

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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10 AVISTA CORPORATION )  
11 )  
12 for Authority to Sell its Interest in the )  
13 Coal-Fired Centralia Power Plant )  
14 )  
15 )

DOCKET NO. UE-991255

16 ..... )  
17 In the Matter of the Application of )

DOCKET NO. UE-991262

18 PACIFICORP )  
19 )  
20 for an Order Approving the Sale of its )  
21 Interest in (1) the Centralia Steam )  
22 Electric Generating Plant, (2) the Rate )  
23 Based Portion of the Centralia Coal Mine, )  
24 and (3) Related Facilities; for a )  
25 Determination of the Amount of and the )  
26 Proper Rate Making Treatment of the )  
27 Gain Associated with the Sale, and for an )  
28 EWG Determination. )  
29 )  
30 )

31 ..... )  
32 In the Matter of the Application of )

DOCKET NO. UE-991409

33 )  
34 PUGET SOUND ENERGY, INC. )  
35 )  
36 for (1) Approval of the Proposed Sale of )  
37 PSE's Share of the Centralia Power Plant )  
38 and Associated Transmission Facilities, )  
39 and (2) Authorization to Amortize Gain )  
40 Over a Five-Year Period. )  
41 )  
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46 DIRECT TESTIMONY OF NANCY HIRSH

47 ON BEHALF OF THE NW ENERGY COALITION

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50 DECEMBER 8, 1999

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EXHIBIT NO. 701

ADMIT  W/D  REJECT

1 **Qualifications**

2 *Q. Please state your name, business address and position with the NW Energy*  
3 *Coalition.*

4 A. My name is Nancy Hirsh. My business address is 219 First Ave. South, Suite  
5 100, Seattle, WA 98104. I am the policy director for the NW Energy  
6 Coalition (NWEC).

7 *Q. Please describe your education, business experience and responsibilities.*

8 I graduated from the University of Michigan in 1984 with a B.S. in natural resource  
9 policy. I have been working for the Energy Coalition since 1996. Prior to joining  
10 the Energy Coalition, I worked for Environmental Action Foundation in  
11 Washington, D.C. for 10 years. During that time I worked on national energy  
12 policy, federal investments in energy efficiency and renewable resources and  
13 sustainable transportation policy.

14 *Q. Have you previously testified in regulatory proceedings?*

15 A. Yes. I have testified before the D.C. and Georgia Public Service Commissions, the  
16 Public Utility Commission of Oregon and the Washington Utilities and  
17 Transportation Commission. My previous testimony concerned integrated resource  
18 planning, cost allocation issues, and the public benefit concerns from utility  
19 mergers.

20 **Purpose of Testimony**

21 *Q. What is the purpose of your testimony?*

22 A. My testimony will explain why NWEC believes that:

- 23 • the type of power purchased to replace the power from Centralia is a  
24 fundamental issue in determining that the sale is consistent with the public  
25 interest;
- 26 • the net sale proceeds should flow back to customers and benefit the  
27 environment.

1 **Power Replacement**

2 *Q. Should quantitative financial gain be the only determining factor when judging if the*  
3 *sale is in the public interest?*

4 A. No. For the purpose of our testimony in this proceeding, we do not dispute the  
5 market price offered for the Centralia plant. We acknowledge that Public Counsel  
6 has made a compelling argument that current market forecasts have significantly  
7 improved the economic value of the plant and call into question the benefits of the  
8 sale. The public interest, however, can not be solely determined by speculating on  
9 whether the market price is correct. The consumer should receive other benefits in  
10 addition to price. The financial gain from the sale should be used to provide  
11 additional or different services or benefits that are in the public interest. In the  
12 Commission's Third Supplemental Order in the Colstrip sale, the Commission says  
13 that "the public interest is broader than a mathematical calculation of costs and  
14 benefits." (Docket No. UE-990267, Page 19.)

15 *Q. Where is the value to the customer in the sale?*

16 A. Taking advantage of the cash earned from the sale and investing some of it in  
17 cleaner, less polluting power resources provides benefits (such as cleaner air and  
18 reduced threat of climate change) that are in the public interest. Acknowledging the  
19 environmental impact of fossil-fuel generated electricity and using the power supply  
20 reconfiguration and financial benefits that occur from this sale to support a more  
21 environmentally sustainable power mix will add value to customers.

22 *Q. Why is Centralia's environmental history important in the sale?*

23 A. For more than 25 years, the Centralia coal plant has emitted significant quantities of  
24 air pollution. The plant is the largest single source of air pollution in the Pacific  
25 Northwest. The region, Washington state in particular, has had to suffer the  
26 environmental and human health impacts from annual emissions of 9.96 million  
27 tons of carbon dioxide (CO<sub>2</sub>), 64,000 tons of sulfur dioxide, 16,000 tons of



1 nitrogen oxides and unmeasured amounts of mercury.<sup>1</sup> While the 1998 order from  
2 the Southwest Air Pollution Control Authority addressed reductions in sulphur  
3 dioxide and nitrogen oxides associated with the plant, it did not deal with CO<sub>2</sub> or  
4 toxic emissions like mercury.<sup>2</sup> While installation of the SO<sub>2</sub> scrubbers is welcome  
5 and long overdue, they will consume 3% of the plant's output in order to operate.  
6 This means a commensurate increase in CO<sub>2</sub> emissions.

7 *Q. What are the applicants proposing for power replacement?*

8 A. Avista states in Mr. Johnson's testimony (Exhibit T-303, Page 2) that a short-term  
9 market purchase of 1-3 years or a 1-3 year buy-back from TransAlta will be  
10 pursued. Long-term power replacement would come from market purchases, new  
11 generation facilities and/or demand side options.

12 Mr. Miller's testimony (Exhibit T-206, Page 23) for PacifiCorp seems to  
13 imply that the Company will buy back 4 million-megawatt hours per year from  
14 TransAlta and will balance its remaining load and resources with market purchases.  
15 However, Mr. Miller's testimony is not entirely clear as to whether this buy back  
16 from TransAlta will occur.

17 Mr. Gaines' testimony (Exhibit T-100, Pages 5-6) states that if replacement  
18 is necessary, PSE will consider spot market purchases, shorter fixed-term  
19 purchases, DSM, renewable energy or cost-effective distributed generation.  
20 However, it is worth noting that on Page 10 of this exhibit, Mr. Gaines states that  
21 the Company already has discussed power purchase agreements with gas-fired  
22 plant developers. Mr. Gaines goes on to say that the sale of the plant will "allow  
23 PSE to pursue the benefits of the emerging robust wholesale market for new  
24 generation...." (line 21-22, Page 10, Exhibit T-100)

25 *Q. What kind of power replacement plan will make the sale in the public interest?*

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<sup>1</sup> U.S. Environmental Protection Agency data.

<sup>2</sup> SWAPCA 97-2057R1 Regulatory Order to Establish RACT Emission Limits and Order of Approval. Centralia Plant, PacifiCorp, et. al. Centralia, Washington.

1 A. One that results in a low carbon purchase. We recommend that each of the utilities  
2 in this proceeding issue a request for replacement power (RFP) with low carbon  
3 dioxide emissions. We recommend that Avista, PacifiCorp and PSE set a goal for  
4 the low carbon power product to have CO<sub>2</sub> emissions that do not exceed 0.7 lbs  
5 CO<sub>2</sub>/kWh of net electric power output. This emissions level is the Oregon Energy  
6 Facility Siting Council standard for new power plants. It sets the standard at 17  
7 percent below the emissions of the most efficient base-load plant operating in the  
8 United States.<sup>3</sup> The RFP should be issued for all or a significant part of the  
9 replacement power needed. Winning bids should be evaluated on both price and  
10 emissions.

11 We recognize that the uncertainty of the sale and sale date make short-term  
12 power replacement options limited. We anticipate that most of the owners of  
13 Centralia will buy back power from TransAlta for the first year following the sale.  
14 A low carbon RFP could be issued to meet supply needs in years two and beyond.  
15 Locking in a power replacement commitment beyond the first year at this time  
16 seems unnecessary and forecloses the opportunity to pursue a low carbon  
17 alternative.

18 *Q. How does Centralia and a generic market purchase compare with the Oregon*  
19 *standard?*

20 A. Centralia emits 9.96 million tons of CO<sub>2</sub> annually. This is equivalent to 2.48  
21 lbs/kWh. CO<sub>2</sub> emissions for the Western grid (WSCC) are 1.056 lbs/kWh.<sup>4</sup>  
22 Emissions in the Northwest Power Pool are 0.92 lbs of CO<sub>2</sub>/kWh.<sup>5</sup> Emissions  
23 above 0.7 lbs/kWh should be offset. These numbers indicate that there could be an  
24 easy opportunity for the market, if given the right signal, to create a low CO<sub>2</sub>  
25 product.

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<sup>3</sup> Oregon HB3283 - enrolled, 1997.

<sup>4</sup> U.S. Environmental Protection Agency, Egrid, 1996 data.

<sup>5</sup> Portland General Electric's Energy Label - "What is Behind Your Power". [www.PGE-Online.com](http://www.PGE-Online.com)

1 *Q. Why is it in the public interest to secure a low carbon power replacement product?*

2 A. The energy system in our region has a tremendous impact on air quality, natural  
3 resources, the economy and our environment. The Western power market is 40%  
4 fossil fuels (coal, gas and oil).<sup>6</sup> Generating electricity in the U.S. is responsible  
5 for the emission of more than 20% of all toxic heavy metals, 32% of particulates,  
6 33% of all nitrogen oxides, 36% of carbon dioxide and over 70% of all sulfur  
7 dioxides.<sup>7</sup> Fossil fuels are major sources of acid rain, pollution-caused illnesses,  
8 habitat destruction, smog and greenhouse gases.

9 Carbon dioxide emissions from all sources make up the majority of  
10 greenhouse gases emitted. Internationally, the scientific community recognizes  
11 global climate change as one of the most serious environmental issues facing the  
12 world. The Clinton Administration signed the 1997 Kyoto Protocol to control  
13 greenhouse gas emissions and is committed to reducing CO<sub>2</sub> by 7 percent below  
14 1990 levels between 2008 and 2012. In addition, at the Conference of the Parties  
15 in Bonn, Germany, last October, the U.S. was singled out as an industrial nation  
16 not doing enough to reduce emissions. Both international and national pressure  
17 increase the likelihood that there will be restrictions and/or fees on CO<sub>2</sub> emissions  
18 and there may be incentives and/or mandates supporting alternative low carbon  
19 fuels.

20 The Climate Impacts Group at the University of Washington has done both  
21 climatic and economic research evaluating the impacts of climate change on the  
22 Northwest. A study released in the Fall of 1999 shows that the Northwest can  
23 expect climate change to create warmer and wetter winters, increased flooding,  
24 impacts on salmon runs and impact forest growth. Polls show that Northwest  
25 citizens are concerned about climate change and willing to invest in solutions. A

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<sup>6</sup> Northwest Power Planning Council and Oregon Office of Energy.

<sup>7</sup> U.S. Environmental Protection Agency data.



1 low carbon power product will reduce the risk to Avista, PacifiCorp and PSE of  
2 carbon restriction initiatives at the national and perhaps state levels.

3 Given the fuel mix of the WSCC, undifferentiated market purchases face  
4 similar risks from future carbon restrictions as Centralia does. A low carbon  
5 market purchase reduces this risk.

6 *Q. How much will a low carbon power product cost?*

7 A. We believe that such a product is available in the marketplace for little or no  
8 premium above a standard market product. If the low-carbon RFP,  
9 notwithstanding our expectations, elicits bid premiums that the company and  
10 Commission deem excessive, then the low-carbon purchase need not be  
11 consummated. Our goal with this recommendation is to challenge the market, not  
12 to lock in a purchase regardless of the price.

13 *Q. What if there is a slight premium?*

14 A. A portion of the net sale proceeds that goes to customers or a portion of the revenue  
15 requirement not used to replace the power from Centralia (as discussed on the next  
16 page) should be used to offset the premium.

17 *Q. Are consumers willing to use some of the net sale proceeds from this sale for such a  
18 purpose?*

19 A. Yes. Consistently, surveys and focus groups done in the Northwest and nationally  
20 show that citizens are concerned about the environmental degradation that occurs  
21 from generating electricity and are supportive of investments in clean power sources  
22 such as non-hydro renewable resources. A recent report from the Bonneville  
23 Power Administration reviewed surveys, polls and focus groups conducted by  
24 utilities and others in the Northwest and found that consumers overwhelmingly  
25 "support environmentally sound practices regarding resource acquisition."<sup>8</sup> There

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<sup>8</sup> Renewable Resources and Conservation: What Consumers Want. Edward Ferguson, Bonneville Power Administration, April 21, 1999.

1 is strong evidence that consumers are willing to pay more for products delivered or  
2 manufactured in an environmentally friendly manner. In Pennsylvania, for  
3 example, 10 percent of customers have switched suppliers since open access began  
4 and 14 percent of those who have switched have chosen a green power product.<sup>9</sup>

5 *Q. Should power replacement strategies be done in the context of long range planning?*

6 A. Yes. With the sale of this resource, each utility faces a new least-cost planning  
7 paradigm. All three of the applicants are in the midst of updating their integrated  
8 resource plans or least-cost plans. Reliance solely on undifferentiated supplies has  
9 its own risks and does not necessarily incorporate societal least-cost principles.  
10 The Commission recognized the need for continued utility long-range planning in  
11 its Colstrip Third Supplemental Order (Docket No. UE-990267) by stating that "the  
12 'new world' of power supply will, in all likelihood, require more planning rather  
13 than less." (page 21-22) We believe that a least-cost planning analysis will  
14 identify a low carbon power replacement strategy as a cost-effective approach to  
15 meeting each applicants replacement power needs.

16 *Q. Will each utility need to replace all of the power from Centralia?*

17 A. Probably not. Least-cost plans will help identify how much of the power from  
18 Centralia needs to be replaced. If not all of the power needs to be replaced, then the  
19 company has financial resources that they were spending on the power from  
20 Centralia that could now be used to purchase environmentally beneficial low carbon  
21 power resources.

## 22 **Allocation of the Net Sale Proceeds**

23 *Q. What is each company proposing to do with the net sale proceeds?*

24 A. Avista is proposing that all of the gain be retained by shareholders because of the  
25 long-term benefits that customers have received from Avista, past losses borne by

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<sup>9</sup> Assessment of Green Power, A Moving Target In Current Climate of Restructuring. Mark Glyde, NW Energy Coalition Report. November 1999.



1 shareholders and current low cost market purchases that benefit customers but not  
2 shareholders. Mr. Dukich's testimony (Exhibit T-306, Page 8,) also supports the  
3 depreciation method proposed by PacifiCorp should the Commission not support  
4 Avista's allocation.

5 PacifiCorp is proposing a depreciation reserve methodology that is based  
6 upon the percentage of capital costs that have been recovered over time from  
7 customers (Direct Testimony of Ms. Eakin, Page 3). This method allocates 64% of  
8 the gain to customers and 36% to shareholders.

9 PSE proposes to amortize the gain for shareholders over five years. PSE  
10 states that the sale is consistent with the Commission's Puget/Washington Natural  
11 Gas merger order urging PSE to pursue cost savings (Direct Testimony of Mr.  
12 Gaines, T-101, Page 15). Cost savings from the sale should therefore accrue to  
13 shareholders.

14 *Q. How does NWEC think the gain on the sale should be treated?*

15 *A.* Each company should be made whole on the book value of the plant. All of the  
16 remaining proceeds should then be allocated to the benefit of ratepayers and the  
17 environment.

18 Avista's statement that they have been underearning in most years since  
19 1973 reflects only the fact that they have not chosen to go in for a rate case on a  
20 regular basis. There is nothing stopping the Company from earning its allowed rate  
21 of return. The regulatory compact (or lag between rate cases) provides an incentive  
22 to a company to be efficient such that efficiencies accrue to shareholders between  
23 rate cases. The low cost market purchase example outlined in Mr. Dukich's  
24 testimony (Exhibit T-306, Page 7) illustrates an example of a smart power purchase  
25 executed by the Company such that it retains the difference between the approved  
26 revenue requirement and the low market cost until the next rate case. Providing

1 low rates and high quality service to customers is to be expected from a regulated  
2 utility in the Northwest and Avista is recognized as just such a leader.

3 The depreciation reserve methodology outlined by PacifiCorp appears to  
4 provide shareholders with bonus returns above their authorized rate of return. It is  
5 not clear why the revenues from the sale should be treated any differently from any  
6 other revenues collected by the company. NWEC supports the analysis and  
7 conclusions put forward in the direct testimony of Bob Jenks of the Citizens' Utility  
8 Board (CUB) of Oregon on this matter as submitted to the Public Utility  
9 Commission of Oregon in Docket UP168 (Exhibit 702).

10 The Commission states in the Colstrip Order that "the Commission in its  
11 order approving the merger did not grant PSE permission to sell used and useful  
12 generation assets as a power cost savings." (Docket No. UE-990267, Page 18)  
13 Given this decision, the net sale proceeds should accrue to customers.

14 *Q. How should the net sale proceeds be allocated to customers?*

15 *A.* Allocation of the net sale proceeds to customers will deliver the economic value that  
16 the utilities' customers have already paid for. This benefit can materialize in three  
17 ways: rate adjustments, clean energy investments and buy down of generation-  
18 related regulatory assets. We propose that the net proceeds be divided in thirds and  
19 allocated to each of the three categories listed above as appropriate.

20 *Q. Are there other clean energy investments for the net sale proceeds that will benefit  
21 the environment in addition to low carbon power replacement?*

22 *A.* As stated earlier, customers are concerned about the environmental impacts from  
23 power generation. The Centralia generating plant utilizes old technology and a dirty  
24 fuel stock. The Northwest is a region known for leadership on environmental  
25 protection and technological innovation. In addition to supporting a low carbon  
26 power replacement purchase, a portion of the gain on the sale should be used to  
27 take advantage of the leadership in the Northwest in the development of advanced

1 clean energy technologies. Avista, PacifiCorp, PSE and the Commission should  
2 support a clean energy technology initiative to provide investments in new advanced  
3 clean energy development. NWEC believes that the Companies should maximize  
4 new investment in sustainable technologies in the aftermath of the sale.

5 Investments in clean energy technologies will help position each company to take  
6 advantage of growing market interest in more environmentally preferred power  
7 sources. Such investments can be made directly by the utility or through a third  
8 party regional organization whose mission is further development of new clean  
9 energy technologies and competitive markets.

#### 10 Summary

11 *Q. Can you summarize your testimony?*

12 *A.* Yes, after 27 years of uncontrolled air emissions from Centralia, it is important for  
13 the owners to invest in or purchase resources that will provide both competitive  
14 power for their customers and improve environmental quality. Requesting a low  
15 carbon power product will challenge the market to create such a product, thereby  
16 pushing the Western market toward cleaner generating resources. Such an  
17 investment is also less risky for consumers given the likelihood of future  
18 environmental regulation. All of the net sale proceeds should benefit customers and  
19 the environment. Customers began bearing the full cost of Centralia once it was  
20 placed in rates and consequently should receive 100 percent of the benefits from the  
21 sale. These benefits should be allocated to customers in ways that reflect the  
22 financial and environmental impacts of this resource.

23 *Q. Is this testimony different from the testimony you submitted in Oregon in Docket*  
24 *UP168, regarding PacifiCorp's sale of Centralia?*

25 *A.* Yes. My testimony is different in a few respects. First, I have addressed the cases  
26 put forward by Avista and Puget Sound Energy in this testimony. Neither are  
27 parties in the Oregon proceeding. Second, I have made some clarifying edits and



1 additions that further illustrate my arguments. And finally, I have acknowledged  
2 analysis done by Public Counsel's witness regarding the value of the plant.

3 *Q. Does this conclude your testimony?*

4 *A. Yes it does.*