I. INTRODUCTION

A. Statement of the Case

The Centralia Generation Plant (Centralia) is a 1,340 MW coal-fired power plant located in Lewis County, Washington. Centralia entered service in 1972 and consists of two steam units. The primary source of coal for Centralia is a mine located adjacent to the power plant.

Centralia is owned by eight Northwest utilities in the following shares:

PacifiCorp	47.5%
Avista Corporation	15.0%
City of Seattle	8.0%
City of Tacoma	8.0%
Snohomish County PUD	8.0%
Puget Sound Energy	7.0%
Grays Harbor PUD	4.0%
Portland General Electric	2.5%

Avista Corporation (Avista), Puget Sound Energy (PSE), and PacifiCorp propose to sell their respective shares of Centralia, including the associated transmission facilities and related property, to a subsidiary of TransAlta Corporation, which is a Canadian corporation located in Calgary, Alberta. These facilities have been included by the Commission in rate base for each company since Centralia began operation.

The proposed sale to TransAlta also includes the adjacent mine, which is currently owned entirely by PacifiCorp. Forty-seven and one-half percent of PacifiCorp's interest in the mine has also been included in rate base by the Commission.

The proceeds from the sale exceed the net book value. The net book gain for each company is:

PacifiCorp	$82,663,000
Avista	$29,606,000
PSE	$13,520,000

These amounts are estimates that will be revised at closing based upon actual plant balances, costs associated with the sale, and other variables.

B. Summary of Staff Case

The quantitative analyses presented by the companies demonstrate that the only economic benefit to ratepayers from the proposed sale comes from very near-term savings in replacement power. The analyses do not demonstrate that the sale brings long-term economic benefits to ratepayers. The sale, in fact, exposes ratepayers to the risk of higher energy costs over the long-term than if ownership of Centralia remained with the companies, although there are important qualitative factors which favor the sale.

Determining whether the sale of Centralia is consistent with the public interest requires a balancing of those negative quantitative factors and positive qualitative factors, in light of established and sound regulatory policies. This exercise led Staff to recommend that the Commission should authorize the sale of Centralia for Avista, PSE, and PacifiCorp, but only upon the condition that, after the book value of the facilities is returned to shareholders, each utility allocate all of gain and all near-term power supply savings to ratepayers in a general rate proceeding.[1] For Avista and PacifiCorp these power supply benefits can be captured in each company's pending general rate case, where the Commission should also determine the precise method for returning the gain to consumers. (Avista: Docket Nos. UE-991606 and UG-991607; PacifiCorp: Docket No. UE-991832.)

PSE, on the other hand, should receive the same treatment ordered by the Commission for that company's sale of the Colstrip facilities. PSE should record in deferred accounts all of the gain and all near-term power supply benefits, with interest compounded at 7.16%. These deferrals should then be allocated to ratepayers in a general rate case to be filed no later than March 29, 2002. Staff estimates the near-term power supply benefits to be $1.5 million in 2000 and $2.6 million in 2001.

Staff's recommendation balances fairly the interests of ratepayers who will bear the long-term risk of higher-cost power supply resulting from the sale of Centralia. Staff's recommendation also recognizes fairly that traditional rate base regulation has required consumers to shoulder significant front-loaded capital costs of large central-station generation facilities such as Centralia.

Staff's recommendation also balances fairly the interests of shareholders who are compensated prospectively by traditional, rate base regulation for the risks and uncertainties they undertake in ownership of all utility property, including Centralia. Providing shareholders more than the book value of Centralia would upset that balance by providing excessive compensation to investors in violation of long-standing and sound ratemaking practice and principles.

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[1] The Commission should also order the companies to recalculate the gain for filing based upon actual costs and plant balances at the time of closing. (Ex. T-403 at 2.)

II. ARGUMENT

A. The Commission Should Adopt Staff's Recommendation to Flow the Entire Gain and All Near-Term Power Supply Benefits to Ratepayers

In Docket No. UE-990267, concerning PSE's sale of its Colstrip investment, the Commission applied a four-part test to determine whether that transaction was consistent with the public interest. These four standards are that the sale:

1. Should not harm ratepayers by causing rates or risks to increase.
2. Should strike a balance between shareholders, ratepayers and the broader public preserving affordable, efficient, reliable, and available service.
3. Should not impair the development of competitive markets for the delivery of service.
4. Should not shift jurisdiction to another forum where Washington ratepayers may be adversely affected.

In the matter of the Application of Puget Sound Energy, Docket UE-991267, Third Supplemental Order at 7-9 (September 30, 1999) (Third Supplemental Order). These principles were recognized with approval by the Commission both during the prehearing conference in this proceeding (Tr. 73-76, 79-80) and in the Commission's Prehearing Conference Order, where the Commission stated at page 4 that:

> The broad issue the Commission will examine is whether the public interest is served by the sale, as compared to the alternative of no sale. In making this determination, the Commission will examine how each alternative [sale/no sale] will affect ratepayers, shareholders, and the general public.

Staff, therefore, applied these parameters to the proposed sale of Centralia. The evidence and sound regulatory policy demonstrate that these principles are met only if the sale is conditioned upon all of the gain and all near-term power supply savings being returned exclusively to ratepayers in a general rate case. Absent those conditions, the sale both harms ratepayers through increased risks and tips sharply the balance of interests in the favor of shareholders.

1. The Sale of Centralia Does Not Provide Economic Benefits and Exposes Ratepayers to Higher Energy Costs in the Future

In the Colstrip proceeding, the Commission analyzed the potential risks and benefits of the sale, which included the possibility of lower- or higher-cost power to replace the energy produced by those facilities. (Third Supplemental Order at 11-14.) This analysis demonstrated that the sale of Colstrip would essentially break even which, in turn, led the Commission to conclude that the sale was in the public interest only if all of the gain and all near-term power cost savings were deferred with interest and allocated to customers. (Id. at 24 and Attachment A.)

Staff reviewed the sale of Centralia using the same approach the Commission applied to the sale of Colstrip. This required Staff to review the quantitative analyses the companies submitted that compared the cost of energy from continued ownership of Centralia with the cost of alternative energy if Centralia is sold. (Ex. T-400 at 6.) The studies demonstrated that the cost of keeping Centralia in the future is less than the market price for replacement power, under "base case" assumptions similar to those the Commission used in analyzing the sale of Colstrip. (Third Supplemental Order, Attachment A.)

a. PSE

PSE's 19-year analysis relies upon the Northwest Power Planning Council's AURORA model to forecast future energy prices. (Ex. T-400 at 9.) Its study shows a negative net present value (NPV) after 2004 of $13.5 million if Centralia is sold. (Ex. 105 at 1, "Current Scenario," "5 Year NPV thru 2004" less "19 Year NPV thru 2018"; Tr. 107-109.) This negative NPV becomes more negative if a 7.16% discount rate is applied consistent with the Colstrip decision, instead of the 7.69% discount rate the company applied in its study. (Tr. 117.)

PSE's rebuttal case demonstrated even worse quantitative impacts for ratepayers of selling Centralia, again under the same methodology the Commission adopted in its review of Colstrip's economics. The sale of Centralia was shown by PSE to produce cumulative benefits only during the rate plan period in 2000 and 2001. These benefits go exclusively to shareholders. (Tr. 99-100.) After the rate plan and through 2018, the sale of Centralia has a cumulative negative NPV of $8.6 million. (Ex. 114 at 2, "Cumulative PV Pre-2002" versus "Cumulative PV Post 2001.") PSE's study showed a negative NPV of $1.9 million even under the assumption that all of the gain is allocated to ratepayers. (Ex. 114 at 3; Tr. 111.)

b. Avista

Avista's quantitative analysis relied upon lower estimates of future market prices than AURORA. This resulted in an NPV of $7.7 million over a 20-year period. (Ex. T-303 at 4.) Avista, however, did not rerun its study even though it possessed new estimates of future energy prices which were significantly higher than the total delivered cost of Centralia. (Tr. 272, 277, 722.) These higher energy price forecasts resulted in a negative NPV of $25.4 million through 2020 with the sale of Centralia. (Ex. 332; Ex. T-400 at 9; Tr. 265-266, 414-417.) This negative result is consistent with Avista's other admissions that the price of secondary energy is increasing, as is the cost of gas. (Exs. 326 and 329; Tr. 270-271.)

c. PacifiCorp

PacifiCorp's analysis is an anomaly which cannot be reconciled with the Commission's analytical framework from the Colstrip case, or with the studies Avista and PSE performed for Centralia. PacifiCorp estimated future system revenue requirements based upon future market prices and an economic dispatch of its system. It did not compare the cost of Centralia with the cost of replacement power. (Ex. T-400 at 9.) Beyond this major flaw, however, PacifiCorp's study still shows that the sale of Centralia is no better than a break-even transaction. The $42 million NPVsupported by PacifiCorp's study over 23 years (Tr. 675; Ex. 212, "Keep Centralia Medium Market Price") is an insignificant .42% of the total system revenue requirement. (Ex. T-407 at 2.)

Moreover, many of the inputs of its model are not credible. First, its proposed discount rate of 7.82% is unreasonably high in today's markets. This overstates both near-term power supply benefits and the impact of its proposal to write-off regulatory assets with the gain.

Second, PacifiCorp's model uses gas price estimates that are inconsistent with PacifiCorp's own avoided cost filings, and with the estimates used by Avista and PSE. (Compare Ex. 211 to Exs. 117 and 329.) Finally, PacifiCorp estimated the incremental cost of new capacity at $450/kw, while the AURORA model uses $580/kw.

Despite these deficiencies, PacifiCorp did not revise its model to produce relevant quantitative results. Its analysis provides little assistance in this case.[2]

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[2] The Commission recognized these same deficiencies in the PacifiCorp analysis. It ordered the company through Bench Request 11 to provide the results of its 23 year base case analysis "for power value only.". (Tr. 676-679.) This would allow the Commission for PacifiCorp to compare the cost of Centralia with the cost of market power, in a format analogous to the studies presented by Avista and PSE.

Pacificorp's response to Bench Request 11(Ex. 239), however, suffers from the same deficiencies noted for its case presentation. It does not compare the cost of Centralia with the cost of market power. Again, it only

d. Conclusion on Quantitative Analyses

The quantative studies, therefore, show that the sale of Centralia harms ratepayers and should be rejected if only economic impacts are considered. (Ex. T-400 at 10.) This point cannot be made more clearly than through a comparison of Centralia and Colstrip. Centralia is a lower-cost resource than Colstrip, but the cost of replacement power is higher for Centralia than it was for Colstrip. (Tr. 102, 581.) Therefore, since the Commission concluded that the sale of Colstrip was a break-even transaction, at best it must reach the same conclusion for the sale of Centralia. It would even be justified to conclude that the sale of Centralia has negative economic consequences for ratepayers because it exchanges a known, fixed cost resource for higher-cost replacement power in the future. (Tr. 506-507, 523, 534.)

2. Qualitative Factors Supporting the Sale of Centralia Offset the Economic Harm to Ratepayers

Standing alone, the quantitative analyses submitted by the companies demonstrate that Centralia should not be sold because the sale harms ratepayers by exposing them to the risk of higher energy costs in the future. In the Colstrip case, however, the Commission stated:

> The public interest is broader than a mathematical calculation of costs and benefits. In each transaction brought before the Commission we will need to study the principles which will define consistency with the public interest, and apply those principles to the facts before us.

(Third Supplemental Order at 22.) Therefore, Staff went beyond the numbers and examined

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presents a system value of revenue requirement analysis. It also uses the same inflated discount factor of 7.82%. Finally, even with these deficiencies, it projects a system benefit of $45 million, which is still an insignificant .45% of total system revenue requirement. This hardly qualifies as a demonstration that ratepayers are provided economic benefits from the sale.

other qualitative factors to determine whether the sale meets the public interest test. (Ex. T-400 at 11-12.)

First, future costs of the power plant and the adjacent coal mine are highly uncertain with regard to potential environmental and reclamation liability. Selling Centralia removes these uncertainties for both shareholders and ratepayers.

Second, Centralia is a highly valuable resource given its location, and its importance to the integrity and stability of the region's transmission grid, including the provision of necessary voltage support for the Seattle and Portland areas. The Bonneville Power Administration (BPA) relies upon Centralia to relieve north to south congestion, which is a value BPA has estimated at $227 million. (Ex. 227 at 5.) Selling Centralia also provides certainty that the pollution control equipment will be installed and generators rewound, which will allow the plant to continue to operate and the region to continue to benefit from Centralia's strategic position on the transmission grid.

Third, important changes in technology and electric industry structure may occur within the time horizon analyzed by the companies, but which their studies cannot reflect. These changes include increased competition in wholesale energy markets, which may provide the public access to better and lower-cost electric service. (Tr. 549-550.) The sale of Centralia is consistent with these potential changes and policy objectives.

These qualitative factors all support the decision to sell Centralia. Nevertheless, none of the economic analyses demonstrate net benefits for ratepayers and, in fact, the studies show that ratepayers will assume long-term risks of higher energy costs if Centralia is sold. There is also the risk to ratepayers of capturing the potential benefits of wholesale competition in the future if implemented.

Staff, therefore, balanced **all** of these factors, rather than applying any strict mathematical calculus as some parties sought to imply. (Tr. 507, 510-511.) That process led Staff to conclude that the gain on the sale of Centralia and all near-term power supply benefits must be returned to ratepayers for the sale to be consistent with the public interest. As the next demonstrates, not only is Staff's recommendation a proper and fair balance of the quantative and qualitative factors, it is also supported by long-standing, well-reasoned and sound regulatory policies.

3. Staff's Recommendation Implements Important Regulatory Policies

a. Traditional Ratebase Rate of Return Regulation

The rates for service from Avista, PSE, and PacifiCorp are established by the Commission using traditional rate base, rate of return regulation. Through such regulation, the Commission determines a market-based rate of return to be applied prospectively and specifically to compensate shareholders for the risks they undertake when investing in utility property. These risks may include unknown or uncertain events in the future, such as industry restructuring or abnormal hydro conditions, or other management challenges, such as resource development or exposure to environmental and reclamation liability. (Tr. 197, 341, 345, 458-9, 462-3, 472.) The current environment of monopoly-based regulation, therefore, fairly compensates companies and their shareholders for any downside risks that management may encounter until management sees a need in the future to increase rates because investor compensation is inadequate. (Ex. T-400 at 15; Tr. 345.)

The shareholders of Avista, PSE, and PacifiCorp have, therefore, received fair compensation for the risk of their investment in the Centralia facilities which have been included in each company's rate base since the facilities went into service in 1972. (Tr. 486.) Likewise, risks which appear uncertain today, but crystalize tomorrow, such as the nature of industry structure, can be accommodated in future cost of capital determinations for those companies. No additional compensation from the sale of Centralia is necessary to insure that the interests of shareholders are properly and fairly treated. Indeed, if any of the gain is kept by the companies, shareholders would improperly and unfairly receive excessive returns through accretion in the utility's book value. (Ex. T-400 at 16 and 22; Tr. 528.)

The companies proposals violate these fundamental principles of ratemaking, whether through PacifiCorp's depreciation reserve method, PSE's five-year amortization, or Avista's unabashed proposal to keep all of the gain for shareholders. The companies made feeble attempts to rebut the fair and equitable treatment traditional rate regulation has bestowed upon investors. PacifiCorp argued that shareholders are not compensated for their cost of money during the time when capital investment is expended initially and when the investment is included in rate base. (Ex. T-226 at 4.) This argument has no merit. Shareholders are compensated for their cost of money through an allowance for funds used during construction (AFUDC) which is recognized on the company's income statement. (Tr. 402.)

Avista raised several arguments in an effort to show that taking the entire gain for shareholders is fair and equitable. It argued that past decisions of the Commission disallowing recovery of a portion of an investment in generation plant have had a direct negative impact on financial statements and investors, irrespective of the rate of return. (Ex. T-318 at 3-4.) This argument is also without merit. In cases where partial disallowance of investment was ordered by the Commission, the rate of return established for Avista was based explicitly upon companies with similar risks of ongoing construction of nuclear generation. (Tr. 328, 349.) The Commission's orders in Cause U-83-26, related to Avista's investment in WNP-3, and in Cause U-84-28, related to Avista's investment in Skagit, tied the company's return on equity directly and expressly to the additional risk construction of nuclear facilities creates. (Tr. 569-571.)

Avista also argued that it is fair and equitable to give shareholders the entire gain because shareholders have always been on the short end of asymmetrical treatment from the Commission when its resource decisions have been partially disallowed. (Ex. T-306 at 4.) To support this argument, Avista submitted Exhibit 307 which compares the company's earnings and authorized rate of return during the time Centralia has been in service. (Ex. T-306 at 4.) The conclusion Avista wishes we draw from the exhibit is that its actual rate of return for Washington is more often than not below a fair rate of return for that period.

Avista's argument misses several important points. First, Exhibit 307 is meaningless. It is based upon an outdated 10.67% rate of return established in a 1987 settlement of Avista's WNP-3 investment. The 10.67% rate of return, therefore, is not representative of a fair rate of return for Avista for every year through 1998. (Ex. T-400 at 19.) It also assumes incorrectly that the achieved rate of return would have been accepted by the Commission as a fair representation of the company's earnings for ratemaking purposes. (Ex. T-400 at 20.) The exhibit, therefore, only shows that Avista's electric operations have not been reviewed fully by the Commission since 1985. Its decision not to seek rate relief for many years demonstrates that existing rates provided adequate compensation to investors for all utility property, including Centralia, throughout the time period. In fact, preliminary analyses show that shareholders have captured efficiency gains achieved by management from 1989-1998, which has allowed investors to earn **above** a fair rate of return for that period. (Ex. T-400 at 20-21; Ex. 402.)

Second, Avista leaves the impression that only shareholders suffered from these partially disallowed prior investments in generation. That is not the case. Ratepayers not only of Avista, but other utilities, also suffered from these resource decisions because consumers were required to pay part of the cost of some facilities that never reached commercial operation. (Ex. T-400 at 21-22.)

Third, Commission decisions to disallow portions of prior resource investments were based upon substantial evidentiary records supporting conclusions of law that disallowance was just and reasonable, and treated all parties fairly, including the utilities and their investors. By definition, these decisions were "symmetrical." Avista's argument to the contrary, in essence, undermines the equity of that pre-established balance.

The final equity argument raised by Avista is that it is fair for the entire gain to go to shareholders because of Avista's history of low rates and high quality service. (Ex. T-306 at 5; Ex. 308.) All Washington electric utilities, however, enjoy low rates compared to national averages. Moreover, Avista's low rates are a function of many factors besides management efficiencies. Rate comparisons between Avista and other electric utilities, therefore, are irrelevant in the Commission's determination of whether the sale of Centralia is in the public interest and what treatment to afford the gain from the sale. (Ex. T-400 at 23-24.)

b. Ratepayers have Funded a Significant Portion of Centralia's Front-Loaded Capital Costs

Traditional rate base, rate of return regulation has impacts beyond providing shareholders fair compensation prospectively for their investment risk in major generation plants like Centralia. It also results in consumers repaying shareholders for a significant portion of the capital costs of those facilities which accrue in the early years of their operation. (Tr. 205.) Consumers, therefore, should not be denied any of the benefits of both lower capital costs, which occur in later years as the facilities are depreciated over time, and lower near-term power supply costs if Centralia is sold. (Ex. T-400 at 16-17.) This is particularly important for Centralia because ratepayers have now funded virtually all of the plant's revenue requirement and should not be denied the important value Centralia brings as a power resource. (Tr. 576.) Staff's recommendation insures that this value accrues properly to ratepayers.

None of the companies rebutted this factual or policy foundation for the Staff recommendation. PacifiCorp suggested incorrectly that its depreciation reserve methodology cures the issue raised by Staff. (Tr. 514-515.) The companies also suggested that additional capital investment in scrubbers and generator rewinds at Centralia undermines Staff's testimony that the capital costs of generation plants are front-loaded. (Tr. 252, 256-57; Tr. 521.) This suggestion has no merit. When reflected in rates, these incremental investments simply repeat the same pattern as the initial investment of saddling ratepayers with high, front-loaded capital costs.

More important, company decisions to invest in incremental facilities are part of management's ongoing responsibilities to evaluate the costs and risks of all resource options, and to deliver service to customers on a least-cost basis. Management's performance of those responsibilities are then assessed by the Commission each and every time a company requests rate relief, and each and every time the Commission establishes a fair rate of return for prospective application. (Tr. 543-544.) Not allowing shareholders to recover any of the gain from the sale of Centralia does not detract from the fairness this ongoing assessment provides investors.[3]

c. Staff's Recommendation Cures Ratepayers' Payment of Excessive Depreciation

RCW 80.04.350 requires the Commission to determine the depreciation rates to apply on a prospective basis to all used and useful utility property. This determination allows shareholders to receive a return of their capital over the life of the property.

The Commission, however, is never able to determine accurately the depreciation rates of a long-lived asset such as Centralia. This inability to accurately provide for the depreciation reserve has resulted in the gain on the sale of the plant. In other words, Centralia was depreciated too quickly. Ratepayers paid too much depreciation expense, and capital investment was returned to investors too quickly. Returning the gain to ratepayers cures this imbalance in a fair and equitable manner.

Avista argued that a write-off which results from early shut-down of Centralia indicates that the depreciation expense had been too low. (Ex. T-318 at 8.) This argument again misses the

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[3] This same point is offered in response to Chairwoman Showalter's questioning whether the gain should be shared because all parties have gotten out of Centralia what they put in: ratepayers have paid the cost of Centralia but have received power, and shareholders have invested capital in Centralia but have received a return of and on their investment. (Tr. 540-541.) As Staff testified, however, there is no "end" to the regulatory process such as there is with a contract for a particular service over a particular time at a particular price. The regulatory process is, instead, an ongoing assessment and reassessment of decisions a utility makes to meet its obligation to acquire prudent and least-cost resources. (Tr. 542.) Allocating the gain from the sale of Centralia exclusively to ratepayers should be considered in the context of this established regime.

point since the essence of the ratemaking process allows Avista, or any other utility, to place the burden of such a write-off on the shoulders of ratepayers if early shut-down is shown to be prudent and its costs reasonable.[4]

d. Staff's Recommendation is Consistent with Prior Commission Decisions

The parties to the Stipulation and Order of Dismissal dated May 26, 1992 in Washington Court of Appeals Case No. 29404-1 embraced the Commission's adoption of an adjustment in a 1989 rate case of PSE that gave the property sales' loss or gain to the customer. The Stipulation provided specifically that "The amount to be allocated to the customer in future rate cases will be based on the amount of time the property was included in rate base in relationship to the total time the property was held by the Company." (Ex. 119.) Staff's recommendation to flow the entire Centralia gain to ratepayers is consistent with this principle.

PSE argues that the Stipulation applies only to non-depreciable property and, therefore, provides no support for Staff's recommendation. (Ex. T-116 at 3-4.) Avista also disputes application of this Stipulation to the sale of Centralia. (Ex. T-318 at 10.)

The Centralia property subject to sale, however, includes both depreciable and non-depreciable property. (Ex. 110 and 330.) More important, the principle embodied in the Stipulation has applicability to Centralia regardless of the fine distinctions made by PSE and Avista. Ratepayers deserve the full benefit of the gain because ratepayers have supported the entire cost of the plant through the date of sale. (Ex. T-403 at 4.)

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[4] Indeed, Avista's settlement in Cause U-86-99 regarding its investment in WNP-3 was premised entirely upon early termination of the project. (WUTC v. The Washington Water Power Company, Cause U-86-99, Second Supplemental Order at 6 (February 24, 1987).)

Staff's recommendation is also consistent with prior Commission orders.[5] In Docket No. 87-1533-AT, the Commission authorized the sale by Avista of a combustion turbine generator, but ordered all of the after-tax gain to be returned to ratepayers. Avista was, therefore, required to record the gain in its deferral accounts until final disposition could be determined in the company's next general rate case. (Ex. T-403 at 4.)

Avista argues that Docket No. 87-1533-AT should not control here because the case involved a stipulation and was minor in amount compared to Centralia. (Ex. T-318 at 11.) Again, these distinctions should not prevent the Commission from applying the principle of that case to the matter at hand.

e. Returning the Entire Gain to Ratepayers is Consistent with Management's Fiduciary Duties to Investors

Staff's recommendation returns to the companies the net book value of Centralia at the time of closing. Management, then, has two choices for disposing of those proceeds. It can return the proceeds to investors, who can then invest in an alternative investment with a fair rate of return. Or, management itself can invest the proceeds in new projects that also will provide a fair rate of return. Either of these choices treats shareholders fairly. (Ex. T-400 at 16.)

Testimony was also offered by the companies that continued ownership of Centralia exposes shareholders and ratepayers to considerable risk including operational difficulties associated with splintered ownership, and potential environmental remediation and reclamation

[5] Staff's recommendation is also consistent with Democratic Central Committee v. Washington Metro. Area Transit Comm., 485 F.2d 786 (D.C. Cir. 1973), which we cited in the Colstrip proceeding. However, the Commission did not discuss that case specifically in Colstrip because that sale did not accrue benefits beyond the break-even point. (Third Supplemental Order at 19, fn. 5.) Therefore, we do not discuss this case in detail because the sale of Centralia also does not accrue benefits beyond the break-even point.

liability. (Ex. T-201 at 15-16; Ex. T-101 at 3-4 and 13-15; Ex. T-113 at 1-2; Ex. T-301 at 4.) This testimony implies that, without the sale, Centralia may no longer be a viable source of power. Under those circumstances, the companies should be satisfied with a transaction that returns the net book value to investors.

Moreover, if Centralia is not sold and later a decision is made to abandon the plant, shareholders must face the prospect of seeking to have ratepayers pay for the abandoned facility. Therefore, if these risks of ownership are real, management is responsible to shareholders to sell Centralia now and return the net book value to investors or reinvest the proceeds in other capital projects. (Ex. T-400 at 17-18.)

f. Staff's Recommendation is Consistent with Management's Responsibility to Reduce Utility Costs

PacifiCorp argued that a sharing of the gain provides incentives for a company to maximize the sale price of utility property which benefits both investors and ratepayers in the long run. (Ex. T-226 at 4-5.) This argument, however, ignores management's existing responsibility to ratepayers to lower costs whenever reasonable and prudent. (Tr. 526.) That same responsibility exists to benefit shareholders since lower costs allow the companies to remain competitive and eliminate regulatory risk. (Tr. 528.)

Moreover, PacifiCorp admits that the structure of the Centralia transaction and the sale process already maximized the sales price, even in absence of any sharing mechanism. (Ex. T-226 at 4: 22.) No sharing, therefore, was apparently necessary to motivate management to maximize value of the Centralia sale.

4. The Precise Method for Reflecting the Gain in Rates Should be Deferred to a General Rate Case Rather than Decided in this Proceeding

Staff recommends that the Commission reserve to a general rate proceeding the methodology for reflecting the gain in rates, whether the Commission decides to allocate all of the gain to ratepayers, as proposed by Staff, or only a portion of the gain, as proposed by PacifiCorp's depreciation reserve method. For PacifiCorp and Avista, the methodology would be determined in their pending rate cases, Docket No. UE-991832 and Docket Nos. UE-991606/1607, respectively. For PacifiCorp and Avista, this reservation to their pending rate cases would also include the issue of inter-jurisdictional allocation of the gain. (Ex. 409; Tr. 628.)

Staff's recommendation is appropriate because a general rate proceeding is the only time when all aspects of ratemaking and utility operations are considered, and there is evidence sufficient to support the required statutory finding that rates are just, fair, reasonable, and sufficient in accordance with RCW 80.28.010(1). (Ex. T-400 at 4; Ex. T-403 at 5.) The Commission does not have sufficient information in a transfer of property proceeding to reach that conclusion. Indeed, because the Commission does not have tariffs before it in a transfer of property case, it is arguable that the Commission cannot now determine legally the precise method for flowing the gain into rates.

The only rebuttal on this aspect of Staff's recommendation came from PacifiCorp and Avista which both argued that they could not determine whether to close the sale unless they know now how the gain will be treated for regulatory purposes. PacifiCorp expressed additional concern because it fears that the different jurisdictions in which it operates may order different treatments for the gain. (Ex. T-318 at 9-10; Ex. T-226 at 8.) However, these were all risks the companies understood and undertook when they decided to sell Centralia and make their proposals to the various commissions. (Tr. 624-625; 632, 635-636.)

PacifiCorp's proposal has additional problems which Staff's recommendation resolves. PacifiCorp proposes to write-off generation-related assets in the amount of the gain that would be allocated to customers under its depreciation reserve methodology. The regulatory asset targeted specifically by PacifiCorp is the Yampa acquisition premium associated with the company's acquisition of the Colorado-Ute generation plants. (Ex. T-226 at 9.) PacifiCorp was allowed to record the acquisition premium on its books by Commission Order in Docket UE-911186(P). However, the Commission's Order stated specifically that:

> The allowance of acquisition adjustments for ratemaking purposes is a matter addressed to the Commission's discretion, based upon the Commission's duty to regulate in the public interest, considering all relevant facts and circumstances. By entering this Order in this docket, the Commission has made no determination regarding the merits of the proposed acquisition or the amount of Pacificorp's investment that may be included in ratebase in a future proceeding.

(Ex. 231 at 3-4.) PacifiCorp's Yampa write-down proposal, therefore, violates this clear expression of the Commission that it will examine in a future rate proceeding whether to allow recovery of that regulatory asset. Indeed, PacifiCorp did not produce any evidence in this case concerning the prudence of the Colorado-Ute acquisition that would allow the Commission to reach any conclusion on the merits of the acquisition. (Tr. 411, 516.) Staff's recommendation allows the Commission to examine that issue in PacifiCorp's pending rate case, which is the appropriate forum to examine whether to allow recovery of a regulatory asset.

Staff's recommendation solves an identical problem for Avista which proposes that any gain which may flow to ratepayers be used to write-off expenses related to storm damages caused by the 1996 ice storm and, if any gain remains, the transition obligation for post-retirement benefits. (Ex. T-311 at 5.) Staff's recommendation is particularly appropriate for Avista because the company never requested nor received approval from the Commission to defer costs from the ice storm for later rate recovery. (Tr. 308.) Staff's recommendation also holds Avista to its unambiguous commitment, made both to the public and to the financial community including shareholders, that ratepayers would never be held responsible for ice storm damage costs, whether through base rates or a surcharge. (Tr. 304, 310-313; Ex. 331.)

5. Accrued Reclamation Balances Should be Excluded from the Gain Calculation and Allocated Directly to Ratepayers in a General Rate Case

Staff recommends that, if the Commission decides that the gain should be shared between ratepayers and shareholders, the amount of the gain should exclude the companies' shares of the accrued reclamation balances at the time of closing. (Ex. 403 at 11.) The estimated reclamation balances projected to December 31, 1999 were \$25.3 million (PacifiCorp), \$10.3 million (Avista), and \$4.1 million (PSE). (Id.) The amounts in the reclamation trust funds are fuel costs related to Centralia and, thus, are a component embedded in rates that are paid by ratepayers. (Tr. 186; 366.) Since the reclamation liability is transferred to TransAlta at closing, the benefit of reversal of the liability should not be subject to sharing, but should flow directly to ratepayers who shouldered the reclamation cost accruals. (Tr. 633, 636-637.)

PacifiCorp takes issue with the Staff proposal. It believes that investors should share in the reduction in sales prices associated with the future reclamation liability that TransAlta is assuming. However, by reducing the sales price by the amount of reclamation liability transferred to TransAlta, the sellers essentially pay TransAlta from the sales proceeds an amount for reclamation liabilities. (Ex. 208, line 9 and Ex. 212 at 1, 5th figure from top; Ex. T-215 at 4.) On the other hand, the reclamation trust fund amounts revert to the companies because the liability is extinguished. The benefit of that reversion should accrue to ratepayers who have borne the responsibility for funding the reclamation trust. (Ex. 208, line 28 and Ex. 312 at 1, 6th figure from bottom.)

Avista argues that if one component of the gain is directly assigned to ratepayers, as Staff proposes, then other components should also be assigned directly which may not benefit ratepayers. Avista discusses federal income taxes as an example. (Ex. T-322 at 2.) Avista misses two important points, however. First, federal income taxes are not assigned directly. Avista allocates the taxes based upon the premise that a portion of the deferred tax benefits associated with accelerated tax depreciation of the plant is flowed to shareholders. This allocation scheme, however, is without ratemaking precedent. (Tr. 294.)

Second, Avista's argument contradicts PacifiCorp's depreciation reserve method which Avista has endorsed (Ex. T-306 at 8), but which is based on the ratio of depreciation reserve and net plant to gross plant. (Ex. 313 at 1.) In contrast, Avista's allocation of federal income taxes splits the tax depreciation reserve through a ratio based upon customer/shareholder attribution of tax depreciation benefits. (Ex. 330.) It does not allocate federal income taxes based upon the ratio of tax depreciation reserve and net tax basis to gross tax basis.

B. Issues Specific to Each Company

The preceding discussion concerns the quantitative and qualitative factors, and underlying public policies, which Staff considered in reaching its recommendation to condition the sale of Centralia upon a requirement that the entire gain and all power supply savings be given to ratepayers. This discussion did not distinguish between the three companies because the balancing of interests and policy apply equally to PSE, Avista, and PacifiCorp in determining whether the sale is in the public interest. (Ex. T-400 at 4-5.)

However, there are other issues that are specific to each company and to the NW Energy Coalition. These specific items are addressed in this section.

1. PacifiCorp

a. Plant and Mine Environmental Liabilities

PacifiCorp included in the gain calculation accruals for plant and mine environmental liabilities in the respective amounts of $2 million and $3 million. These amounts represent costs the company may incur in the future as a result of previous ownership. The amounts are, however, unknown, speculative, and not based upon any analytical study. (Ex. T-403 at 2; Ex. 229 at 1; Tr. 634.) Therefore, they should be excluded from the calculation of the gain.[6] When these environmental remediation amounts become known, PacifiCorp may petition for recovery to the extent any reasonable and prudent costs are not recovered through insurance. (Ex. T-403 at 2; Tr. 568.) Exclusion of these amounts is also consistent with the Commission's decision concerning the sale of Colstrip. (Third Supplemental Order at 11.)

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[6] The sales price for Centralia allows PacifiCorp to first break even with respect to its ownership of the mine. If the companies do not agree that the estimated mine liability is not a deduction in the Break Even Sales Price calculation, 100% of the estimated environmental liability should be excluded from the gain calculation. Otherwise, only 47.5%, representing the amount of the mine included in rate base, should be excluded. (Tr. 355; Ex. 229 at 2.)

b. Deferred Federal Income Taxes

PacifiCorp has excluded from the gain calculation an estimated $5.9 million in excess deferred federal income taxes related to Centralia. The gain would be higher by that amount if the company were able to obtain a ruling from the Internal Revenue Service (IRS) permitting pass-through of these taxes as a part of the gain. Therefore, the Commission should order PacifiCorp to seek such a ruling as it did for PSE in the Colstrip proceeding. (Third Supplemental Order at 25; Ex. T-403 at 3.)

PacifiCorp agreed with the Staff proposal, but conditioned upon "other utilities" receiving a favorable ruling from the IRS on the same issue. (Ex. T-215 at 4.) The utilities referenced, however, include PSE which has actually not made such a request from the IRS. (Tr. 358.) The Company also had not examined the remaining utility's request (Portland Gas & Electric) and, therefore, could not determine the exact content of that request or whether there would be reason for a different ruling for PacifiCorp if an unfavorable IRS ruling is rendered for PGE. (Tr. 358.) Therefore, the Commission should not allow PacifiCorp to delay its request to the IRS.

2. Puget Sound Energy

a. The Merger Order Does Not Support PSE's Five-Year Amortization Proposal

PSE proposes that the gain should be amortized over a five-year period beginning with the closing of the sale in 2000. The effect of this proposal gives approximately 40% of the gain and all near-term power supply savings to shareholders during the remaining two years of the rate plan approved in the merger of Puget Sound Power & Light and Washington Natural Gas in Docket No. UE-960195.

This proposal rests entirely upon an interpretation of the Merger Order which PSE believes granted the company the ability to manage its business for a five-year period and capture all of the benefits of its management decisions during that time period. (Ex. T-113 at 3.) Therefore, according to PSE, Staff's recommendation to pass the gain and power supply savings exclusively to ratepayers serves to "confiscate" those amounts through "special accounting treatment" in violation of the Merger. (Ex. T-113 at 8; Ex. T-116 at 2.)

The company's argument is identical to the argument it made (Tr. 97-99) and had rejected in the Colstrip proceeding where the Commission stated unequivocally that "its order approving the merger did not grant PSE permission to sell used and useful generation assets as a power cost saving." (Third Supplemental Order at 18.) Indeed, PSE agreed that the Merger Order and Stipulation did not include the sale of the generation plant as a benefit to be captured for shareholders. (Tr. 192.) The Merger contemplated only the sale of distribution facilities and general plant such as headquarters assets and service centers. (Ex. T-403 at 10.)

PSE's argument also manifests a truly distorted view of the Merger and rate plan. It criticizes the Staff recommendation as "special accounting treatment," yet the company has itself requested and received approval from the Commission to defer costs associated with achieving power supply savings on its Tenaska and Encogen purchased power contracts. (Tr. 182-183; Docket Nos. 971619 and 991328.) Apparently, for PSE the rate plan is violated when **savings** are deferred beyond the rate plan for the benefit of ratepayers, but no such violation occurs when **costs** are deferred beyond the rate plan for the benefit of shareholders. Stated differently, anything that enhances the bottom line during the rate plan is acceptable, but anything unfavorable to the bottom line is "confiscation."

Finally, the company states that its five-year amortization proposal is a well-accepted means for accounting for the sale. (Ex. T-116 at 3.) PSE could not, however, cite a single case or rule as precedent for this proposition. None of the cases cited by PSE arose in the context of a rate plan like this company's. (Tr. 178-180; Ex. 126.) The only rule cited by PSE is a rule of FERC which applies only to property held for future use. (Id.)

b. PSE Should Defer Near-Term Power Supply Savings as Estimated by Staff

The quantitative analyses of all three companies forecast near-term power supply savings with the sale of Centralia. These savings will be captured for Avista and PacifiCorp in their pending general rate cases.

The rate plan for PSE, however, harms ratepayers because it prevents the Commission from capturing these near-term power supply savings for consumers. To solve this problem, Staff provided an estimate of power savings PSE should be able to achieve from the sale of Centralia during the years 2000 and 2001. These savings, estimated at $1.5 million for 2000 and $2.6 million for 2001, should be deferred by PSE for future return to ratepayers without true-up to actual replacement costs. As discussed below, Staff's estimate of near-term power cost savings is conservative and consistent with PSE's own strategy for replacing Centralia power.

i. Staff's Estimates are Consistent with PSE's Strategy to Avoid "In-Kind" Replacement Power

PSE's estimates of the cost of replacement power are derived using market prices as predicted by AURORA model runs or based on forward-looking futures contracts. These market prices were applied "in-kind" to the total energy production expected for Centralia, with power shaped in the same fashion as what has been produced historically by the plant. This was the only form of replacement power analyzed by PSE. No attempt was made at resource re-dispatch or the development of other resource combinations. (Ex. T-405 at 2-3 and 6.)

This methodology is inconsistent with the Colstrip proceeding, where the Commission emphasized the company's continuing least cost planning obligation to produce "whatever analysis is required to make an informed decision." (Fourth Supplemental Order at 6-7.) Moreover, PSE's own testimony demonstrates not only that in-kind replacement power will not be necessary, but that PSE may not replace Centralia power at all. For example, PSE stated that:

> PSE may find that it will not need to replace its share of the output of Centralia in kind. If replacement is necessary, PSE can replace it with any one of a variety of options, including spot market purchases, shorter fixed-term purchases, DSM, renewable energy or cost-effective distributive generation.

(Ex. T-101 at 5-6.) This strategy, according to PSE, will provide valuable flexibility in managing its power supply:

> In light of uncertain industry structure and the potential for technological advancements, this approach has value. The increased flexibility will allow PSE to pursue the benefits of the emerging robust wholesale market for new generation, which FERC predicts will reduce generation costs. The sale will also position PSE to accommodate the uncertainties in future demand for energy. It may not be necessary for PSE to replace the entire Centralia resource– especially for its forecasted life.

(Ex. T-101 at 10.) PSE repeats these concepts as follows:

> It is not entirely clear that PSE will have to replace the power in kind, but in any event, PSE intends to take advantage of market resources to the extent it needs to replace the resource. PSE is also analyzing other flexible power replacement products, including, for example, winter-only energy supplies and capacity and load-factoring products.

> The opportunity for distributed generation and BPA in-lieu power is being considered.

(Ex. T-101 at 8.)

Therefore, by failing to identify a range of replacement options, and by failing to analyze the displacement capabilities that exist in its existing portfolio, PSE also failed to produce a least-cost estimate of near-term power supply savings that would accommodate the increased flexibility PSE promotes as an advantage to selling Centralia. (Ex. T-405 at 6.) The Commission, therefore, should disregard PSE's estimate of near-term power costs resulting from the sale of Centralia.

ii. PSE's Estimate of Near-Term Market Costs is Unreasonably High

PSE's estimates of power replacement costs are also unreasonably high. PSE assumed incorrectly that the price forecast for replacement power should be applied to the total equivalent amount of Centralia production in the same shape as the power was produced by Centralia, including off- and on-peak hours. As explained earlier, neither of these circumstances are likely to occur according to PSE's own testimony. PSE's market cost methodology, therefore, failed to consider the potential for replacement energy to be purchased in off-peak or low-load hours, or from alternative sources, both of which would result in lower-cost power supply. (Ex. T-405 at 7-8.)

Also, PSE's analyses are based on strips of forward futures contracts for firm power. These prices represent the high-end of energy replacement costs. The actual AURORA prices for the same near-term period are lower and represent potential "spot-market" prices for energy for all or a portion of the price of replacement energy for Centralia. (Ex. T-405 at 8.)

iii. Staff's Estimate of Near-Term Power Supply Savings is Conservative

The Staff estimate of near-term power supply savings for PSE is calculated in Exhibit 406, Section III. It replaces the annual strip of forward futures contracts used by PSE for 2000 and 2001 with the expected AURORA results, to derive an estimate of spot market purchases. Staff's methodology also includes a $1/mWh additional charge to represent the market cost associated with firming those spot market purchases. This methodology results in power supply savings of $1.5 million in 2000 and $2.6 million in 2001.

Staff's estimate of near-term power supply savings is reasonable and conservative for a number of reasons. First, there are a range of power cost estimates that can be calculated. At one extreme, the Company's Scenario 1 with "expected" market prices, but excluding the gain on sale, results in an increase in near-term power supply costs of about $1.7 million in 2000 and no change in 2001. (Ex. 406, Section I; Ex. T-405 at 9.) At the other extreme, a scenario in which PSE did not replace any Centralia power would result in an estimate of $2.9 million in 2000 and $3.6 million in 2001. (Ex. 406, Section II; Ex. T-405 at 9-10.) Staff's estimate of near-term power supply savings falls reasonably between these two extremes.

Second, despite the company's testimony to the contrary, Staff's estimate assumes that the entire amount of energy from Centralia is replaced on a firm basis. Staff also did not reflect the likely potential to shape the energy into lower cost off-peak or low-load hours, nor did Staff re-dispatch existing or alternative load resources to meet load requirements. (Ex. T-405 at 11-12.) Staff, therefore, gave PSE the benefit of the doubt by ignoring combinations of alternative resource options that would result in lower costs for whatever amount of energy is needed post-Centralia. This would include the ability to meet all near-term energy needs with existing, very low-cost hydro generation during favorable water years. (Ex. T-405 at 12.)

Finally, the $1/mWh is a reasonable estimate of the price for ancillary firming based upon a market survey of firming charges by Staff. (Ex. 411; Tr. 598.) It was also applied to the total Centralia production for all periods, even though actual purchases of a firming product will not likely reflect those amounts or time frame. (Id.)

iv. The New AURORA Results Should Not be Substituted in Staff's Estimate of Near-Term Power Supply Savings

Staff's estimates of near-term power supply savings relied upon AURORA forecasts of market prices from the Colstrip proceeding. The company criticized Staff on this point given a more recent AURORA forecast that indicates that market prices for energy may be higher. The company introduced Exhibit 410 to demonstrate that this recent AURORA forecast, under the Staff methodology, would result in higher power costs of $1.3 million in 2000 and lower power costs of only $242,000 in 2001. (Tr. 593.) Therefore, according to PSE, Staff's recommendation would require the company to defer for the benefit of ratepayers all of the gain plus $4.1 million in power supply savings and, if the new higher AURORA forecast proves accurate, absorb higher power costs during the rate plan. (Tr. 595.)

The company's criticism, however, mischaracterizes Staff's recomendation and ignores its own testimony concerning power replacement. First, Staff did not adopt blindly any forecast of market prices, whether from the Colstrip AURORA model, the new AURORA model, or other available forecasts. Instead, Staff applied a test of reasonableness to the Colstrip AURORA forecast given the inherent problems that exist in the model, other sources of market price estimates, and the quality of power being examined. (Tr. 591, 593-594, 601-602, 610.) The Colstrip AURORA results passed that test of reasonableness. In contrast, the newer AURORA model was not credible, especially given market prices the Commission is supporting in BPA's pending rate proceeding. (Tr. 603, 609.)

Moreover, as stated earlier, Staff applied the AURORA results to the total production of Centralia in the same shape as the power is produced on a firm basis. The company's testimony is clear, however, that it will likely not replace all of the energy produced by Centralia and will utilize a portfolio of other lower-cost options, including very inexpensive hydro-power shaped into non-firm or low-load hours for any energy that is replaced. (Tr. 603.) Therefore, whichever AURORA forecast is used, Staff's recommendation results in a conservative estimate of near-term power supply savings. (Tr. 603-604.) In fact, power supply savings are likely to be higher than Staff's estimate since the real opportunity for savings comes not from changes in market price forecasts, but in the ability of PSE to acquire a combination of resources to meet load if it becomes necessary to replace energy from Centralia. (Ex. T-405 at 12.) Those potentially greater savings will accrue to the benefit of **shareholders** under Staff's recommendation.

v. Staff's Estimates of Near-Term Power Supply Savings Should Not Be Trued-Up to Actual

In the Colstrip case, the Commission ordered PSE to track the actual cost of replacement power in order to true-up future deferrals. (Fourth Supplemental Order at 8.) Staff recommends that no similar requirement be ordered for Centralia for two essential reasons. First, Staff's recommendation provides an incentive to the company to at least match Staff's estimates of near-term power supply savings. In fact, the incentive is for the company to purchase even lower cost power and keep the additional savings. A true-up to actual, as ordered for Colstrip, has no such incentive. (Tr. 600.)

Most important, however, the true potential for power cost savings is not the result of in-kind power replacement but, as discussed above, in the coordinated dispatch of PSE's integrated system of utility and non-utility owned resources. (Ex. T-405 at 12; Tr. 601.) Therefore, a dispatch model must be used for PSE's system in order to compare overall power supply costs under actual conditions with an estimate of power supply costs that would have been achieved if PSE's system still included Centralia. Differences in resource availability, weather, load, load shape, market prices, and other factors, however, instill in this exercise the same controversies and uncertainties that exist when simply attempting to model dispatch efficiencies based on a "test-year."

Therefore, it is extremely difficult, if not impossible, to calculate the actual cost of replacement power to be used for truing-up purposes. For this reason, Staff recommends that its conservative estimate of power supply savings be used without true-up for purposes of measuring the amount of the deferral. (Ex. T-405 at 13; Ex. 412.)

3. Avista

In its' direct testimony, Avista indicated that it had agreed to purchase Portland General Electric's 2.5% share of Centralia (PGE Acquisition) and to resell that share to TransAlta for a gain of $4.2 million. (Ex. T-301 at 4; Tr. 212.) The purchase from PGE closed on December 31, 1999. (Tr. 212.) The company excluded from its application in this proceeding the resale of the PGE Acquisition to Transalta. It believes that the portion of Centralia it purchased from PGE is not subject to Commission jurisdiction because PGE continues to maintain operational responsibility for that plant. (Tr. 213.) The company's intent is to have the gain from the PGE Acquisition go to shareholders in its entirety. (Tr. 213.)

Staff did not discuss the PGE Acquisition in its testimony due to doubt when the testimony was filed that the Oregon Commission would approve that sale, which was made at book value, while the resale to TransAlta was made at two and one-half times book value. (Tr. 494.) However, the PGE Acquisition was made by Avista Corporation as the utility. (Tr. 216.) Therefore, even though Avista Corporation is not a registered holding company, its transaction with PGE raises significant issues with respect to Commission jurisdiction given recent Commission decisions extending its jurisdiction under RCW 80.12.020 to analogous transactions. (GTE-Bell Atlantic, Docket No. UT-981367 and Scottish Power, Docket No. UE-991627). The PGE Acquisition by Avista also raises issues concerning the competitive pressures that are brought to bear when a utility enters both regulated and unregulated business ventures. (Tr. 493.)

Staff intends to address these issues in Avista'a pending general rate case. (Tr. 495.) However, in the current case the Commission should decide that the gain on the PGE Acquisition should be treated in the same manner the Commission orders for the gain on the remainder of the Centralia sale. In that way, and assuming that the Commission determines in the rate case that its jurisdiction does extend to the PGE Acquisition, the parties will know exactly how to treat the PGE Acquisition for ratemaking purposes. No additional time or effort would need to be devoted to that issue.[7]

[7]On January 24, 2000, Avista filed an application in Docket UE-000080 requesting a ruling by the Commission on the PGE Acquisition. The application asks the Commission to advise the company that its order in the Centralia case will address the treatment of the gain associated with the PGE Acquisition. This request is

4. NW Energy Coalition (NWEC)

NWEC agrees with Staff that the net gain should be allocated exclusively to ratepayers. However, NWEC recommends that this allocation be made in equal thirds to each of the following categories: rate adjustments, clean energy investments, and buy-down of generation-related assets. (Ex. T-701 at 10.)

Staff appreciates NWEC's concurrence that the entire gain should be allocated to ratepayers. Staff disagrees, however, with NWEC's recommendation to allocate the gain to these specific categories in this case. First, NWEC's recommendation to now determine how to reflect precisely the gain in rates suffers from the same deficiencies noted earlier with respect to both PacifiCorp's depreciation reserve proposal and its proposal to write-down its Yampa acquisition adjustment. These are issues best addressed in a general rate proceeding when all aspects of ratemaking and company operations can be fully examined and deliberated.

Second, NWEC proposes that the Commission order the companies to invest the gain in a specific category of resources, namely green resources. NWEC did not demonstrate, however, that the Commission has legal authority to reach such a decision. Moreover, the Commission has traditionally analyzed the prudence and reasonableness of resource acquisitions in the context of a general rate proceeding. That rate case review can include examination of the type of resource acquired, including clean resources. NWEC's proposal contravenes that standard practice without explanation as to why its interests are not met through traditional means.

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consistent with Staff's recommendation that the gain on the PGE Acquisition should be treated in similar fashion to the gain on the entire Centralia sale.

III. CONCLUSION

The Commission has stated clearly that its responsibility in this case is to determine whether there is, at least, no harm to the public interest from the sale of the Centralia facilities. The presentations made by the companies themselves demonstrate that this test has not been satisfied. The sale of Centralia does not produce net monetary benefits for ratepayers. In fact, it exposes ratepayers to long-term risks of higher-cost replacment power than if ownership remained with the utilities.

Therefore, Staff recommends that the sale be approved, but only if all of the gain and all of the power supply savings are allocated exclusively to ratepayers. This recommendation, along with the qualitative benefits associated with the sale, allows the transaction to be consistent with the public interest. It will then be the responsibility of the companies, not the Commission, to determine whether to proceed with the sale under that structure.[8]

DATED this 28th day of January, 2000.

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[8] The Commission is not without remedy if the companies do not proceed with the sale under the conditions that the Commission may order. The Commission has the authority in a general rate case to treat the companies as if the sale was closed with the conditions required by the Commission. (Tr. 566-567.) This authority with respect to the sale of generation assets is no different than the Commission's authority with respect to the acquisition of generation assets or purchased power. In both cases, the Commission can reflect in rates reasonable and prudent generation expenses and investment even if those items do not reflect the acquisitions actually undertaken by a company.