Christine O. Gregoire
ATTORNEY GENERAL OF WASHINGTON
900 Fourth Avenue #2000 • Seattle WA 98164-1012

January 28, 2000

Carole Washburn
WUTC
1300 S. Evergreen Pk. Dr. S.W.
PO Box 47250
Olympia, WA 98504-7250

RE: ***Avista/Pacificorp/PSE Application to Sell Centralia***
Docket No. UE-991255, UE-991262 and UE-991409
Response of Public Counsel to Bench Request 9

Dear Ms. Washburn:

Enclosed please find an original and nineteen copies of the Post Hearing Brief of Public Counsel for filing in the above-entitled case. Please note that pages 20, 23-25 and 28 have been redacted. The version of these pages is enclosed in a sealed envelope marked confidential.

Very truly yours,

Charles F. Adams by Cathy Hashim 2122

Charles F. Adams
Assistant Attorney General

Cc: Parties

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application of AVISTA CORPORATION for Authority to Sell its Interest in the Coal-Fired Centralia Power Plant	NO. UE-991255,
In the Matter of the Application of PACIFICORP for an Order Approving the Sale of its Interest in (1) the Centralia Steam Electric Generating Plant, (2) the Rate Based Portion of the Centralia Coal Mine, and (3) Related Facilities; for a Determination of the Amount of and the Proper Rate Making Treatment of the Gain Associated with the Sale, and for an EWG Determination	NO. UE-991262, ORIGINAL
In the Matter of the Application of PUGET SOUND ENERGY, INC. for (1) Approval of the Proposed Sale of PSE's Share of the Centralia Power Plant and Associated Transmission Facilities, and (2) Authorization to Amortize Gain over a Five Year Period,	NO. UE-991409 POST HEARING BRIEF OF PUBLIC COUNSEL

Christine O Gregoire
Attorney General

Charles F. Adams
Assistant Attorney General
Public Counsel

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

Table of Contents

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

I. INTRODUCTION

On May 7, 1999, Pacificorp, Avista and Puget Sound Energy (PSE) along with the other owners of the Centralia Power Plant entered into an agreement to sell the Centralia Coal Generating Plant to TECWA Power, Inc., a special purpose subsidiary of TransAlta Energy Corporation of Canada. At the same time, Pacificorp, which owns 100% of the Centralia coal mine, sold the mine to TECWA Fuel, Inc., another special purpose subsidiary of TransAlta Energy Corporation. Pacificorp, Avista and PSE then filed applications for approval of the sale of their respective interests of the facility with the Washington Utilities and Transportation Commission in August and September, 1999. The applications were essentially consolidated by Order and hearings were held for the presentation and cross-examination of the evidence of the applicants and other parties in this proceeding on January 7, 10 and 11, 2000. Post hearing briefs were scheduled to be filed by the parties on January 28, 2000.

A. SUMMARY OF POSITION OF PUBLIC COUNSEL

It is the position of Public Counsel in this proceeding that the applicants have failed to demonstrate that the sale of Centralia is in the public interest and that the Commission should therefore reject the respective applications. The applications should be rejected for a number of reasons:

1. The applicants have not met any of the Commission's articulated criteria for a making a public interest determination. Instead, the transaction and accounting treatments proposed expose customers to greater risks and higher future rates, provide disproportionate benefits to shareholders at the expense of ratepayers, and reduce this Commission's ability to protect the ratepayers' interests.

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

2. In violation of WAC 480-100-251, the applicants have failed to file least cost plans to address in advance the possible sale of Centralia (or any other plant) in a long-range (20 years) plan, describing their projected mix of resources, with and without the plant, to meet current and future needs at the lowest cost to the utility and its ratepayers. Consequently, the important issues mandated in the rule have not been addressed other than on an after-the-fact expedited basis with little information that demonstrates the sale is in the best interests of ratepayers, as opposed to shareholders.

3. The quantitative information provided by the parties in this record clearly establishes that the sale of Centralia will result in increased long-term costs to ratepayers. The Centralia coal plant, like comedian Rodney Dangerfield, "gets no respect", yet the plant year after year produces reliable, relatively low cost power which is very valuable to ratepayers and the region. Even with the added costs of scrubbers and life extending upgrades, the cost of producing power from Centralia is lower than projected replacement power over any kind of reasonable time horizon using reasonable assumptions.

4. The qualitative risks raised by the applicants, although theoretically real, are both speculative and unquantified, and they fail to overcome the substantial additional costs of replacement power that the sale of Centralia would transfer to ratepayers (captive customers). The best "real world" quantification of these risks is demonstrated by the actions of TransAlta, which, as a presumably well-informed buyer, is willing to pay substantially above book value for the plant with the intention of making a profit. It is also demonstrated by Avista, one of the applicants, which will purchase additional shares of Centralia at prices approximating book value if this TransAlta sale does not close.

5. If the Commission determines that the proposed sale is in the public interest, it is essential that all proceeds of the sale in excess of book value be attributed to ratepayers, who bear the risk of substantially increased power costs over time. There is no "gain" to be distributed, since it is nothing more than an accounting calculation which deducts the undepreciated book value of the plant from the proposed sale price and has no correlation to the value of its output (i.e., the cost of replacement power). In addition, the costs of replacement power should be tracked so that ratepayers do not pay costs in excess of the costs which would have been paid had Centralia not been sold. Even without the "gain", the applicants still benefit from the sale because they receive the remaining undepreciated book value of the plant and they are relieved of the burden of all the "qualitative risks" of continued ownership of the plant, which they claim to be concerned about.

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

B. THE LEGAL STANDARD: IS THE SALE OF CENTRALIA IN THE PUBLIC INTEREST?

The Commission on September 30, 1999, issued its Third Supplemental Order in the Application of Puget Sound Energy to sell its share of the Colstrip coal plant (Docket No. UE-990267). The Commission in that Order (pages 7-9), in a very similar proceeding to the present application to sell Centralia, set out the legal standards which it would apply in determining whether the proposed sale was in the public interest. Public Counsel submits that those standards are equally applicable in this proceeding. Those standards, briefly stated, 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 among 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 electricity ratepayers.

Another legal standard which must be considered by the Commission is its least cost planning rule (WAC 480-100-251), which "requires companies to forecast demand, evaluate ways to meet that demand, decide how it will meet demand at lowest cost, and prepare a two-year action plan to carry out its decisions." (PSE-Colstrip, Third Supp. Order, p. 21-22) One of the requirements of this rule is the preparation of a long-range (20-year) least cost plan

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

"describing the mix of resources that will meet current and future needs at the lowest cost to the utility and its ratepayers". WAC 480-100-251 is attached as Attachment A for reference. As will be discussed in greater detail below, the sale as proposed by the applicants provides benefits to shareholders while exposing ratepayers to substantial increased power costs for replacement power. Therefore, Public Counsel submits that the proposed sale is not in the public interest and should be rejected.

II. ARGUMENT

A. The Lack of a Least Cost Plan Mandates Rejection of the Sale

WAC 480-100-251, the Least Cost Planning rule, has been attached to this brief as Attachment A. It is not necessary to recite the provisions of the rule at length here, but a quick review of the provisions reveals that each electric utility is required to file a plan on a biennial basis. The utility's plan must include a range of forecasts of future demand examining the impact of economic forces on electric consumption, an assessment of improvements in the electric efficiency and generating technology, a long range plan (20 years) describing the mix of resources to meet current and future needs at the lowest cost to the utility and its ratepayer, and a short term (2 year) plan outlining the specific actions to be taken in implementing the long-range least cost plan. In essence, this process requires the utility to share with the Commission and its ratepayers its general thinking about where the electric market is going and how the utility plans to serve its customers. The applicants in this case have not complied with the requirements of this rule. PSE, for example, has not filed one since 1992-93, yet it has applied to the Commission first to sell its ownership interests in the Colstrip plant and now the Centralia plant. The Commission properly chastised PSE for this omission in its Colstrip Order (Third Supp Order, p. 21-22):

> The Commission agrees that older models of integrated resource planning may be less useful analytical tools, given the emergence of wholesale power markets. However, the company continues to bear a "responsibility to meet its load with a

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

> least cost mix of generating resources and improvements in the efficient use of electricity." WAC 480-100-251(1). Although different kinds of power supply may be obtained, or shorter-term planning horizons may emerge, the Commission still considers it the responsibility of any utility to demonstrate what futures it sees as possible, and how it plans to meet its obligations to serve. The "new world" of power supply will, in all likelihood, require more planning rather than less. Various market alternatives will need to be considered, with the sensitivity of each explored. PSE has not comported with these requirements. PSE should be ordered to file a Least Cost Plan no later than December 31, 1999. If PSE believes that any portions of the rule governing planning should not be applied, it may seek appropriate exemptions from the rule.

PSE at the very end of 1999 complied with this order, but it was not in time to be analyzed by the parties nor was it useful for this proceeding. Avista and Pacificorp are equally at fault in not filing least cost plans which address divestiture of generation assets.

The failure to comply with this rule is more than just a technical violation. It goes to the core of the analysis of the application to sell Centralia. The analysis which would be contained in a least cost plan would have provided the Commission and the parties in advance with the general mix of resources and "game plan" that the utilities foresaw over at least the next 20 years. And the plan would be subject to public scrutiny. Instead, we are faced with reviewing the proposed sale on an after-the-fact, expedited basis and with limited information. In fact, a cursory examination of the initial testimony and exhibits filed in support of the sale provides little information other than summary conclusions of the applicants that the sale is in the public interest. Although the legal burden of proof is on the applicants in this proceeding, the real burden of analyzing the sale and the applicants' supporting analysis has fallen on the non-applicant parties, who have had to in a very short time attempt to pry information out of the applicants through the discovery process and prepare analyses. This problem is illustrated by Staff's non analysis of the economics of the transaction. (Elgin T-400, p8-9)

During the cross-examination of company witnesses, a number of questions, hypotheticals and observations were made from the bench relating to issues such as the uncertainties inherent in forecasts many years out, the effects of possible changes in technology

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

such as fuel cells, and the changes in the utility generation and distribution markets. Other concerns were raised about the piece-meal sale of assets, leaving only high-cost, potentially-stranded assets at some future date. These types of issues are important, and are examples of why there is a process where all parties can participate. Had the applicants filed such plans as required, many of these long term plans and strategies to address these questions/hypotheticals would have been already out on the table for public discussion and available to the Commission.

Unfortunately, the actions of the applicants in this proceeding speak louder than words and demonstrate that the proposed sale of Centralia is not part of a coherent business strategy to provide power to customers at least cost. It is, in fact, an opportunistic strategy to reduce company risk and enhance shareholder return while leaving ratepayers to absorb whatever costs and risks result long-term. The actual actions of the applicants show that what is of concern to them is who gets the money, not what is the least cost path for the customers. For example, PSE applied to sell its ownership in the Colstrip plant, even though it increased costs to customers, and was allowed to sell the plant by the Commission as long as the gain and near-term power costs savings were allocated to customers. Has PSE proceeded to sell Colstrip as authorized? No, because it does not get to divert the money to shareholders. PSE's own rebuttal exhibits show that the economics of keeping Centralia are better than those for Colstrip (Compare Exhibit 114 to Exhibit 121).

Avista, which appropriately chose not to sell its share of Colstrip, here proposes to sell Centralia as long as it gets the gain. In the process of putting the potential sale together, Avista made side-deals for the Centralia shares of PGE and Snohomish PUD. If the TransAlta sale is consummated, Avista seeks to have the gain on the PGE share go to the shareholders. On the other hand, if the TransAlta sale does not proceed, then Avista will later decide on whether to make these new additions for its regulated or unregulated operations. Even though Avista states that it is resource short, it appears that Avista will base its decision on what makes the

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

shareholders the most money, instead of providing least cost resources to ratepayers. (See Ely, Tr 215-219, 222) The conflict of interest is obvious.

This conflict of interest is also apparent with Pacificorp. It indicates that it doesn't know if it will sell Centralia if it doesn't get its proposed split of the "gain". (Miller, Tr 783) It is Pacificorp shareholders who have the most to gain in the transaction because of the sale of the coal mine (the majority of which is unregulated) with its associated clean-up costs. The Company has submitted replacement power costs far below those of any other party to justify the sale, as will be discussed in the next section. It further proposes to allocate about one third of the above book "gain" from the sale to shareholders while it proposes at the same time to offset the ratepayers share against the above-book purchase of the Yampa power plant in Colorado, an acquisition that has never been reviewed or approved for ratemaking purposes by this Commission.

The actions of the applicants clearly show that they are proposing the sale on an ad hoc basis out of self-interest which is not based upon a least cost planning strategy. The following discussion of the cost and value of Centralia power reinforce these conclusions.

B. <u>The Sale Would Result in Increased Costs to Ratepayers and Should be Rejected as Not in the Public Interest</u>

In determining whether the proposed sale of Centralia is in the public interest, an essential starting point must be an analysis of the costs of owning and operating Centralia and the value of the power produced by the plant. Put another way, is it lower cost to keep and operate the plant for ratepayers or to sell the plant and purchase replacement power. This analysis necessarily requires long term forecasting of operating and replacement power costs, which we all agree is not an exact science. Ideally, much of this forecasting would already have been provided to the Commission in the form of least-cost plans, but, as discussed in the previous section, the applicants have failed to comply with the requirements of that rule. However, long term forecasts are (and must be) performed if one is to make intelligent resource

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

decisions, whether they be new construction, power purchases or sales, or plant sales. Like any type of analysis, the quality or reasonableness of the assumptions and inputs used will determine the reasonableness or accuracy of the final product. In addition, and as will be discussed later, the use of present value analysis, regardless of the specific discount rate chosen, discounts the data farthest out in time (which are presumably the most uncertain) the most, and thus gives greater weight to the earlier values. Thus, the analysis compensates for future uncertainty barring some totally unforeseen event.

One major advantage in analyzing a plant such as Centralia is that it has a long and dependable operating history from which to start, and thus its operating characteristics and costs are readily ascertainable. As indicated at the beginning of this brief, Centralia, for whatever reason, doesn't get much respect. However, on closer analysis, it has been a very dependable and relatively low-cost producer of power for ratepayers. Exhibit 236 shows that Centralia has 70% - 90% capacity factors since entering service. As noted by Mr. Lazar, his initial reaction to the sale of Centralia was positive, but that reaction changed as he got further into his analysis of the value of Centralia to ratepayers. (Exhibit T-500, P.3)

1. Important Analytical Factors

Public Counsel believes there are four important analytical factors for the Commission to consider in its evaluation of the proposed sale. While each of the parties makes different arguments as to the value to assign these factors, the record provides guidance as to the proper values.

a. The Proper Value of Power. We consider the November 1999 Aurora forecast, relied on by Puget in Exhibit 114 and by Mr. Lazar in Exhibit 513, to be the best representation of the value of Centralia power. This forecast is the most recently updated version of the Aurora model of avoided costs. It is the most widely used forecasting model used in the region, including NWPPC, BPA and PSE on its list of users. We also consider Avista's newest forecast, as presented in Exhibit 232, to be reasonable. All of these show, very clearly, that the sale of

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

Centralia would cause future power costs paid by consumers to be significantly higher with the sale than if Centralia is retained. PSE used an earlier version of Aurora in its direct presentation and used the November 1999 version in its Rebuttal (Ex 114). In contrast, Pacificorp's results are a mystery and shall remain so, except that it never updated its "forecast", which produces results considerably below its July and December avoided costs filings in Oregon (Ex 234) and Utah (Ex 237). The Aurora model was appropriately used in the Colstrip proceeding and should be used here.

Public Counsel believes that the Commission must make a determination of whether this sale is in the public interest based on the most current information available to it. We strongly object to consideration of the appropriateness of the selling price from a time perspective earlier than January 2000, simply because that is not the decision the Commission is making, nor was the Commission ever asked to opine on the sale prior to the date that "bids" were received. Had the Commission been asked at the time, we would have expected that the answer would have been to direct the Companies to prepare least cost plans that considered the options of selling and keeping Centralia. As we have already discussed, the Companies never did such analyses as required by the Commission's least cost planning rule. They never did any analysis at the time of the sale (Exh 122, 228, 323). In fact, the only analysis performed about the time of the bid acceptance with TransAlta was done by Pacificorp for its board of directors (Exhibit SC-514); our evaluation of that work in the context of Pacificorp's entire analysis is contained in subsection 2.d, below. All of the analysis performed for this proceeding was done long after the final bid was selected, so the Commission clearly has the ability to choose from among these the one that most accurately captures to actual costs and benefits of Centralia. However, in the event that the Commission desires to examine the proposed sale from a point in time prior to the most recent Aurora model, we believe that the record clearly shows that the proposed sale is contrary to the public interest. Exhibit 513, Scenarios 5 and 6 were prepared using market price forecasts which were available at the time that the bids were originally received. Scenario 5 compares the

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

cost of Centralia power to the value of that power based upon Pacificorp's July 1, 1999 avoided costs filed with the Oregon PUC. This shows that the selling price would need to be $656 million, with all of the gain flowed through to ratepayers, to compensate ratepayers for the higher power costs under a sale scenario. Scenario 6 compares the cost of Centralia power to the value of that power based upon the forecast that Puget presented in the Colstrip proceeding, adjusted for the shaping and capacity values of Centralia. This shows that the selling price would need to be $1.0 billion in order to be compensatory. Thus, even if the Commission was to rely on objective analysis from a perspective of when the bids were received, it should reject the proposed sale.

b. Plant life. Although there was considerable discussion of plant life in the record, the record and experience with other coal plants support the fact that the life of Centralia is not a constraint on the analysis of any party's analysis in this proceeding. The 35-40 year life discussed in the record is a reasonable original life estimate for a coal plant, but that number is more of an accounting life number than a real life expectancy. Thus, for instance, when Centralia is "backed off" during good hydro months, the actual plant life (but not the accounting depreciation schedule) is extended. The reality is that life-extending capital investments are routinely made which further extend plant life, such as Pacificorp has done with its Dave Johnson and Carbon coal plants, where Pacificorp expects lives of at least 50-60 years (TR 656-657). The record reflects that life extending investment is being made to the Centralia plant, including new scrubbers, generator rewinds, and other work (see Ex 324). This additional plant life of about 25-30 years is also supported from a number of other sources: Pacificorp's submission to the legislature in support of its tax package (Exh 503), the EPA grant of excess sulfur dioxide emissions credits through at least 2027, and the 50 year estimate of coal reserves (Lazar, Ex T-500, p. 6-8); "a thirty year time frame is reasonable" (Elgin, Ex T-400, p.8); Avista made no assumption of plant life as part of its 20 year analysis (Johnson, Tr 285); finally, there is the bid price of TransAlta itself, which either assumes a long plant life or markedly higher

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

energy prices, or both. The plant life assumed by Mr. Lazar for purpose of his 26-year analysis, the same that Pacificorp proposed that the Legislature use in evaluating the tax package (Exhibit 503), is fully supported by the record and is reasonable. A shorter life is not supported by the evidence.

c. Location/Capacity. The Centralia plant is centrally located between the largest markets in the Northwest and does not require substantial transmission investment (such as Colstrip requires) to access these markets. This proximity is an advantage over more remote resources and must be quantified in some form to properly value the power.

Its location also makes it extremely important for transmission load support in the region. One important distinction between the analyses prepared by Mr. Lazar, Mr. Buckley for the Staff and Avista, on the one hand, and by Puget and Pacificorp on the other, is whether to include a so-called "capacity value" in the Centralia analysis. This value is related to the benefits that Centralia brings to the regional transmission system. The Bonneville Power Administration has estimated this transmission system value at $273 million. (Exh. 227) Avista witness Mr. Johnson (Ex. 325) and Staff witness Mr. Buckley (Tr. 598) both added 1 mill/kwh to the market value of power to reflect the location-specific advantages of Centralia. Mr. Ely, for Avista, made the clearest statement of this value of Centralia:

"One of the issues that you have with the Centralia Plant is because of its location in relative position to the loads and the I-5 corridor. It's almost a must-run plant, so you need for voltage stability reasons, you need a plant in that area to support it, which is another reason why I don't believe it would close." (Tr. 249)

Mr. Elgin also echoed this value:

"The strategic location of Centralia. The fact that it is situated between the two biggest markets in the Pacific Northwest; the fact that it provides transmission and voltage support for the east, west and transactions across the mountains" (Tr. 536)

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

Mr. Lazar explicitly included this value as an adder to the market value of Centralia power, to reflect this plant's unique location amidst the Seattle/Portland load center. He did not add the full $273 million that BPA identified, instead limiting this to the 1 mill/kwh that Avista and Mr. Buckley included in their analyses. As Mr. Lazar testified, this amounts to about $93 million on a present value basis. We submit that this value, about one-third of what BPA has estimated as the transmission support value of Centralia, is a conservative estimate of this important contribution that Centralia makes to the region.

d. Discount Rate. The discount rate is the factor used to convert future costs and savings to present value terms, so that the proposed sale price can be compared to the future costs which would be incurred if the plant is sold. It is typically the utility's net tax cost of capital. All parties agree that in the later years of the analysis the value of power from Centralia will greatly exceed its cost, but the use of a higher discount rate, as proposed by the applicants, has the effect of decreasing the desirability of keeping the plant in utility ownership.

Each of the parties has used a different discount rate. Puget used a 7.69% discount rate, the same that they proposed in the Colstrip case. (Tr. 116) Pacific used a 7.82% discount rate (Tr. 688), and Avista used an 8.13% discount rate (derived from Exhibit 332); There does not appear to be any defense by Pacificorp or Avista of their assumptions in the record; these are merely the rates they are seeking to employ in their pending rate cases. In the Colstrip case, the Commission adopted a discount rate of 7.16%, which was based on Puget's updated cost of capital at that time. (UE-990267, Third Supp. Order, P. 13). Mr. Lazar used the 7.16% discount rate previously adopted by the Commission.

It is most important that the Commission understand the impact of a discount rate of 7% or more on future costs which are escalated at only a 2.5% inflation rate. For example, as Mr. Lazar discussed (Tr. 752), while the value of Centralia power is greater than the cost by a total of $145 million in the last year of his analysis, after applying a discount rate of 7.16%, this $145 million contributes only $24 million to the present value of the analysis. Over 83% of the future

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

nominal dollar savings are eliminated in the discounting process. In a dialogue between Chairwoman Showalter and Pacific's witness, Dr. Weaver, the juxtaposition of the low inflation rate and high discount rate was illustrated; Pacific used a 3% inflation rate and a 7.82% discount rate (Tr. 688).

As Mr. Lazar discussed with Mr. Harris, the discount rate is the smallest of the four important corrections which he applied to the Company analyses. The most important were the life of the plant, the use of up-to-date market forecasts, and the inclusion of the capacity value of Centralia. (Tr. 703)

Public Counsel recommends that the Commission reaffirm its decision that a 7.16% discount rate, based upon the current cost of capital for the state's largest utility, is a reasonable way to examine the future costs and benefits which will result from the decision to keep or sell Centralia for all of the utilities.

2. A Total System Analysis Demonstrates a Negative Value of the Sale to Ratepayers.

Any determination of whether the sale of Centralia is in the public interest must be based in large part upon an analysis of whether the long term costs of owning and operating Centralia are more than or less than the costs of replacing the power in the market. This analysis must in turn be based upon reasonable inputs and assumptions. There have been a number of scenarios presented in this proceeding which have produced a plethora of numbers, which at times became very confusing. In this section of our brief, we will attempt to step back from all these numbers to highlight the important conclusions which can be drawn from this evidence.

Public Counsel submits that the base analysis depicted by Mr. Lazar in his Ex 513, as well as the rebuttal analysis of PSE and Avista, using current forecasts, demonstrate an overwhelming negative value to ratepayers if the sale is approved. Pacificorp's analysis, as will be discussed, should be simply rejected as not reflecting real world market prices and as being solely driven to produce a result desired by the Company.

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

a. Public Counsel's Analysis Demonstrates a Negative Value to Ratepayers from the Sale.

As indicated by Mr. Lazar when he first began his analysis, he expected that he would end up supporting the sale of Centralia. (Exh T-500, p.3) Instead, as he got into his analysis, he discovered that the plant, like the Timex watch, "just keeps ticking". Centralia produces dependable, dispatchable, relatively low cost power, is centrally located to the major Northwest urban markets, and is vital for load support to the region's transmission system. With the major upgrades of scrubbers, generator rewinds and similar life-extension work, the plant life is easily expected to last another 25-30 years, although additional life-extension measures could possibly extend it even further.

Finally, while the cost of operating Centralia, even including the life-extension investments currently being undertaken, remains relatively flat, the long term value of its output (or stated another way, the cost of replacement power) has increased dramatically in the last 6 months. As everyone is aware, gas and oil prices have increased dramatically. Because gas prices are passed through to gas fired electric generation and co-generation plants, these price increases in turn drive up the value of Centralia output or the cost of replacement power. At least a portion of that increase is reflected in the November 1999 Aurora model results, which are used by the NWPPC, BPA and many others in the region and have been used by PSE and Mr. Lazar in this proceeding. These results provide the best evidence of current and forecasted power costs in the region and in this record.

With this background, let us briefly examine the reasonableness of the assumptions that Mr. Lazar used in his analysis:

1. The November 1999 Aurora Forecast. Mr. Lazar relied on the November, 1999 Aurora forecast in Exhibit 513 to develop a representation of the value of Centralia power. This forecast is the most recently updated version of the Aurora model of avoided costs. PSE also adopted this version of Aurora in rebuttal testimony (Exhibit 114). Finally, the Commission used a previous version of Aurora in the recent Colstrip case. In the absence of a compelling

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

record, the Commission should be very reluctant to abandon the NWPPC's regionally recognized forecasting model.

2. Plant life. Mr. Lazar assumed that Centralia had a plant life of 30 years or more, but his analysis of plant value only extended 26 years, the lifetime that the partners used before the Legislature in support of the tax package (Exhibit 503). Neither Avista nor Pacificorp made an assumption of plant life but the plant was assumed as operating in their 21 and 24 year forecasts. PSE cut off its analysis at 19 years, not because that was an estimate of the plant life, but because that was as far out as their Aurora model results of future prices extended.

It is interesting that PSE put Mr. Lazar's 1976 and 1984 studies into the record, apparently in support of a 30-40 year lifetime for coal plants. (T-113, p7) In fact, a careful reading of Mr. Lazar's 1984 report (Exhibit 507) at page 13 states "… a coal plant can last 60 years if operated only two-thirds of the time, rather than the 40 years operating to the limit of its availability…." Mr. Lazar's Base Analysis assumes that Centralia would operate 70% of the time, an assumption consistent with longer plant life. Coupled with the life-extending capital expenditures budgeted for Centralia, a lifetime of 26 years in conservative.

Since the NW Power Planning Council's Aurora Model only forecast to 2017, Mr. Lazar extended it to the full 26 years, only increasing these out years by a 2.5% inflation rate. As discussed under discount rate, these out-year numbers are very substantially discounted in a present value analysis to reflect the uncertainty associated with these years. However, it is necessary to carry the analysis out to a reasonable approximation of plant life since the relatively flat cost curve of Centralia provides very substantial savings in those years. This fact has not been overlooked by TransAlta.

3. Capacity Value. Mr. Lazar included 1 mill/kWh for its transmission support value. Both Avista and Staff have used a similar value adder in their analyses and agree with the locational value of the plant. PSE agrees on the benefits of the location but has not reflected a value for it in its analysis.

4. Discount Rate. Mr. Lazar used the 7.16% discount rate adopted by the Commission as PSE's current cost of capital in its recently issued Colstrip order (Third Supp. Order, p 13-14). This discount rate is also a reasonable proxy for the cost of capital for Avista and Pacificorp in this proceeding. Neither utility provided any support for their discount rate. It appears that these rates are the returns that each is seeking in their respective currently filed rate cases. Puget is simply attempting to relitigate the Colstrip Order without providing any supporting evidence.

5. Dependability. Mr. Lazar used a 70% capacity factor, which is in the range of 70-80% used by the analyses of all parties. Centralia has historically been a very dependable plant, as evidenced by its very high availability (90+%) and equivalent availability factors (Ex. 236). Its capacity factor is somewhat lower due to the fact that the plant can be and is "backed off" in the late spring and early summer months when inexpensive hydro floods the market, another advantage of this plant. The analyses of all parties assumed capacity factors from 70% - 80%, which are reasonable.

6. Whole Plant Analysis. The applicants have each provided an analysis using different assumptions for their piece of the plant, with the result that these multiple assumptions are both confusing and, in some instances, nonsensical, since the plant can only be operated as a unit. For purposes of his analysis, Mr. Lazar has "grossed up" each applicants' share of the plant to 100% so that an apples to apples comparison can be made in evaluating the sale price. The results of Mr. Lazar's Base Case Analysis using the November 1999 Aurora model results are depicted on Exhibit 513 at pages 9 - 14. They clearly demonstrate that the proposed sale would impose a very substantial negative impact on ratepayers and that there is no "gain" to fight about. One should bear in mind that these results showing a negative value to customers of $905 million are presented on a present value basis. These same numbers on a nominal basis are $2.4 billion. In spite of a front-loaded cost recovery of the scrubber and life extending investment, the cost benefits of Centralia over market show up as early as 2004, and continue as long as the plant runs. (Exhibit 114) The effect of "qualitative factors" is discussed in a later section, but they

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

cannot reasonably come close to offsetting the quantitative advantage to ratepayers of retaining the plant. Mr. Lazar's conclusion in support of keeping Centralia is supported by the analyses of PSE and Avista, which, although different in degree, also demonstrate a substantial cost to ratepayers if the plant is sold. Staff also agrees with this quantitative conclusion. (Elgin, Ex T-400, p.11)

b. Avista's Analysis Demonstrates a Negative Value to Ratepayers from the Sale.

Avista's analysis in Exhibit 304 has a couple of strengths and several shortcomings. Some of the shortcomings were addressed in the Company's revised analysis contained in Exhibit 332.

The revised analysis (Exhibit 332) using Avista's more recent forecast of the value of power shows that the value of Centralia power exceeds the cost of that power by a present value of $25 million (for its 15% share) over the 20 years from 2001 through 2020. If the analysis were extended to the end of the plant life, and the discount rate reduced to the Commission-approved rate of 7.16% from the Colstrip proceeding, this would increase sharply. Since Avista is proposing that shareholders get 100% of the gain on the sale of Centralia, the Avista proposal clearly fails the public interest test by failing to prevent higher costs and risks to ratepayers, and failing to properly balance ratepayer and shareholder interests.

Two important attributes of the Avista presentation are inclusion of the "dispatch" benefit of Centralia of 1.71 mills/kWh and inclusion of the transmission voltage support capacity value of 1 mill/kWh. (Ex. 325) Mr. Lazar adopted both of these adjustments in his Base Scenario, and Mr. Buckley, for the staff, also used this capacity value.

The most serious shortcoming in the Avista analysis is that the Company used only a 21 year analysis, rather than a life-of-plant analysis. In addition, in their presentation in Exhibit 304, they used an obsolete forecast of the value of the power produced by Centralia.

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

[redacted]. This agreement is contained in Exhibit SC-507.

The terms of this [redacted] are important and relevant, because they are a demonstration of the value of the Centralia power. The table below compares the value of power estimated by Avista in its direct testimony, Exhibit 304, to that estimated in its revised analysis in Exhibit 332, to the proposed price at which it would [redacted]:

	Shaped Value of Centralia Power		[redacted]
	Exhibit 304	**Exhibit 332**	
2001	**23.99**	**27.28**	
2002	**24.59**	**27.53**	[redacted]
2003	**25.20**	**27.78**	

[redacted]

Since Mr. Johnson agreed that the -$25.4 million shown on Exhibit 332 was equivalent to the +$7.7 million shown in Mr. Ely's testimony, (Johnson, TR-417) the Commission should conclude that the proposed sale is adverse to the public interest by at least the -$25.4 million over the 20 year period of Mr. Johnson's analysis (or $169 million on a whole plant basis).

c. PSE's Analysis Demonstrates a Negative Value to Ratepayers from the Sale.

Puget adopted a new analysis in its rebuttal testimony, relying on the same Aurora forecast of the Northwest Power Planning Council that Public Counsel witness Lazar relied on in his analysis. (Exh 513) This PSE rebuttal analysis is a good place to start in examining the proposed sale. As filed, Exhibit 114 shows that Puget's proposal would adversely affect

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

ratepayers and would benefit shareholders. The present value of the negative impact on ratepayers is $8.6 million; the present value of the benefit to shareholders is $6.7 million. Even if the Commission accepted this analysis as-is (which we do not recommend), it should conclude that the proposed sale is contrary to the public interest. This is still true if the Commission adopts the Staff recommendation that 100% of the gain go to ratepayers. There is still a net negative in Exhibit 114.

The PSE analysis in Exhibit 114 has three shortcomings. First, it is only a 19 year analysis, not because that is the life of the plant, but because that's as far out as the Aurora forecast goes. (Tr. 113). Second, it fails to recognize the capacity value of Centralia, a factor that Mr. Johnson and Mr. Ely (Avista), Mr. Buckley (Staff), Mr. Lazar (Public Counsel), and the Bonneville Power Administration (Ex. 227) all recognize. Finally, it uses the same 7.69% discount rate that Puget proposed in the Colstrip case, and which the Commission rejected in favor of the updated 7.16% discount rate calculated using an updated cost of debt (Tr. 117).

Because we think the PSE revised analysis is a good starting place for analysis, we have prepared an illustrative attachment which uses Puget's estimate of the cost and value of Centralia power, but extends the lifetime of the analysis, incorporates the capacity value, and utilizes the appropriate discount rate. Attachment B shows that the selling price would need to be $740 million, with 100% of the $517 million in gain over depreciated book value going to the ratepayers after reimbursement of the undepreciated book value to shareholders in order for ratepayers to be held harmless. That is $200 million more than the proposed sale price. This further reinforces our recommendation that the sale be rejected.

d. Pacificorp's Analysis is both clearly flawed and biased to support a sale of Centralia.

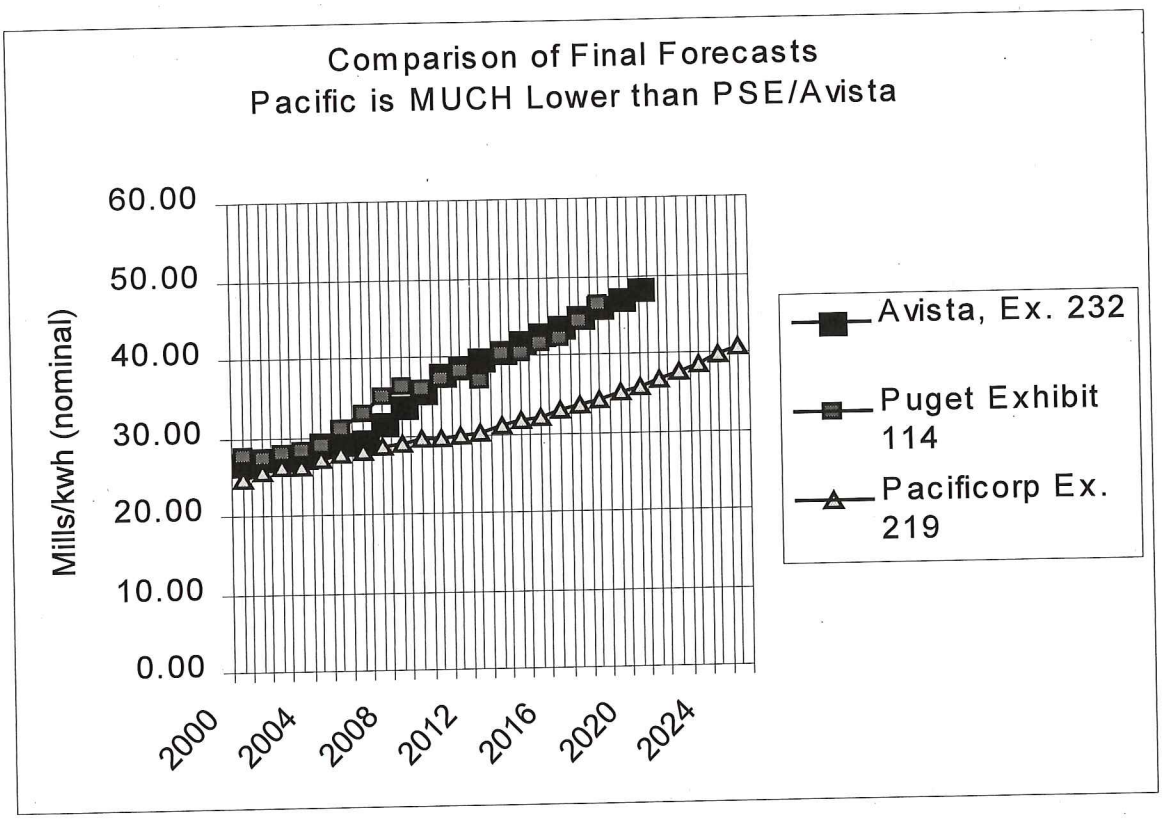
The Pacificorp analysis is of little value and should be rejected as inadequate. First, the Company Exhibits fail to show what they believe the value of the power is. The entire analysis is shrouded in their confidential "market clearing price" model, which contains numerous flawed

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

assumptions and unverifiable elements. Pacific's model has artificially low gas prices (Ex. 230, Tab Other Costs), in spite of huge gas cost increases in recent months (Tr. 208; Tr. 330), and despite Pacificorp's much higher gas price forecast submitted to the Oregon PUC (Ex. 234). It contains an estimated cost of new power plants (Ex. 211) that is far below what Pacific's own witness testified to in rebuttal. (Ex. 223)

The extent to which Pacific seems to have gone to torture the numbers until they behaved is shown clearly in the graph below. This compares the applicants final positions, from rebuttal testimony, of what the power from Centralia is worth, including the "dispatch credit" which recognizes that in particularly wet periods, Centralia is shut down. The results of Pacific's model are completely out of line with the Aurora results used by Puget (also used by Mr. Lazar) or the November market forecast prepared by Mr. Johnson for Avista.

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744



ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

[redacted]

What is most interesting is what has happened since the March, 1999 analysis. Since that time, both Avista and Puget have significantly INCREASED their estimate of market prices. These are reflected in comparing Exhibits 114 and 105 (PSE) and Exhibits 332 and 304 (Avista). These are consistent with rising gas prices, tightening electricity supplies, and other facts which would cause electric prices to increase. [redacted]

Referring next to Pacific's confidential market clearing price model, there are key assumptions that are utterly indefensible. First, as discussed earlier, Pacific assumes a cost for building new powerplants which is 23% lower than the Northwest Power Planning Council ($450/kw vs. $583/kw), and 17% below the figure that Pacific itself presents in its rebuttal case ($450/kw vs. $529/kw). [Ex. T-216, P. 8, Ex. 223, Ex. 211]. Then in forecasting natural gas

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

prices, Pacific asserted in Exhibit 211 that they had assumed 1.47% gas price escalation, but an inspection of their confidential model shows that they had, [redacted] It is quite dramatic to compare the actual gas price escalation rates reflected in their Market Clearing Price model (Ex. 230, Tab "Other Costs" Line 68) to the gas price escalation which Pacific submitted to the Oregon PUC on June 4, 1999:

Pacificorp's Varying Gas Price Escalation Forecasts

Year	Submitted to OPUC Exhibit 234, P. 17	Exhibit to Direct Test. Asserted in Exhibit 211	Pricing Model Shown In Exhibit 230
2001	4.52%	1.47%	[redacted]
2002	4.32%	1.47%	
2003	6.74%	1.47%	
2004	4.37%	1.47%	
2005	4.19%	1.47%	
2006	4.46	1.47%	
2007	4.27%	1.47%	
2008	10.25%	1.47%	
2009	3.35%	1.47%	
2010	3.60%	1.47%	
2011	3.47%	1.47%	
2012	3.69%	1.47%	
2013	3.24%	1.47%	
2014	3.76%	1.47%	
2015	3.63%	1.47%	
2016	3.50%	1.47%	

[redacted] Puget and Avista are both combination companies, with both gas and electric operations. Both have recently filed large tracker increases. Both have forecasted gas prices to go up much more rapidly than Pacific's analysis embedded in its Market Clearing Price model. (Exh 177, 329)

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

Because of Pacific's reliance on its undocumented model results, and the fact that it did not provide an avoided cost forecast in the same format as PSE and Avista, Mr. Lazar computed what the value of Centralia would be if the Avoided Costs filed with the Oregon PUC (Exhibit 234, P. 22) were used. This is Mr. Lazar's Scenario 5. This analysis shows that the proposed selling price is inadequate based on Pacific's filed (Oregon) avoided costs. It is perhaps noteworthy that Pacific did not file new avoided costs in Washington when they did so in Oregon and Utah.

Simply stated, Pacific's Market Clearing Price model is unproven, undocumented, and fraught with errors that render the results unreliable. Pacific's secret analysis is unsubstantiated and does not meet its burden of proof that these forecast market prices are reasonable.

We recommend that the Commission explicitly find that Pacificorp's economic analysis falls short of the Company's burden of proof to show that the proposed transaction is consistent with the public interest.

3. The So-Called "Qualitative Factors" Do Not Justify the Sale

The Applicants in their testimony have raised several "qualitative factors" which they state support the sale of Centralia. The primary factors raised are the risks associated with the clean-up costs of the mine, environmental issues and divided management/ownership issues. Much of their presentation is conjectural, speculative and unquantified, but Public Counsel does agree that they are all issues that need to be taken into consideration in an analysis. However, in analyzing these issues, we should remember that the goblins under the bed that are so frightening at night don't seem so scary in the daylight. Practical and prudent managers can deal with these speculative "factors" to resolve or control them. If the costs and benefits of the proposed sale

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

were about equal, these factors would probably cause Public Counsel to support the sale. But the quantitative results do not come close to supporting the sale, and these qualitative factors are not strong enough to drive us to a different position.

a. Clean up Costs of the Mine.

The final clean-up cost exposure is roughly the same whether it is performed today or 20 years from now (Exh T-201, p14). It is important to understand that clean up costs are also being incurred on an on-going basis in the day to day excavation and refilling/containment process of extracting the coal. The big difference between now and 20 years out is that the reclamation trust funds will have collected the money to pay for the final clean up costs by then, since ratepayers will have paid for these reclamation costs as part of the Centralia fuel costs throughout this long period.

The applicant's suggestion that there is a risk to the applicants and their ratepayers if the plant is not sold and consequently is shut down now is absurd. The economics of the Centralia plant assure that the plant will operate, regardless of who owns it. As will be discussed in a following subsection, the ownership structure will be consolidated and rationalized. If any of the applicants refuses to pay for its share of the life-extending scrubber and upgrading costs and thereby causes the plant to close, that applicant will bear the burden of proving to the Commission that its decisions were prudent.

b. Environmental Issues.

A number of legitimate environmental issues and concerns have been raised in support of the sale of Centralia, but Public Counsel submits that the risks associated with these issues are not serious enough to affect this decision. If we were attempting to site a brand new generating plant, we would be supportive of NWEC's to attempt to invest in cleaner resources that are cost effective. However, the reality is that Centralia is a long established mine mouth coal plant

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

ideally located to serve both the applicants' Washington customers and to sell into the Northwest power grid. Centralia is going to operate, regardless of the outcome of this proceeding, so the region's air will not be cleaner as a result of this proposed transaction (see Hirsch, Tr 445). However, "the planned installation of emission control equipment will place the power plant among the cleanest coal-fired plants in the United States." (Ely, Ex T-301, p.5) Given that the applicants have not addressed how they will replace Centralia in their resource portfolios, there is even the chance they will buy power back from the new operator at increased cost. [redacted]

The question that really needs to be addressed then is what is the risk (and what is the cost) of increased environmental regulation on the economics of the plant. This risk has not – and probably cannot – be quantified. But it is also unlikely that there will be any carbon tax or similar legislation soon. Ms. Hirsh of the NWEC agreed that there is no such legislation pending and that a previous BTU tax proposal has died (Tr 445). Although coal plants are not that common in the Northwest, they are the predominant source of power in many other areas of the country, and few of those plants will be as clean as Centralia after its scrubber installation. Thus, it is highly unlikely that there will be any draconian legislation passed that would drastically alter the economics of Centralia in the foreseeable future, and any legislation passed will most likely have grandfathering or phase in provisions (Hirsh, Tr 445-446), which will most likely benefit Centralia. This is what happened with sulfur, and Centralia has been granted 40,000 tons/year of sulfur credits through 2027, even though the plant with emit only 10,000 tons/year after the scrubbers go into service. [T-500, P. 7]

As a conservative test, Mr. Lazar ran a scenario that included a $10/ton carbon tax assumption just to test its impact on the Centralia economics, and it did not change the result of his analysis that the sale should be rejected. (Ex 513, p.5, Scenario 9) Perhaps a more important conclusion of his analysis is that within the first ten years, ratepayers obtain more savings from the plant than the benefits of the proposed sale, and savings beyond that time just make the plant

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

more valuable to keep. Finally, the ultimate test may be the marketplace. TransAlta is a knowledgeable operator of numerous coal plants in Canada. It certainly would not bid for the plant if it expected the plant's economics to be dramatically affected by restrictive environmental legislation, just as it would not bid that much to have it only operate 10 years.

c. Ownership Structure.

The applicants have also played to the hilt the difficulties of the current fragmented ownership structure, with its requirements of consensus. While this apparently has been a problem on some occasions in the past, the plant has remained dependably available despite any alleged difficulties in the decision-making process. Exhibit 505 shows that the plant has averaged around 90% availability in recent years.

Public Counsel submits that this is a problem that should be – and is – being addressed in the context of the proposed sale. The upcoming investment in the scrubbers has apparently caused the various owners – and particularly the smaller share owners – to evaluate their continued ownership in Centralia. Although the sale to TransAlta is one exit strategy, it is obvious that many owners would like to sell their shares, irrespective of the outcome of this transaction.

The public owners have access to BPA preference power at very beneficial rates, so they are not forced back into the wholesale power market. Avista has already purchased the 2.5% share of PGE, and it has an option on Snohomish PUD's 8% interest if the TransAlta sale does not close. Avista has also expressed interest in purchasing other shares if the terms are right, suggesting at least one alternative path to reducing or eliminating this concern. (Ely, TR 215-222) Avista's actions demonstrate rational behavior both in attempting to resolve some of the ownership interests and in opportunistically recognizing the true value of Centralia. Not only is Avista currently a 15% owner of Centralia, it formerly owned one-half of the mine (Ely, Tr 222), so it knows the value of Centralia very well. Thus, many of the ownership issues will be reduced or eliminated, even if the TransAlta sale does not close.

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

C. If the Sale of Centralia is Approved, Ratepayers Must Receive Any "Gain" to Offset the Increased Cost of Replacement Power

As is obvious from the foregoing discussion, Public Counsel opposes the sale of Centralia coal plant as contrary to the public interest. If, however, the Commission decides to approve the sale, we would urge the Commission to assure that ratepayers are made whole. The presentation of all the other parties, including Staff, start with the proposition that the applicants should recover their share of depreciation value first before computing the "gain". Public Counsel submits that the ratepayers have paid the cost of depreciation on the plant over time, and will pay the increased cost of purchase power in the future. These costs hsould be treated on an equal level with the applicant's undepreciated investment, particularly since the plant has appreciated in value (based upon the sale price), rather than depreciated. If this calculation is done, it is apparent that there is no "gain" to be apportioned.

This situation is illustrated clearly for Avista's share by Exhibits 312, 313, and 332. Exhibits 312 and 313 show the sale price, plant investment, and accumulated depreciation. The fact that the sale price is $10 million more than the total plant investment confirms our position that the plant has appreciated, not depreciated. Exhibit 332, while it covers only a 20-year period, shows the higher power costs which ratepayers can be expected to pay as a result of the sale. The method for sharing the proceeds would be as follows:

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

Selling Price	$67,833,505	Ex. 312, P. 2, Line 1
Less Amount Needed To Make Ratepayers Whole for Future Higher Power Costs	($25,440,689)	Ex. 332
Net Proceeds Available To Reimburse Ratepayer and Shareholder Investment:	$42,392,816	
Ratepayer Investment through Depreciation Expense	($40,196,876)	Ex. 312, P. 2, L. 2
Shareholder Investment - Undepreciated Book Value	($17,476,815)	Ex. 313, P. 1, L. 5
Amount of "True Gain" at Proposed Selling Price	($15,280,875)	
Percent of Plant Investment Which Can Be Reimbursed From Sale Proceeds:	73%	

The above arithmetic simply confirms our position that there is no "gain" on this proposed sale to be divided. Indeed, if ratepayer investment and shareholder investment are to be treated equitably (rather than "shareholders first" as proposed by the Applicants), then there is not even enough money for ratepayers and shareholders to recover their investment to date if ratepayers are first made whole for the higher power costs which will result. This confirms that even with the treatment proposed by the Staff (100% of the gain deferred and credited to ratepayers with interest from the date of sale), ratepayers will be worse off than if the plant is not sold.

Therefore, to make ratepayers indifferent to the sale, the Commission should defer all proceeds above undepreciated book value with a return and pass them through to ratepayers in subsequent rate cases, as recommended by Staff. Unlike Colstrip, these proceeds will not fully offset higher future power costs. Consequently, the Commission should insure in future proceedings these excess power costs are not passed through to ratepayers.

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

The applicants various proposals to share or retain in all of the "gain" should be rejected. Furthermore, this is not an appropriate case to consider "incentives", particularly where customers are exposed to increased costs because of the sale. As a general policy matter, any consideration of incentives for asset sales should only take place in a least cost planning context where an agreed upon goal is established in advance and the benefits/costs are thoroughly examined, or in a future standard cost proceeding, should Washington restructure its retail market.

III. CONCLUSION

Public Counsel recommends the Commission reject the applicants proposed sale of the Centralia facility as not in the public interest. We believe the record clearly demonstrates that the quantitative factors are firmly adverse to ratepayers interests and the proposed accounting treatments of the applicants clearly reward shareholders at customers expense. The qualitative factors are simply not sufficient to allow the companies to remove a valuable asset from service to customers.

If, contrary to our recommendations, the Commission chooses to allow the Companies to consummate the transaction, ratepayers must receive the full benefits of the sale as described in the previous section. The specific treatment sought by Pacificorp to offset an earlier acquisition and to set an interstate allocation is utterly without merit or support in the record and should be rejected. The treatment sought by PSE to amortize the gain over five years was previously considered and rejected by the Commission in the Colstrip proceeding, and should be rejected here. The treatment sought by Avista to keep 100% of the gain is contrary to the public interest, strikes an entirely unfair balance between shareholders and ratepayers, and is without merit or support in this record and thus should be rejected.

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

Finally, we recommend that the Commission not allow its approval of the sale to go into effect until such time has passed that all appeals and petitions for reconsideration of a commission decision are complete. As a practical matter, it will be impossible to return the plant to its current owners if TECWA takes possession during the pendency of any appeal.

Dated this 28th Day of January, 2000

Charles F Adams, by

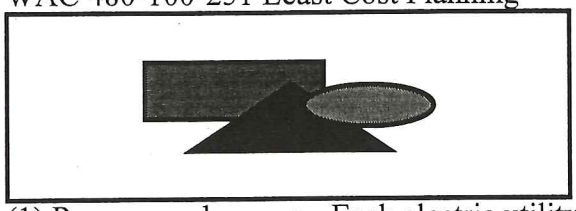
Charles F Adams, WSBA #4148
Assistant Attorney General
Public Counsel

Charles F Adams

ATTORNEY GENERAL OF WASHINGTON
Public Counsel
900 4th Ave., Suite 2000
Seattle, WA 98164-1012
(206) 464-7744

ATTACHMENT A

WAC 480-100-251 Least Cost Planning



(1) Purpose and process. Each electric utility regulated by the commission has the responsibility to meet its load with a least cost mix of generating resources and improvements in the efficient use of electricity. Therefore, a "least cost plan" shall be developed by each electric utility in consultation with commission staff. Provision for involvement in the preparation of the plan by the public shall be required. Each planning cycle will begin with a letter to the company from the commission secretary. The content and timing of, and reporting for the least cost plan and the public involvement strategy shall be outlined in a work plan developed by the company after consulting with commission staff.
(2) Definitions. "Least cost plan" or "plan" means a plan describing the mix of generating resources and improvements in the efficient use of electricity that will meet current and future needs at the lowest cost to the utility and its ratepayers.
(3) Each electric utility shall submit to the commission on a biennial basis a least cost plan that shall include:
(a) A range of forecasts of future demand using methods that examine the impact of economic forces on the consumption of electricity and that address changes in the number, type, and efficiency of electrical end-uses.
(b) An assessment of technically feasible improvements in the efficient use of electricity, including load management, as well as currently employed and new policies and programs needed to obtain the efficiency improvements.
(c) An assessment of technically feasible generating technologies including renewable resources, cogeneration, power purchases from other utilities, and thermal resources (including the use of combustion turbines to utilize better the existing hydro system.)
(d) A comparative evaluation of generating resources and improvements in the efficient use of electricity based on a consistent method, developed in consultation with commission staff, for calculating cost-effectiveness.
(e) The integration of the demand forecasts and resource evaluations into a long-range (e.g., twenty-year) least cost plan describing the mix of resources that will meet current and future needs at the lowest cost to the utility and its ratepayers.
(f) A short-term (e.g., two-year) plan outlining the specific actions to be taken by the utility in implementing the long-range least cost plan.
(4) All plans subsequent to the initial least cost plan shall include a progress report that relates the new plan to the previously filed plan.
(5) The least cost plan, considered with other available information, will be used to evaluate the performance of the utility in rate proceedings, including the review of avoided cost determinations, before the commission.

[Statutory Authority: RCW 80.01.040. 87-11-045 (Order R-273, Cause No. U-86-141), § 480-100-251, filed 5/19/87.]

ATTACHMENT B

Revised Version of Exhibit 114 Analysis

Extend to 26 Years @ 2.5% Inflation $ x 1000
Discount Rate at 7.16% per Colstrip Decision

	Year	Market Cost	Centralia Costs	Market - Centralia		Discount Factor	PV of Difference
	2000	$17,766	$16,444	$1,322		0.96420	$1,275
	2001	$17,806	$18,065	($259)		0.89978	($233)
	2002	$18,308	$20,824	($2,516)		0.83966	($2,113)
	2003	$20,314	$20,657	($343)		0.78355	($269)
	2004	$21,966	$21,222	$744		0.73120	$544
	2005	$22,669	$21,397	$1,272		0.68234	$868
	2006	$23,604	$21,564	$2,040		0.63675	$1,299
	2007	$24,226	$21,982	$2,244	D	0.59421	$1,333
	2008	$25,079	$22,174	$2,905		0.55451	$1,611
A	2009	$25,460	$22,377	$3,083		0.51746	$1,595
	2010	$26,164	$22,580	$3,584		0.48288	$1,731
	2011	$25,866	$21,816	$4,050		0.45062	$1,825
	2012	$26,622	$22,363	$4,259		0.42051	$1,791
	2013	$27,638	$22,690	$4,948		0.39241	$1,942
	2014	$27,809	$23,028	$4,781		0.36619	$1,751
	2015	$28,800	$23,363	$5,437		0.34172	$1,858
	2016	$28,816	$23,724	$5,092		0.31889	$1,624
	2017	$29,712	$24,378	$5,334		0.29759	$1,587
	2018	$30,455	$24,987	$5,467		0.27770	$1,518
	2019	$31,216	$25,612	$5,604		0.25915	$1,452
	2020	$31,997	$26,252	$5,744		0.24183	$1,389
B	2021	$32,796	$26,909	$5,888		0.22567	$1,329
	2022	$33,616	$27,581	$6,035		0.21059	$1,271
	2023	$34,457	$28,271	$6,186		0.19652	$1,216
	2024	$35,318	$28,978	$6,340		0.18339	$1,163
C	2025	$37,820	$36,035	$1,785		0.17114	$305

Subtotal, Puget 7% Only: $29,662

Gross Up From 7% to 100% of Plant – All Owners $423,744

Add Estimate of Capacity Value @ 1 mill/kwh E $93,000

Total Value of Centralia In Excess of Market
(Amount Required to Go to Ratepayers to Make Ratepayers Whole) $516,744

Book Value of Mine F $107,196

Book Value of Plant [Avista 15% = $17,476,815] G $116,512

Total Required Selling Price to Make Shareholders and Ratepayers Whole: $740,452

Notes:
- A Extracted from PSE Exhibit 114
- B Additional Years Escalated from 2017 @ 2.5% per year
- C Final Year (2018) from PSE Exhibit 114 Escalated to 2025 @ 2.5% per year
- D Discount Factor Calculated at 7.16%, mid-year calculation
- E 1 mill/kwh over 26 years @ 7.16% per Lazar T-500, P. 14
- F From Pacificorp Exhibit 208, Line 16
- G From Avista Ex. 313, P. 1, Line 5, Adjusted from 15% of plant to 100% of plant.