two presentations, because
8 it all came as one group of pages.

9 A. Yes. If you look behind the first two pages,
10 there is a three-page presentation. Then there is a
11 letter to the board of directors from Dick O'Brien, and
12 behind that is a second presentation.

13 Q. So not counting the resolution itself, the
14 next four pages were part of one presentation and then
15 -- we may have an issue of whether they are in the same
16 order. Can I hand you the copy that we have handed out
17 to the Bench request to make sure we have the pages in
18 the same order?

19 A. That would be fine. They are in the same
20 order, and after the resolution, I only count three
21 pages of the presentation.

22 Q. And then the letter?

23 A. Then the letter and then the second
24 presentation.

25 Q. Then when were the presentations made to the

00778

1 board?

2 A. I don't remember exactly. The first set was
3 sometime in October of 1998, and the second one was
4 sometime in March of 1999.

5 Q. Were they made in the order that we've just
6 discussed, and that is the three-page presentation was
7 made in 1998, and the second one was in the spring of
8 '99?

9 A. Correct.

10 Q. Did you make the presentation?

11 A. I believe I did.

12 Q. Both of them?

13 A. Yes.

14 Q. Was the presentation based on information
15 from New Harbor?

16 A. No.

17 Q. This was simply then an analysis generated
18 internally to PacifiCorp?

19 A. Yes.

20 Q. Looking at the second presentation, at that
21 time, was the TransAlta bid known at this point?

22 A. No, it was not.

23 Q. Was this in the nature of analyzing what
24 would be acceptable as a bid?

25 A. That's correct.

00779

1 Q. Turning to the graph in the second
2 presentation that says, comparison of market price
3 forecasts; do you see that? Who generated this
4 information?

5 A. The lines labeled, PPW low base and high are
6 PacifiCorp internal forecasts. The others are external
7 forecasts, so we generated three of the lines, and we
8 generated the rest of the lines on the graph using
9 other people's data.

10 Q. Just as an example, the lines with the
11 designation, NWPPC high, NWPPC base, and NWPPC low, are
12 those the Power Council's numbers?

13 A. Northwest Power Planning Council, as it says
14 down there at the bottom.

15 Q. Is this the so-called Aurora Model that we
16 are discussing?

17 A. I don't know.

18 Q. But the date of the inputs for those studies
19 was what? In other words, what forecast of the
20 Northwest Power Council were you using here?

21 A. I don't know, a recent one at that time.

22 Q. Presumably, it was no later than March of
23 '99; correct?

24 A. It would have been difficult to be later than
25 March of '99, yes.

00780

1 Q. Would you turn to the page at the top that
2 says, Centralia auction price required summary, next to
3 the last page?

4 A. Yes.

5 Q. Would you indicate what this page shows?

6 A. This page shows an attempt to get to a
7 proposed minimum bid price that would be acceptable for
8 the plant and mine.

9 Q. So looking at the numbers, plant and mine
10 book break even, is that PacifiCorp's number or is that
11 the sort of a general sum of all the book values of the
12 various owners?

13 A. To be precise, it's a grossed-up value of
14 PacifiCorp's portion. If you actually add together
15 what's on the books of all the companies, it would not
16 add up to 37-and-a-half percent grossed-up, but it's an
17 attempt to show the total plant and total mine.

18 Q. Basically, it's a rough estimate?

19 A. Yes.

20 Q. I assume it includes PacifiCorp's book value
21 of both the plant and the mine; is that correct?

22 A. Yes, it does.

23 Q. Reclamation, and you have the word
24 "consensus." What does that refer to?

25 A. Pincock, Alan and Holt made a best estimate,

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1 a lot of different views about what reclamation could
2 be based on the various estimates, and we just, as a
3 group within the Company, came to a consensus of using
4 198 million dollars.

5 Q. When you say "consensus," that's within
6 PacifiCorp, not within the other owners; is that
7 correct?

8 A. Even within PacifiCorp, sometimes we need to
9 reach consensus.

10 JUDGE SCHAER: Mr. Miller, please be careful
11 to not read numbers but just to refer to them by their
12 labels.

13 THE WITNESS: Okay.

14 JUDGE SCHAER: We are still on an open record
15 at this point. I don't want to cause any problems for
16 at this point. Let's go off the record for just a
17 moment.

18 Q. (By Mr. Adams) We were talking about the
19 consensus reclamation costs. Can you give me what's
20 the date that that number would be? Would that be an
21 immediate closure and reclamation, or is that at the
22 end of 23 year; in other words, what is the basis of
23 that number?

24 A. It was uncertain.

25 Q. So that is a number that was being used

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1 whether it had happened, whether you had to close the
2 mine tomorrow and reclaim it, or 20 plus years from
3 now?

4 A. That's correct.

5 Q. You then have a line, "customer value costs."
6 What does that number represent?

7 A. I define it on Page 10 of that presentation.

8 Q. Is Page 14 of that document, which is the
9 last page in the packet in this exhibit, is that the
10 recommendation that the Company made to its board of
11 directors?

12 A. Not all of it, no.

13 Q. What was not recommended?

14 A. If you turn back to Page 2 of that, of the
15 first part of that presentation, right after the page
16 entitled "Centralia plant and mine background," the
17 second diamond bullet says, "what we need now."

18 Q. Yes.

19 A. Probably the first Page 2.

20 JUDGE SCHAER: It appears to be the second
21 page of the second presentation, Mr. Adams.

22 THE WITNESS: That's correct.

23 Q. Would you go ahead?

24 A. It says, What we need now, a decision on the
25 price, a range of prices we are willing to accept for

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1 the plant were the plant in the adjacent Centralia
2 mine, so while we presented recommendations regarding
3 that, there were additional recommendations that were
4 not considered by the board at that time.

5 Q. When were they considered by the board; when
6 were they presented to the board?

7 A. The board acted on the necessity of
8 proceeding with scrubbers in advance of signing the
9 contract for the scrubbers. That was done, I believe,
10 sometime in May, so the board acted on that before May.
11 I'm not sure that the board has taken on specifically
12 the regulatory approvals. I believe so far that's a
13 management decision.

14 Q. If this Commission adopts either Public
15 Counsel's recommendation or the Staff's recommendation,
16 do you know what the recommendation will be to the
17 board?

18 A. Well, if Public Staff's is accepted and the
19 regulatory approval is not received, there is no long a
20 deal, so therefore, the board has no decision to make
21 in that case.

22 Q. How about the second alternative?

23 A. I do not know.

24 Q. Nothing has been prepared to present to the
25 board in that eventuality?

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1 A. That is correct.

2 MR. ADAMS: That's all, other than moving the
3 admission of the exhibit.

4 JUDGE SCHAER: Is there any objection to the
5 exhibit?

6 MR. GALLOWAY: Can we defer that until the
7 conclusion of this testimony?

8 JUDGE SCHAER: Certainly.

9

10 FURTHER EXAMINATION

11 BY MR. GALLOWAY:

12 Q. Mr. Miller, this line item of customer value
13 costs, is that akin to the calculations that have been
14 talked about a lot in this proceeding in terms of the
15 difference in the costs associated with owning
16 Centralia and the costs of buying replacement power in
17 the open market?

18 A. Yes.

19 Q. Can you tell me the method by which the costs
20 associated with replacing the power on the open market,
21 what methods were used with respect to that?

22 A. At this time, we were using a simplified
23 method using a calculation based on the number of
24 kilowatt hours that were expected to come out of
25 Centralia times an average market price. There was no

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1 r dispatch or use of a dispatch model to determine the
2 difference.

3 Q. Does that method produce substantially higher
4 estimates of the replacement power costs than the
5 method used by virtually all the parties in this
6 proceeding?

7 A. One of the differences that that creates is
8 that it replaces all the power of Centralia, which in a
9 redispatch model is not necessary, so whether it
10 produces higher or lower results depends on the actual
11 prices used, but assuming the same prices used, then
12 this model, this simplified calculation results in
13 higher numbers merely because of replacing all the
14 generation of Centralia as opposed to balancing loads
15 and resources.

16 Q. Whatever your estimate of market prices are,
17 you are multiplying it by a larger number of kilowatt
18 hours?

19 A. Exactly.

20 MR. GALLOWAY: Your Honor, at this time, I
21 would like to go into closed session, and I believe
22 would request the opportunity to make my argument as to
23 why it's appropriate to go into a closed session in
24 closed session.

25 JUDGE SCHAEER: Is there any objection to

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1 going into closed session? Let's go off the record for
2 a moment.

3 (Discussion off the record.)

4 JUDGE SCHAER: While we were off the record,
5 we cleared the hearing room of any persons who are not
6 Commissioners or on the Commission's advisory staff or
7 who are not bound by the protective agreement and
8 persons who can view and hear super confidential
9 materials. We've also turned off the microphones and
10 the conference bridge. And at this point, would you
11 like to ask your remaining questions, Mr. Galloway?

12

13 (Confidential and sealed portion of the transcript
14 follows)

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