BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-991255
APPLICATION TO SELL THE CENTRALIA POWER PLANT

PREPARED TESTIMONY OF GARY G. ELY

REPRESENTING AVISTA CORPORATION

Exhibit T-301

Q Please state your name, business address and present position with Avista Corporation ("Avista").

A My name is Gary G. Ely and my business address is East 1411 Mission Avenue, Spokane, Washington. I am employed by Avista as Executive Vice President.

Q Would you briefly describe your educational and professional background?

A I am a graduate of Brigham Young University. I have participated in several executive level courses including the Public Utility Executive Course sponsored at the University of Idaho, post-graduate courses through the Stanford Graduate School of Business, Edison Electric Institute Leadership, and Kidder Peabody School of Financial Management. I have held offices in various organizations including chairman for both the Gas Management Executive Committee and Marketing Executive Committee for the Pacific Coast Gas Association. I have served on the board of the Northwest Electric Light and Power Association and on the executive board of the Spokane Valley Chamber of Commerce. I served as president of the board of the Northwest Gas Association and was a member of the State Building Code Council which developed the State Energy Code. I am currently a board member of the Pacific Coast Gas Association and am the clearance officer for the corporation.

Q How long have you been employed by Avista and what are your present duties?

A I was first employed by Avista in 1967. As Executive Vice President I am responsible for further advancement of operations, growth and strategies in the energy and power business.

Q Have you previously testified before this Commission?

A Yes. I have testified before this Commission in several prior proceedings.

Q What is the scope of your testimony in this proceeding?

A I am the policy witness for Avista in this proceeding. My testimony provides background information related to the sale of Avista's 15% share of the Centralia Power Plant to TECWA Power, Inc. ("TECWA"), a Washington corporation and a subsidiary of TransAlta Corporation, headquartered in Calgary, Alberta, Canada. I also discuss why the sale of the Centralia Power Plant is in the public interest.

Q Would you please provide a brief summary of the testimony of the other witnesses representing Avista in this proceeding?

A Yes. In addition to myself, the following witnesses are presenting direct testimony on behalf of Avista:

George Perks: As Superintendent, Thermal Operations, he provides a description of the property being sold, the factors leading up to the sale and the terms of the sale.

William G. Johnson: As Power Contract Analyst, he provides an economic analysis comparing the estimated cost of continued operation of the plant to the projected cost of replacement power. He also discusses replacement power options.

Thomas D. Dukich: As Manager of Rates and Tariff Administration, he explains the basis for Avista's proposal relating to the disposition of the book gain resulting from the sale of Centralia.

Ronald L. McKenzie: As Senior Rate Accountant, he provides a calculation of the gain on the sale of the plant and provides proposed accounting entries related to the sale and the disposition of the gain.

Q Would you please describe the process that led up to the proposed sale of the Centralia Power Plant to TECWA?

A Yes. Continued operation of the Centralia Power Plant requires the installation of sulfur dioxide scrubbers and low nitrogen oxide burners to meet emission standards ordered by the Southwest Washington Pollution Control Authority. Portland General Electric ("PGE"), as well as some other co-owners, did not support the installation of scrubbers at the plant. On the other hand, closure of the plant would result in mine closure costs, reclamation costs and plant dismantling costs. Given the fact that capital decisions require unanimous agreement under the applicable contract, the divergent views of the owners created a difficult situation. The co-owners of the plant agreed that a single owner could more effectively deal with issues pertaining to continued operation of the plant and adjacent coal mine. In October 1998 the co-owners put the plant up for sale under an auction process. TECWA was selected as the winning purchaser. Details related to the sale price and the Company's investment in the plant are provided in Mr. McKenzie's testimony.

Q Are there provisions in the Centralia Plant Purchase and Sale Agreement regarding the installation of emission control equipment?

A Yes. The terms of the Agreement require the plant owners to have contracted by the end of May 1999 for the installation of required emission control equipment and to continue the installation of such equipment until the sale closes.

Q Did any co-owner object to the installation of the required emission control equipment?

A Yes. PGE wished to avoid investment in the emission control equipment and the risk of not recovering such investment in the event that the sale to TECWA did not close. Thus, to enable the sale to TECWA to proceed, on May 5, 1999 Avista agreed to purchase PGE's 2.5% interest in the Centralia Power Plant. Avista will sell the 2.5% share purchased from PGE to TECWA. Avista also entered into an agreement with Snohomish PUD to purchase their 8% share of the plant in the event that the sale to TECWA does not close. If the sale to TECWA does not close, Avista will own a 25.5% interest in the power plant (15% original Avista + 2.5% PGE + 8% Snohomish PUD).

Q Why did Avista elect to increase its ownership share of Centralia at the same time it was proposing to sell to TECWA?

A As explained above, Avista purchased PGE's 2.5% interest in order to facilitate the sale to TECWA. In addition, it agreed to purchase Snohomish PUD's 8% share if the sale does not close. If the sale closes, the Company and its customers will benefit through reduced exposure to mine reclamation costs and by enabling Avista to conduct resource optimization strategies more independently. If the sale does not close, Avista will have aggregated ownership shares by reducing the number of existing owners from eight to six, and streamlining somewhat the decision-making process at the plant. Either way, Avista is better off than it was before.

Q Would you please explain why the sale of the Centralia Power Plant to TECWA is in the public interest?

A Yes. The sale to TECWA will eliminate uncertainties to Avista and its customers regarding mine reclamation costs, as such costs will be borne by TECWA. Moreover, the sale enables Avista to conduct resource optimization strategies more independently. The Company's analysis shows that power costs to customers, as a result of the sale, will be reduced by approximately $7.7 million on a present value basis over the next 20 years.

On a broader scale, the planned installation of emission control equipment will place the power plant among the cleanest coal-fired plants in the United States. TECWA will be positioned to continue to employ the majority of the some 675 employees at the plant and mine. The region will retain a valuable 1340-megawatt resource, enough power for a city the size of Seattle. The power plant is strategically located along the Interstate 5 corridor and provides voltage stabilization for the transmission system on the west side of the state.

Q. What is the dollar amount of the book gain on the sale?

A. The after-tax gain on the sale for Avista's 15% share of the project will be approximately $29.6 million. As Mr. McKenzie explains in his testimony, this figure is an estimate and the final figure will be dependent upon the closing date of the sale, as well as other factors explained in his testimony. The final number, however, should not be significantly different, and, therefore, the $29.6 million represents a reasonable figure to use in discussing the disposition of the gain.

Q. In the Commission's Second Supplemental Order in Docket No. UE-990267, the Commission applied four standards in evaluating the proposed sale of Colstrip by Puget Sound Energy (PSE). Has the Company evaluated the sale of Centralia under these four standards?

A. Yes. The four standards articulated by the Commission in its order regarding the sale of Colstrip (Colstrip Order) are as follows:

1. The transaction should not harm ratepayers by causing rates or risks to increase, or by causing service quality and reliability to decline, compared with what could reasonably be expected to have occurred in the absence of the transaction.

2. The transaction, with conditions required for its approval, should strike a balance between the interests of ratepayers, shareholders, and the broader public that is fair and that preserves affordable, efficient, reliable, and available service.

3. The transaction, with conditions required for its approval, should not distort or impair the development of competitive markets where such markets can effectively deliver affordable, efficient, reliable, and available service.

4. The jurisdictional effect of the transaction should be consistent with the Commission's role and responsibility to protect the interests of Washington gas and electric ratepayers.

Q. Is the sale of Centralia consistent with the Commission's first standard related to "no harm" to customers?

A. Yes. The Company's analysis shows that over the 20 year study period, the costs to customers would be lower with the sale, as compared to the absence of the sale. The analysis provided by Mr. Johnson shows, on a present value basis, that customers would save approximately $7.7 million over the 20 year period.

As to service quality and reliability, the replacement resource options being evaluated by the Company would provide for service quality and reliability at a level equal to or greater than that provided by Centralia.

Thus, the sale of Centralia by the Company is consistent with the first standard applied by the Commission in the Colstrip Order related to no harm to customers.

Q. Is it necessary to include the book gain on the sale in the analysis in order to demonstrate a no-harm condition for customers?

A. No. Mr. Johnson's analysis showing a present value of cost savings to customers of $7.7 million <u>excludes</u> the book gain on the sale. Therefore, the book gain represents additional value over and above the no-harm standard.

In the Colstrip Order regarding the second standard, the Commission stated on Page 22 that:

> "If the gain from the Colstrip sale clearly accrued benefits beyond the break-even point, then the Commission would need to determine whether or how to share those benefits between ratepayers and shareholders."

In the case of the sale of Centralia, the book gain on the sale is over and above the "break-even point," and, therefore, a determination needs to be made regarding the disposition of the gain. This determination for Avista should take into consideration the unique circumstances for Avista, i.e., the disposition of the gain for Avista may appropriately be different than that ordered for PacifiCorp or PSE.

Mr. Dukich addresses the Company's proposal regarding the disposition of the gain on the sale of Centralia.

Q. Please explain the applicability of the remaining two standards used by the Commission in the Colstrip Order.

A. With regard to the third standard, I believe the sale of Centralia would not "distort or impair the development of competitive markets," and would not have a negative impact on the availability or deliverability of affordable, reliable electric service to the Company's customers. The testimony of Mr. Johnson will describe the resource options available to the Company to replace its share of the output from Centralia.

With regard to the Commission's fourth standard, the sale of Centralia would not diminish in any way the "Commission's role and responsibility to protect the interests of Washington gas and electric ratepayers."

Q Would you please summarize your testimony?

A Yes. In this case the Company is requesting that the Commission approve the sale of its share of the Centralia Power Plant. The sale of Centralia was accomplished through a competitive bidding process with TECWA as the winning bidder. We can only assume that the winning bid submitted by TECWA reflects the risks and rewards, both quantitative and qualitative, associated with the ownership and operation of the power plant and the coal mine.

The Company's decision to sell the plant took into consideration both the quantitative and qualitative factors surrounding continued ownership of the plant, versus the sale of the plant at the price offered by the buyer, together with the projected replacement power costs. The Company's decision to sell, especially with regard to the qualitative factors, also involved business judgement.

We believe that this transaction for the sale of Centralia is in the best interest of the Company and its customers, and that the sale is in the public interest. The Company requests that the Commission approve the sale of the plant, and the disposition of the gain on the sale as proposed in the testimony of Mr. Dukich.

Q Does that conclude your direct testimony in this proceeding?

A Yes, it does.