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BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application of	)	
	)	DOCKET NO. UE-991255
AVISTA CORPORATION	)	
	)	
For Authority to Sell its Interest in the Coal-Fired Centralia Power Plant	)	OPPOSITION OF AVISTA CORPORATION TO PUBLIC COUNSEL'S MOTION TO REOPEN CENTRALIA DOCKET

I. INTRODUCTION

Avista Corporation ("Avista" or "Company") opposes Public Counsel's Motion to Reopen the record in the Centralia Docket. Public Counsel asserts that there is new information available now that was not available during Docket No. UE-991255 (the Centralia Case), and that this "new information" in Docket No. UE-991606 (Avista's General Rate Case) produces results that are "opposite" to that included in the Centralia Case. (Public Counsel's Motion to Reopen, P. 3, LL. 22-26)

As the Company will demonstrate below, the information that produces an increase in revenue requirement in Avista's General Rate Case is not new information. The information in question was clearly included in the record in the Centralia Case. Furthermore, an increase in revenue requirement associated with replacement power costs, <u>in the near-term</u>, is consistent with the analysis in the Centralia Case, and with the decision that the sale of Centralia is in the public interest. Finally, the gain associated with the sale of Centralia assigned to Avista's customers by the Commission, offsets the near-term increased cost of replacement power, such that the net impact of the sale of Centralia in the General Rate Case is a net decrease in costs to customers.

II. ARGUMENT

A. There is No New Information at Issue

The replacement power costs included in Avista's General Rate Case (Docket No. UE-991606) in Exhibit 194 C are based on the Company's replacement purchase agreement. This is the same agreement that was provided to the parties, including Public Counsel, in the Centralia Case. The change in costs shown in Exhibit 194 C reflect the elimination of all of the Centralia resource costs, and inserting the replacement resource. Therefore, there should not be an issue regarding new information. As the Company will explain below, Public Counsel’s concerns in its Motion to Reopen are related to an erroneous comparison of cost data by Public Counsel, and not new information.

B. Centralia Costs

In the Centralia Case, Avista provided a number of reasons supporting its decision to sell its share of the Centralia Generating Project. One of the primary reasons was the immediate requirement for significant capital expenditures related to the installation of pollution control equipment, including Scrubbers and Low Nox Burners (hereafter referred to as “scrubbers”). The Company testified that these immediate capital requirements would result in an increase in the ownership and operating costs of Centralia. (Exhibit T-303, P. 2, LL. 6-15)

Attachment A to this filing includes a copy of Page 1 of Exhibit 304 to Mr. Johnson's direct testimony in the Centralia Case. The last column of Attachment A shows the total cost of Centralia in 1999 to be $25.00/Mwh and increasing to over $30.00/Mwh in 2002, an increase of over 20%. This increase in costs is due primarily to the installation of scrubbers. Exhibit 324 in the Centralia Case (attached as Attachment B) included the 5-Year Capital Plan for the Centralia Project. The installation of the scrubbers is already in progress. Mr. Lazar, who testified on behalf of Public Counsel, recognized this near-term increase in the cost of Centralia in Exhibit 501 attached to his direct testimony in the Centralia Case (Exhibit 501, Page 7, Line 1 - Non-Fuel Revenue Requirement, and Line 6 - Ownership / Operating Cost).

The purpose for this overview of the Centralia cost increases is to demonstrate that the information in the Centralia Case clearly showed that the ownership and operating costs of Centralia will increase significantly in the near-term, whether the plant is sold or not. As we turn next to the issue of replacement power, it is important to keep in mind that the cost of Centralia presented in the Centralia Case prior to the installation of scrubbers was $25.00/Mwh (for 1999). And, furthermore, the cost of Centralia *currently* being charged to Avista's customers in retail rates, *excludes* the cost of scrubbers, and would be comparable to the $25.00/Mwh figure for 1999 as shown in Attachment A.

C. Cost of Replacement Power

There was significant discussion and debate in the Centralia Case regarding the future market price of power and the cost of replacement power assuming that the Centralia Project is sold. The Company has acquired a replacement resource for Centralia through December 31, 2003. As stated earlier, the cost of this replacement purchase was provided to parties in the Centralia Case, including Public Counsel. Although the actual pricing for the replacement purchase is confidential and cannot be disclosed in this document, the pricing in the agreement is above the $25.00/Mwh cost of Centralia. Furthermore, although the Company did not agree with the market prices proposed by

Public Counsel in the Centralia Case, the market prices used by Mr. Lazer for the year 2000 and beyond were above $25.00/Mwh.

D. The Record in the Centralia Case Shows that the Future Cost to Customers will Increase in the Near-Term Whether Centralia is Sold or Not

The point to the above summary of cost information presented in the Centralia Case is to demonstrate that the record in the case showed that the cost to customers will increase in the near-term whether Centralia is sold or not. The decision that had to be made in the Centralia Case, related to the sale of the Project, was which course of action would result in the lowest cost to customers in the long term, i.e., sell the Centralia Project or do not sell the Project.

If Centralia is not sold, the costs to customers will increase due to the installation of scrubbers, which is currently in progress. If Centralia is sold, the cost to customers will increase, at least in the near-term, due to the price of replacement power currently being higher than the existing cost of Centralia that is built into Avista's retail rates (i.e., approximately $25.00/Mwh). In either event, the information in the Centralia Case showed an increase in costs to the Company's customers in the near-term. As will be explained later, however, the sale of Centralia brings with it the gain on the sale, which will result in a reduction of costs to customers.

Public Counsel presents an erroneous comparison in its Motion to Reopen. The analysis in the Centralia Case compares the future costs of Centralia with the future costs of replacement power from the market. The future costs of Centralia, in the analysis, include the significant capital costs associated with installing scrubbers, with a total cost of Centralia exceeding $30.00/Mwh. Once the scrubbers are installed and in service, the cost of replacement power would be below the cost of Centralia.

As stated earlier, however, the cost of Centralia embedded in existing retail rates is comparable to the $25.00/Mwh, because the scrubbers that are currently being installed have not yet been included in rates. Therefore, any change in costs associated with Centralia in Avista's General Rate Case will be compared against the, currently lower, costs of Centralia embedded in existing retail rates.

E. The Sale of Centralia Results in a Decrease in Costs to Avista's Customers in Avista's General Rate Case

In its Motion to Reopen, Public Counsel expresses concern regarding an "increase in rates" in the General Rate Case of $4.1 million as a result of the sale of Centralia. (Public Counsel Motion to Reopen, P. 1, LL. 22-26.) Public Counsel's Motion, however, does not take into consideration all of the changes in costs associated with the sale of Centralia.

<u>The Company is actually proposing a net decrease in rates in the General Rate Case related to the sale of Centralia.</u> While it is true that the replacement power costs resulting from the sale will increase the revenue requirement, the sale also brings with it the gain of $19 million (after-tax) that the Commission has assigned to ratepayers.

As Mr. McKenzie explained in hearings before the Commission in the General Rate Case, Avista is proposing to offset the Ice Storm costs with a portion of the Centralia gain, and to amortize the remainder of the gain to customers over an eight year period, consistent with that approved in the Company's Idaho jurisdiction. The Company's proposed accounting treatment for the gain will result in a revenue requirement reduction that exceeds the $4.1 million increase in costs. Therefore, the net impact to Avista's customers in the General Rate Case from the sale of Centralia will actually be a net reduction in costs to the Company's retail customers.

In summary, if the sale of Centralia does not occur, customers will soon see a significant increase in costs due to the installation of scrubbers. If the sale of Centralia does occur, customers will see a net decrease in costs in the pending General Rate Case related to the sale.

III. REQUEST TO MOVE FORWARD WITH THE SALE WITHOUT DELAY

In hearings before the Commission in Avista's General Rate Case, the Company announced its intention to move forward with the sale of Centralia. In approving the sale of Centralia, the Commission stated in its order that the sale "is consistent with the interests of the ratepayers, shareholders, and the broader public, subject to appropriate accounting treatment." (Second Supplemental Order in Docket No. UE-991255, page 22,¶ 63.) The Company believes the analysis in the Centralia Case supports this decision. In its Motion to Reopen, Public Counsel has made an improper comparison of cost data as explained above. The Company's proposal in its pending General Rate Case regarding the sale of Centralia will result in a net decrease in costs to its retail customers.

Public Counsel's Motion to Reopen is completely without merit and should be summarily and firmly rejected. Reopening the Centralia Case at this point will jeopardize the sale of the Project, and cause the Company and its customers to lose the benefits associated with the sale.

Avista requests that the Commission reject Public Counsel's Motion to Reopen as soon as possible so that the Company may move forward with the sale without delay.

DATED this __________ day of April 2000

PAINE, HAMBLEN, COFFIN,
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By: ____________________________________
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