BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

PREPARED TESTIMONY OF WILLIAM G. JOHNSON

REPRESENTING AVISTA CORPORATION

Exhibit T-303

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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APPLICATION TO SELL THE CENTRALIA POWER PLANT

EXHIBIT NO. 304

WITNESS: WILLIAM G. JOHNSON AVISTA CORPORATION

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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APPLICATION TO SELL THE CENTRALIA POWER PLANT

EXHIBIT NO. 305

WITNESS: WILLIAM G. JOHNSON AVISTA CORPORATION

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

A. My name is William G. Johnson. My business address is East 1411 Mission Avenue, Spokane, Washington, and I am employed by the company as a Power Contracts Analyst in the Resource Optimization Department.

Q. What is your educational background?

A. I graduated from the University of Montana in 1981 with a Bachelor of Arts Degree in Political Science/Economics. I obtained a Master of Arts Degree in Economics from the University of Montana in 1985.

Q. How long have you been employed by the company and what are your duties as a Power Contracts Analyst?

A. I started working for Avista in April 1990 as a Demand Side Resource Analyst. I joined the Resource Optimization Department as a Power Contracts Analyst in June 1996. My primary responsibilities include the evaluation of the company's long term electricity supply and wholesale opportunities.

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

A. My testimony will examine the future cost of owning and operating the Centralia plant and the cost of replacement power options.

Q. Are you sponsoring any exhibits to be introduced in this proceeding?

A. Yes. I am sponsoring Exhibit No(s). 304 and 305, as previously marked for identification, which were prepared under my supervision and direction.

Q. What is the projected cost of continued operation of the Centralia plant under the current ownership arrangement?

A. The total cost of the Centralia plant is estimated to be $26.45/MWh in 2000 increasing to $35.50/MWh in the year 2020 as shown on page 1 of Exhibit No. 304. This cost includes fuel, operation and maintenance, and the return of and return on both existing and future capital expenditures. The cost also includes transmission expense and the expense to fund future mine reclamation costs. Current plans for the plant include the installation of scrubbers to bring the plant into compliance with the Clean Air Act, which is expected to be completed by 2003. The total plant cost shown on page 1 of Exhibit No. 304 includes the cost of scrubbers and other required capital expenditures.

Q. What are the replacement power options for the Centralia plant?

A. The company has several options available to replace power from the Centralia plant. In the short-term, 1 to 3 years, replacement power will most likely come from short-term market purchases or a 1 to 3 year purchase from the new plant owner's power marketing group, TransAlta Energy Marketing (U.S.) Inc. Any power purchase agreement with TransAlta would not begin before and would be contingent on the sale of the plant.

In the long-term, replacement power could come from purchases, new

generation facilities, and/or demand side options. Avista is exploring several options for new combined cycle combustion turbine plants. Given construction lead times, a new plant would not be available until after 2002.

Q. How does the cost of replacement power compare with the cost of continued operation of the Centralia plant?

A. Since no replacement power options have been finalized the actual cost is not known. Based on current estimates, short-term purchases of replacement power at the Mid Columbia would cost in the range of $25 to $30/MWh for a 1 to 3 year firm energy product with a monthly shape similar to Centralia's average monthly generation. Page 2 of Exhibit No. 304 shows the estimates of replacement power costs.

A new combined cycle combustion turbine plant is estimated to cost around $30/MWh in 2003 based on a projected natural gas price of $2.50/MMBtu. Future turbine costs would fluctuate depending on the cost of natural gas.

Replacement power may be somewhat lower cost than the total cost of operating Centralia in the near-term, however, the incremental cost of operating the plant (fuel and O&M) will likely be lower than market rates. Also, the Centralia plant is dispatchable, meaning it can be shut down or operated at lower output, when market prices are lower than the incremental costs of operating the plant. Market purchases are not dispatchable, making market purchases less advantageous from a resource flexibility perspective. Because Centralia's total plant cost will probably increase at a slower rate than market prices, the plant is estimated to have total costs close to market rates around the year 2010. Exhibit No. 305 compares total plant costs and the variable costs of the plant to projected replacement power rates.

Have you calculated the benefits of replacement power versus plant cost?

A. Yes I have. Based on the total cost of the Centralia plant and the medium case projection of replacement power the 20 year present value benefit of replacement power is $7.7 million. For perspective, the present value of total plant cost is around $380 million over the same period.

Q. Would you please summarize your testimony?

A. Yes. The projected cost of replacement power is slightly less than the cost of continued operation of the Centralia power plant. The 20 year present value savings of replacement power is estimated to be $7.7 million.

Q. Does that conclude your direct testimony?

A. Yes.