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

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 301
ADMIT ☑ W/D ☐ REJECT ☐

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:

<u>George Perks</u>: 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.

<u>William G. Johnson</u>: 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.

<u>Thomas D. Dukich</u>: 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.

<u>Ronald L. McKenzie</u>: 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.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

PREPARED TESTIMONY OF GEORGE PERKS

REPRESENTING AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 302
ADMIT ☑ W/D ☐ REJECT ☐

Exhibit T-302

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

A My name is George Perks and my business address is East 1411 Mission Avenue, Spokane, Washington. I am employed by Avista as Superintendent, Thermal Operations.

Q Would you briefly describe your educational and professional background?

A I am a graduate of the MEBA Marine Engineering School, Baltimore MD. And also have an A.S. degree in Industrial Education from Centralia College. I have participated in several utility seminars and courses including Electric Utility System Operation, General Electric Large Steam Turbine Seminar and Westinghouse Turbine Users Conferences.

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

A I was first employed by Avista in 1981 as Plant Superintendent of the Kettle Falls Generating Station. I am currently Superintendent, Thermal Operations and am responsible for the ownership representative duties at the Centralia and Colstrip Projects and am the purchaser representative on the Mid-Columbia Projects for Avista.

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

A I describe the Centralia Power Plant property being sold, the factors leading up to the sale and the terms of the sale.

Q Would you please describe the Centralia Power Plant property being sold?

A Yes. Avista owns a 15% interest in the Centralia Power Plant, a

1340-megawatt, coal-fired plant located near Centralia, Washington. The other seven co-owners and their ownership shares are: PacifiCorp 47.5%, City of Seattle 8.0%, City of Tacoma 8.0%, Snohomish PUD 8.0%, Puget Sound Energy 7.0%, Grays Harbor County PUD 4.0%, and Portland General Electric 2.5%. PacifiCorp is the sole owner of the Centralia Mine which supplies coal under a fuel supply agreement to the Centralia Power Plant. Both the Centralia Power Plant and the Centralia Mine are being sold to TECWA Power Inc. ("TECWA") a subsidiary of TransAlta Corporation, headquartered in Calgary, Alberta, Canada.

Q Would you please describe the factors leading up to the sale?

A Management of Centralia is often difficult due to the fact that there are eight owners with different business reasons for their individual decisions on issues. In years past this was not such a significant problem, but as competition in the market has increased, these differences have become more of a problem. Since capital projects at the plant require unanimous approval of all co-owners, this can lead to difficulty in making decisions. There have been a number of different opinions among the co-owners regarding continued operation of the plant and the installation of emission control equipment. In October 1998 the co-owners put the Centralia Power Plant and the Centralia Mine up for auction. The co-owners believed that a single owner, emerging from the auction, could deal most effectively with the issues pertaining to continued operation of the plant and the mine. Mr. Ely, a previous Avista witness, addresses the selection of TECWA as the winning purchaser.

Q Would you please generally describe the terms of the sale?

A Yes. TECWA has agreed to pay $454,698,000 for the Centralia Power Plant. Avista's 15% share amounts to $68,204,700. The purchase price is reduced by $2,100,000 for employee benefit obligations with Avista's 15% share amounting to $315,000. The purchase price is further reduced by the amount of expected reclamation accruals with Avista's share amounting to $8,610,000. In addition, TECWA will be purchasing the supplies inventory and the coal inventory. TECWA will reimburse the owners for plant additions which occur subsequent to May 31, 1999. TECWA will also reimburse the owners for costs incurred for the installation of emission control equipment.

Q What factors will affect the amount of proceeds Avista is to receive as a result of the sale to TECWA?

A Avista's share of the proceeds is subject to an adjustment which will be determined based on what PacifiCorp's actual breakeven price of the mine turns out to be in comparison to the sales price of the mine. Coal inventory is being purchased at a price determined by the cost of the last 100,000 tons of coal delivered by rail adjusted by the heating value of the coal in inventory delivered from the mine. The closing date of the sale will also affect the gain as depreciation will continue to be accrued during the period of time Avista continues to own the plant.

Q What is the termination date for closing contained in the contract with TECWA?

A The termination date for closing as contained in Section 11.1(d) is twelve months from the May 6, 1999 signing of the contract or May 5, 2000.

Q Is there also an option to terminate the contract in the case that timely orders are not issued approving the sale?

A Yes. Section 11.1(b) of the contract allows for termination if regulatory approvals are not received within 180 days of filing. In its Application in this proceeding Avista has requested expedited treatment for approval of the sale. Avista requests that the Commission approve the sale as soon as possible.

Q Does that conclude your direct testimony in this proceeding?

A Yes, it does.

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

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 303
ADMIT ☑ W/D ☐ REJECT ☐

Exhibit T-303

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.

Q. 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.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

EXHIBIT NO. 304

WITNESS: WILLIAM G. JOHNSON AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 304
ADMIT ☑ W/D ☐ REJECT ☐

Centralia Plant Cost with Scrubbing (Avista Corp's 15% Share)

Capacity	201 MW
Tons of Coal Available	800,000
Conversion	1.526 MWh/ton
Annual Energy Production	1,220,800 MWh
O&M Cost	$1.78 per MWh
Fuel Cost	$17.90 per MWh
O&M Escalation	2.0%
Fuel Escalation	2.0%
Reserve Cost	$1.50 per kW/mo
Reserves Escalation	2.0%
Wheeling Cost	$1.00 per kW/mo
Wheeling Losses	1.9%
Wheeling Escalation after 2001	2.0%

	Annual Energy Production	O&M Cost	Fuel Cost	Reserves Cost	Wheeling Cost	Exchange Wheeling Credit	Fuel, O&M Reserves & Net Wheeling Cost	Fuel, O&M & Wheeling Cost $/MWh	Capital Recovery Cost $/MWh	Total Delivered Centralia Cost $/MWh
Present Value		$28,403,086	$255,403,425	$2,960,613	$34,070,076	($22,611,907)	$298,225,293	$244	$67	$311
Levelized		$2,920,960	$26,265,565	$304,468	$3,503,750	($2,325,398)	$30,669,345	$25.12	$6.90	$32.02
1999	1,220,800	$2,169,150	$21,848,000	$253,260	$2,933,892	-$1,919,415	$25,284,887	$20.71	$4.29	$25.00
2000	1,220,800	$2,340,750	$22,284,960	$258,325	$2,939,691	-$1,927,409	$25,896,318	$21.21	$5.24	$26.45
2001	1,220,800	$3,307,350	$22,730,659	$263,492	$3,011,126	-$1,983,383	$27,329,244	$22.39	$6.54	$28.93
2002	1,220,800	$3,315,750	$23,185,272	$268,762	$3,074,103	-$2,026,847	$27,817,040	$22.79	$7.55	$30.33
2003	1,220,800	$2,481,000	$23,648,978	$274,137	$3,138,408	-$2,071,276	$27,471,247	$22.50	$8.10	$30.60
2004	1,220,800	$2,530,620	$24,121,957	$279,620	$3,204,070	-$2,116,690	$28,019,577	$22.95	$7.92	$30.87
2005	1,220,800	$2,581,232	$24,604,397	$285,212	$3,271,118	-$2,163,113	$28,578,846	$23.41	$7.74	$31.15
2006	1,220,800	$2,632,857	$25,096,484	$290,916	$3,339,581	-$2,210,567	$29,149,272	$23.88	$7.55	$31.43
2007	1,220,800	$2,685,514	$25,598,414	$296,734	$3,409,489	-$2,259,074	$29,731,078	$24.35	$7.36	$31.72
2008	1,220,800	$2,739,224	$26,110,382	$302,669	$3,480,873	-$2,308,658	$30,324,490	$24.84	$7.18	$32.02
2009	1,220,800	$2,794,009	$26,632,590	$308,723	$3,553,764	-$2,359,345	$30,929,741	$25.34	$6.99	$32.33
2010	1,220,800	$2,849,889	$27,165,242	$314,897	$3,628,196	-$2,411,158	$31,547,066	$25.84	$6.80	$32.64
2011	1,220,800	$2,906,887	$27,708,547	$321,195	$3,704,199	-$2,464,123	$32,176,705	$26.36	$6.61	$32.97
2012	1,220,800	$2,965,025	$28,262,718	$327,619	$3,781,809	-$2,518,266	$32,818,905	$26.88	$6.43	$33.31
2013	1,220,800	$3,024,325	$28,827,972	$334,171	$3,861,060	-$2,573,613	$33,473,915	$27.42	$6.24	$33.66
2014	1,220,800	$3,084,812	$29,404,531	$340,855	$3,941,985	-$2,630,192	$34,141,991	$27.97	$6.05	$34.01
2015	1,220,800	$3,146,508	$29,992,622	$347,672	$4,024,622	-$2,688,030	$34,823,394	$28.53	$5.86	$34.38
2016	1,220,800	$3,209,438	$30,592,475	$354,625	$4,109,006	-$2,747,155	$35,518,389	$29.09	$5.67	$34.76
2017	1,220,800	$3,273,627	$31,204,324	$361,718	$4,195,176	-$2,807,597	$36,227,247	$29.68	$5.47	$35.15
2018	1,220,800	$3,339,099	$31,828,410	$368,952	$4,283,168	-$2,869,386	$36,950,244	$30.27	$5.28	$35.55
2019	1,220,800	$3,405,881	$32,464,979	$376,331	$4,373,023	-$2,932,551	$37,687,663	$30.87	$5.01	$35.88
2020	1,220,800	$3,473,999	$33,114,278	$383,858	$4,464,779	-$2,997,124	$38,439,790	$31.49	$4.01	$35.50

Centralia Plant Replacement Power

	Market Rate Projections		
PV	$279	$305	$340
Levelized	$28.69	$31.37	$34.97
	Low Market	Med Market	High Market
1999	$24.54	$24.54	$25.54
2000	$25.21	$25.12	$27.12
2001	$25.55	$26.12	$28.12
2002	$26.23	$27.04	$29.22
2003	$26.61	$27.68	$30.04
2004	$27.00	$28.33	$30.89
2005	$27.39	$29.01	$31.77
2006	$27.79	$29.69	$32.67
2007	$28.20	$30.40	$33.60
2008	$28.62	$31.12	$34.56
2009	$29.04	$31.86	$35.54
2010	$29.47	$32.62	$36.56
2011	$29.90	$33.40	$37.60
2012	$30.34	$34.20	$38.68
2013	$30.79	$35.02	$39.79
2014	$31.25	$35.86	$40.93
2015	$31.71	$36.72	$42.11
2016	$32.19	$37.60	$43.32
2017	$32.66	$38.51	$44.57
2018	$33.15	$39.43	$45.85
2019	$33.65	$40.39	$47.18
2020	$34.15	$41.36	$48.54

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

EXHIBIT NO. 305

WITNESS: WILLIAM G. JOHNSON AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 305
ADMIT ☑ W/D ☐ REJECT ☐

Centralia Cost Compared to Projected Market Energy Prices
1999 through 2018

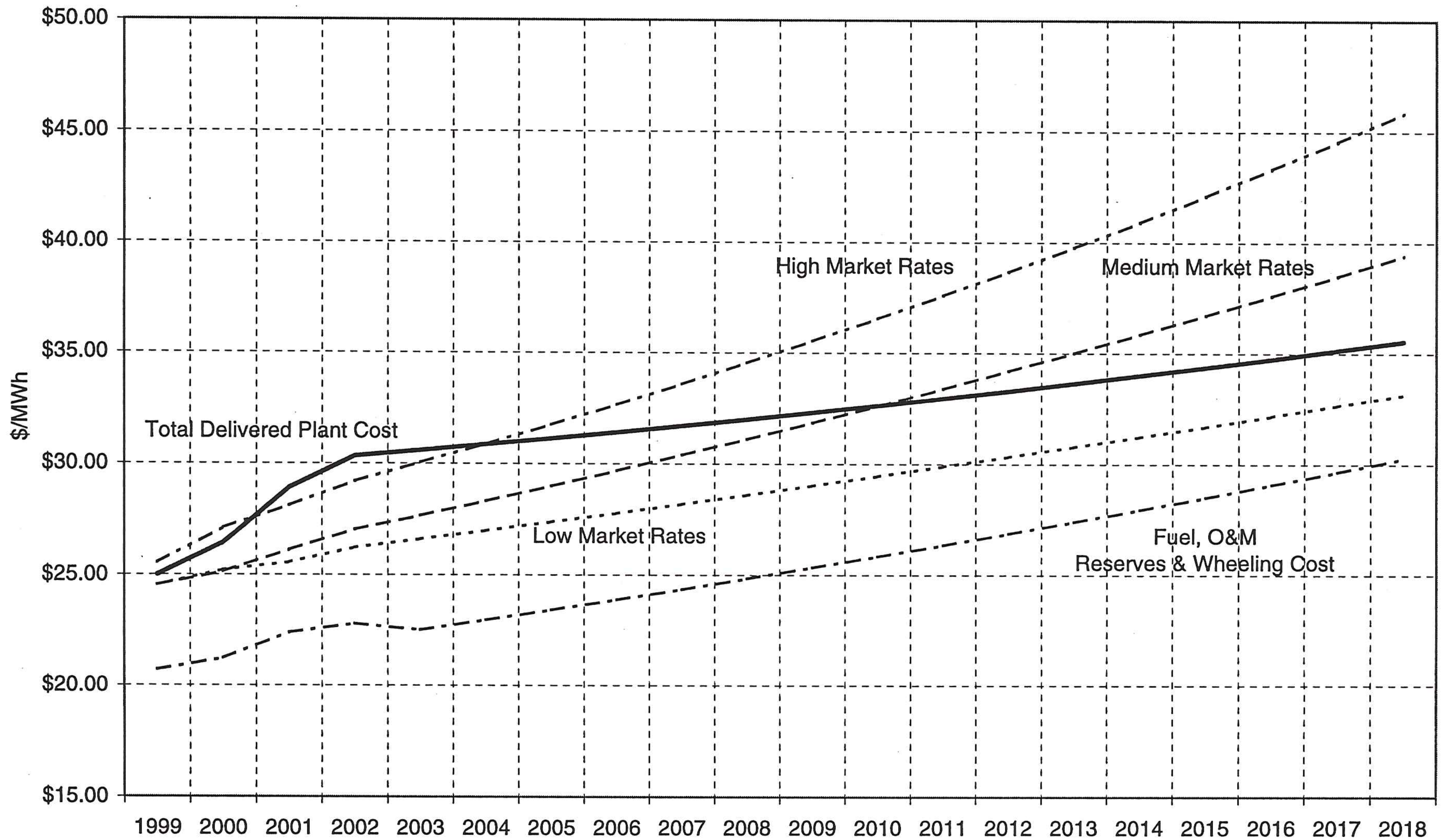

Exhibit 305
Docket No. UE-991255
W. Johnson, Avista
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BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

PREPARED TESTIMONY OF THOMAS D. DUKICH

REPRESENTING AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 306
ADMIT ☑ W/D ☐ REJECT ☐

I. INTRODUCTION

Q. Please state your name, business address and present position with the Company?

A. My name is Thomas D. Dukich. My business address is East 1411 Mission Avenue, Spokane, Washington. I am the Manager of Rates and Tariff Administration. I joined the Company in 1978 after having been previously employed as an Associate Professor at Gonzaga University.

Q. Would you briefly describe your duties?

A. My responsibilities as Rates Manager include the formulation and management of the Company's plans and activities related to the regulation of gas and electric services in the states of Washington, Idaho, Oregon, and California.

Q. Would you describe your educational background?

A. I graduated from the University of Minnesota in 1967 with a B.A. in Psychology and Business, and from the University of Montana in 1972 with M.A. and Ph.D. degrees in Experimental Psychology, Statistics and Research Design. During my 20 years of employment at Avista I have completed courses and seminars on strategic planning, forecasting, finance, accounting, rate design and pricing.

Q. What is the scope of your testimony?

A. I discuss the basis for Avista's proposal relating to the disposition of the book gain resulting from the sale of Centralia ("the sale"). In my testimony I attempt to provide a general framework of issues for the Commission to consider rather than focusing on a specific methodology regarding the disposition of the gain. I also briefly discuss the Company's position regarding the depreciation-based proposal put forth by PacifiCorp.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes, I am sponsoring Exhibit Nos. 307 through 310, as marked for identification. I will introduce and describe these exhibits, as appropriate, later in my testimony.

II. GAIN ON THE SALE

Q: Has the Company concluded that it is in the public interest to sell Avista's share of Centralia?

A: Yes, for the various reasons summarized in Mr. Ely's testimony.

Q: Is there a gain on the sale of the Company's share of Centralia?

A: Yes. The after-tax gain related to the sale of the Company's 15% ownership share is approximately $29.6 million. Mr. McKenzie testifies to the calculation of this book gain.

Q. Is it necessary to include the book gain in the economic analysis in order to satisfy the no-harm standard as a result of the sale?

A. No. Mr. Johnson's analysis shows a present value of cost savings to customers of $7.7 million over the 20 year study period. His analysis <u>excludes</u> the book gain on the sale. Therefore, the book gain represents additional value over and above the no-harm standard and a determination needs to be made regarding the disposition of the gain.

Q: What should the Commission take into consideration in its decision related to the disposition of the gain?

A: The Commission should consider various alternatives and, most importantly, should consider the soundness of the rationale underlying these alternatives. In addition, the Commission may want to consider how these alternatives relate to the unique circumstances of each of the companies involved in the sale, i.e., the disposition of the gain for Avista may appropriately be different than that for PacifiCorp or Puget Sound Energy.

III. PROPOSAL

Q. Turning now to the Company's proposal for the disposition of the gain on the sale of Centralia, what are you recommending?

A. I am asking the Commission to consider allowing Avista to retain all of the book gain relating to the sale. Admittedly, this may be viewed by some as an "aggressive" position for the Company to take. But I believe there are circumstances that warrant giving this proposal serious consideration. Should the Commission decide that 100% is not appropriate, the Company believes there is still a rational and reasonable basis that would support a shareholder retention level above the depreciation based approach proposed by PacifiCorp. I also recommend that the Commission consider the gain in its historical context. I believe that a discussion that puts the gain in an historical context unique to Avista will provide useful information for the Commission to consider, regardless of the methodology the Commission ultimately adopts.

In part, the rationale behind the Company's proposal begins with a principle that this Commission recently articulated in its order in Docket No. UE-990267 relating to the sale of the Colstrip Generating Plant ("Colstrip Order").

Q. What principle did the Commission discuss in the Colstrip Order that relates to your argument?

A. The Commission discussed how a transaction should strike a balance between the interests of ratepayers and shareholders that is fair, and that preserves affordable service (Colstrip Order, pages 5 and 9). So, the first element I suggest the Commission consider is the historical balance that has evolved over the years between Avista customers and Avista shareholders, and take this balance into account in its determination of a fair and equitable disposition of the gain.

Q. What is the other element?

A. The second element is related to fairness. It is the notion that the benefit of a gain should follow the risk of possible loss. It would seem to be equitable that if shareholders take risk, that risk should result in occasional gains, not just exclusively losses. Stated another way, a policy that awards all or most of the gains to customers, and occasional losses to shareholders would seem to be inequitable.

Q. Please explain further the first element related to the balance that has evolved over the years between Avista customers and Avista shareholders.

A. Exhibit No. 307 shows Avista's overall electric rate of return since 1973, the first full year Centralia was placed in utility service. It is clear from Exhibit No. 307 that, more often than not, Avista's rate of return has been below that considered fair and reasonable and authorized by the Commission. Certainly, it is clear that Avista's rate of return has not been guaranteed during these years. And, I think it is fair to say, Avista shareholders have not been unduly enriched during this time.

Exhibit No. 308 shows how Avista's Residential rates have compared with over 200 other investor owned utilities for the last 20 years (1978 to 1999). Rates for residential customers have consistently been among the very lowest in the United States, most often ranking third lowest or better. A typical bill for an Avista electric customer has averaged less than one half the U.S. average.

Q. What do you conclude from these two exhibits?

A. Customers seem to have been exceptionally well served over the past 20 years in terms of rate levels, and it appears that shareholders have not been unduly enriched during this time.

Furthermore, the Company has consistently receive high marks for its customer service. For example, Theodore Barry & Associates, in an independent survey of electric utilities in 1998, ranked the Company number one in overall customer service performance. The Company surpassed 33 other energy providers for the lowest annual customer service expense, while receiving one of the highest customer satisfaction ratings in the survey group. In 1999, Avista's customer service call center was selected as the Best Call Center of the Year by Call Center Magazine.

Q. Did shareholders suffer any losses during the time periods covered by Exhibit Nos. 307 and 308?

A. Yes, and this leads to the notion that the benefit of a gain should follow the risk of possible loss.

Exhibit No. 309 shows the major write-offs booked by Avista since 1985. The after-tax total for the electric utility system is $58.7 million; pre-tax write-offs were in excess of $96 million. These include write-offs associated with Skagit, WNP-3, Kettle Falls, Creston and the sale of Meyers Falls.

Exhibit No. 310 helps put these write-offs in the context of the Company's net utility plant investment since 1985. Between 1985 and 1998, electric net utility plant has increased by $52.2 million. Gross plant investment has increased by $601.6 million. A comparison of Exhibit Nos. 309 and 310 shows that after tax write-offs have <u>exceeded</u> the change in net plant investment since 1985. In terms of incremental gross plant investment since 1985, approximately 10% has been written off, after tax. On a before tax basis, 16% of incremental gross plant investment has been written off.

Q. Are you claiming that the Company was treated unfairly by having to incur such significant write-offs?

A. Fairness in past Commission decisions is not really the issue here. This is not a matter of second guessing the Commission with regard to prudence and I am not contending that the Commission should ignore the "used and useful" standard or any other rule or law. What is relevant is that the shareholders took risk in making these investments in order to discharge the utility's public service obligations. The net result is that shareholders did not realize a return on their investment, or did not recover all of their investment, or both. In other words, they took a risk and lost.

In the specific case of Kettle Falls and WNP-3, shareholders took a risk in building a resource and in subsequent regulatory proceeding were not allowed to recover all of the costs. Again, the exact reason for taking the write-offs is not the most important point. The important point is that significant after tax write-offs have occurred—approximately 10% of gross plant investment since 1985. Shareholders are exposed to unexpected losses. There is no guaranteed return <u>on</u> the investments, or guaranteed return <u>of</u> the investments. Unexpected shareholder losses are not recovered.

<u>The question then becomes: If there is an unexpected gain, who should get it, shareholders or customers?</u>

Q. Are you familiar with any situation where shareholders took a risk and won? For example, are you familiar with any situation where shareholders took a risk in building a resource, or making a purchase, and in a subsequent regulatory proceeding were allowed by this Commission to retain all or even a part of the "gain" or savings?

A. No. I can't recall a single instance. Usually the opposite is true. For example, the Company purchases over 100 average megawatts of power under long-term contracts from the Mid-Columbia public utility districts at an average cost below a penny per kWh. The prices for these contracts are well below market and have been for many years, which has provided the Company's retail customers with significant benefits. But because there is no rate base treatment or other provision for shareholders to benefit from these very favorable contracts, 100% of the benefits are being flowed through to customers.

Q. What do you conclude from this discussion?

A. Customers have enjoyed rates among the very lowest in the United States and high levels of customer service. Shareholders, on the other hand, have frequently achieved returns below those authorized by the Commission and have incurred substantial write-offs. Shareholders have not shared in efficiency gains achieved by Avista management nor have they shared in savings achieved by the purchase or construction of below market resources.[1] As stated earlier, its seems inequitable for shareholders to receive none of the benefits from "good decisions," or opportunity sales that do no harm to the customer, and yet absorb losses associated with investments that were deemed to be above-market or imprudent.

Q. How does this relate to your recommendation on the gain associated with the sale of Centralia?

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1. However, for natural gas service, the Commission has recently allowed Company shareholders the opportunity to retain certain purchasing and gas management efficiencies through the Gas Benchmark Mechanism.

A. The Company requests that the Commission carefully consider the balance of equities between shareholders and customers in deciding on the disposition of the gain from the sale of Centralia. Given the write-offs Avista has taken, and given the historically low rates and high quality service enjoyed by customers, it would be reasonable and equitable in this particular instance to allow the Company to retain 100% of the gain associated with the sale. This result would be consistent with the second standard articulated in the Colstrip Order, i.e., it would be fair and it would preserve affordable, efficient service.

IV. PACIFICORP PROPOSAL

Q: Does the Company have a view with regard to PacifiCorp's proposal, should the Commission not find the above arguments persuasive?

A: Yes. At a minimum, Avista shareholders should be no worse off than under the depreciation-based proposal put forth by PacifiCorp. As the Company understands this proposal, shareholders are allowed to retain a portion of the gain that is proportional to the un-depreciated amount of the Centralia investment. The remaining portion of the gain would go to ratepayers in the form of an offset that will provide a direct benefit to customers. Mr. McKenzie discusses how the depreciation-based methodology would apply to Avista. He also discusses the Company's proposal for the disposition of the customer's share of the gain under such an approach. Although this approach is considerably less desirable to the Company, the disposition of the gain discussed by Mr. McKenzie does address, albeit to a lesser degree, the equity issues previously addressed in my testimony.

Q. Does this conclude your direct testimony?

A. Yes.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

EXHIBIT NO. 307

WITNESS: THOMAS D. DUKICH, AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 307
ADMIT ☑ W/D ☐ REJECT ☐

Washington Electric Rates of Return*
1973-1998

Year	Avista ROR	Authorized ROR	Over/Under Authorized
1973	7.72%	8.40%	Under
1974	8.52%	8.40%	Over
1975	8.71%	8.40%	Over
1976	9.01%	8.40%	Over
1977	6.75%	8.55%	Under
1978	9.15%	9.00%	Over
1979	8.41%	9.00%	Under
1980	8.47%	9.00%	Under
1981	10.33%	11.61%	Under
1982	11.00%	11.61%	Under
1983	11.36%	12.58%	Under
1984	11.25%	12.52%	Under
1985	11.10%	12.38%	Under
1986	9.70%	12.00%	Under
1987	7.98%	10.67%	Under
1988	9.78%	10.67%	Under
1989	10.96%	10.67%	Over
1990	10.70%	10.67%	Over
1991	11.06%	10.67%	Over
1992	10.63%	10.67%	Under
1993	9.91%	10.67%	Under
1994	9.96%	10.67%	Under
1995	10.57%	10.67%	Under
1996	9.91%	10.67%	Under
1997	9.05%	10.67%	Under
1998	8.47%	10.67%	Under

*Where available (1990 to 1998), Commission basis returns were used for comparison to authorized. Actual returns were used prior to 1990.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

EXHIBIT NO. 308

WITNESS: THOMAS D. DUKICH, AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 308
ADMIT ☑ W/D ☐ REJECT ☐

TYPICAL RESIDENTIAL BILL FOR 1,000 KWHS*

Year	Total Utilities in Survey	Avista Lowest Rank =1 WA	Avista Lowest Rank =1 ID	USA Average Bill	Avista WA Bill	Avista ID Bill
1978	228	1	2	$40.78	$14.87	$14.88
1979	231	1	2	$43.29	$15.37	$16.26
1980	224	1	2	$48.26	$16.90	$17.35
1981	231	1	2	$56.55	$19.44	$19.57
1984	224	2	1	$71.52	$29.89	$23.72
1985	220	2	1	$73.96	$37.19	$34.84
1986	216	1	3	$75.34	$37.97	$39.20
1987	209	1	3	$73.79	$41.34	$45.07
1988	214	3	4	$73.44	$44.97	$45.07
1989	212	4	5	$73.43	$44.97	$45.07
1990	214	4	5	$76.16	$44.97	$45.07
1991	213	4	2	$78.70	$44.31	$43.74
1992	212	3	2	$79.47	$44.31	$43.77
1993	212	2	6	$81.11	$44.31	$46.08
1994	212	5	3	$82.29	$45.74	$45.15
1995	207	4	3	$82.93	$46.50	$46.34
1996	204	2	3	$83.06	$46.52	$47.00
1997	198	4	2	$84.74	$46.52	$44.78
1998	202	4	2	$83.27	$46.53	$43.64
1999	194	3	2	$81.76	$45.04	$44.41

* From EEI Typical Bill Comparison Report. Not available for 1982 and 1983.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

EXHIBIT NO. 309

WITNESS: THOMAS D. DUKICH, AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 309
ADMIT ☑ W/D ☐ REJECT ☐

Avista Utilities

Electric Investment Write-offs - System*

1985 to 1999 in Millions of Dollars

Investment	Before Tax	After Tax
WNP-3	$70.2	$43.6
Skagit	$7.5	4.0
Kettle Falls	$7.3	3.6
Creston	$11.2	7.3
Meyers Falls	$0.2	0.2
Total	$96.4	$58.7

*Source is Company 10-K SEC Filings.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

EXHIBIT NO. 310

WITNESS: THOMAS D. DUKICH, AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 310
ADMIT ☑ W/D ☐ REJECT ☐

Avista Utilities
System Electric Plant*

Category	1985	1998	Increase
Utility Plant (Gross)	$1,011,905,265	$1,613,496,293	$601,591,028
CWIP Inc WNP-3	$286,724,203	$45,390,868	
Accum. Depreciation	-$176,426,529	-$506,423,485	
WNP-3		$62,577,158	
Creston	$10,934,458	-$26,565	
Other	$184,376		
Skagit	$29,885,926	$437,062	
Net Utility Plant	$1,163,209,684	$1,215,453,329	$52,243,645

*From December Financial and Operating Reports

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

PREPARED TESTIMONY OF RONALD L. MCKENZIE

REPRESENTING AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 311
ADMIT ☑ W/D ☐ REJECT ☐

Exhibit T-311

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

A My name is Ronald L. McKenzie and my business address is East 1411 Mission Avenue, Spokane, Washington. I am employed by Avista as a Senior Rate Accountant.

Q Would you briefly describe your educational background?

A I was graduated from Eastern Washington University in 1973 with a Bachelor of Arts degree in Business Administration majoring in accounting. I obtained a Master of Business Administration Degree from Eastern Washington University in 1989. I have attended several utility accounting and ratemaking courses and workshops.

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

A I was first employed by Avista in September 1974. My present duties include preparing data related to regulatory matters and presenting testimony before regulatory commissions.

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 My testimony in this proceeding addresses the calculation of the gain associated with the sale of Avista's 15% share of the Centralia Power Plant to TECWA Power, Inc. ("TECWA"). I also set forth proposed accounting entries to record the sales transaction. I discuss the Company's proposed ratemaking treatment in the event that the Commission allocates a portion of the gain to customers.

Q How did Avista originally plan to treat the gain resulting from the sale?

A Avista originally proposed to defer the gain on the sale and to decide the issue of allocation of the gain between shareholders and customers in a future proceeding.

Q Have the sale and issues surrounding the gain been set for hearing?

A Yes. At its open meeting on October 13, 1999 the Commission set the matter of the sale and issues surrounding the gain for hearing.

Q Are you sponsoring any exhibits?

A Yes. I am sponsoring Exhibit No. 312 which consists of three pages and Exhibit No. 313 which consists of two pages.

Q Will you please explain page 1 of Exhibit No. 312?

A Yes. Page 1 shows the estimated cash proceeds from the plant sale, the estimated income tax calculation and the estimated after tax gain. The plant sale price that Avista expects to receive is 15% of $454,698,000, or $68,204,700. Avista's share is subject to an adjustment which will be determined based on what PacifiCorp's actual breakeven price of the mine turns out to be in comparison to the sales price of the mine. Avista's share of the sale of the 230KV transmission system amounts to $18,000. The purchase price is reduced by $2,100,000 for employee benefit obligations with Avista's 15% share amounting to $315,000. The purchase price is further reduced by the amount of expected reclamation accruals with Avista's share amounting to $8,610,000. Projected closing costs amount to $625,000. TECWA is reimbursing plant additions and RACT (Reasonably Available Control Technology) compliance expenditures. Coal inventory is being purchased at a price determined by the cost of the last 100,000 tons of coal delivered by rail adjusted by the heating value of the coal in inventory delivered from the mine. TECWA is purchasing supplies at original cost. The total projected cash proceeds amounts to approximately $67,800,000. The estimated income tax expense amounts to approximately $19,100,000 and the after tax gain is projected to be approximately $29,600,000.

Q Would you please explain pages 2 and 3 of Exhibit No. 312?

A Yes. Page 2 of Exhibit No. 312 shows the projected accounting entries for Avista. Page 3 consists of notes that relate to the proposed accounting entries on page 2.

Q Is the gain subject to change as well as the accounting entries?

A Yes. There are a number of factors that will affect the amount of the gain as well as the accounting entries. Such factors include the closing date of the sale, the difference between PacifiCorp's actual breakeven price of the mine and the sales price of the mine, the valuation of coal inventory, and the true up of estimates to actuals once actual information is available.

Q Will Avista provide the Commission with final accounting entries?

A Yes. Avista will provide the Commission with final accounting entries that will include a final calculation of the gain.

Q Turning now to the gain on the sale of Centralia, what is the Company's position on the disposition of the gain?

A As indicated in Mr. Dukich's testimony, the Company is proposing that all the gain should be assigned to shareholders.

Q In the event the Commission allocates a portion of the gain to customers, such as the depreciation method proposed by PacifiCorp, does the Company have a specific proposal on the ratemaking treatment for the customers' share of the gain?

A Yes. If the Commission were to allocate a portion of the gain to customers based on the depreciation method proposed by PacifiCorp, it would result in a sharing of the gain between customers and shareholders as shown on page 1 of Exhibit No. 313. Line 4 shows the customer percentage of the gain being 69.70% based on the ratio of accumulated depreciation to gross plant. Line 8 shows the dollar amount of the customer portion of the estimated gain amounting to approximately $20,635,000. Line 10 shows the allocation of the customer portion of the gain to jurisdictions based on the production/transmission allocation formula with the Washington portion of the customer share of the gain amounting to approximately $13,823,000.

Q Is the method of allocating the gain between shareholders and customers in Exhibit No. 313 the same method being proposed by PacifiCorp?

A Yes. This method allocates the gain between shareholders and customers on the ratio of undepreciated plant (gross plant less accumulated depreciation) to gross plant for the shareholder share of the gain, and on the ratio of depreciated plant to gross plant for the customer share of the gain. This is the same methodology being proposed by PacifiCorp for allocating their gain on sale of the Centralia Power Plant.

Q How does the Company propose to handle the customer portion of the gain for ratemaking purposes, if a portion of the gain is allocated to customers?

A Page 2 of Exhibit No. 313 shows that the Company proposes to use the customer portion of the gain to: 1) offset costs related to storm damage repair costs resulting from Ice Storm 1996 and 2) offset the Washington electric portion of the remaining transition obligation for postretirement health care and life insurance benefits.

Q How does the Company propose that the customer portion of the gain be treated for ratemaking purposes in the event that the Commission allocates a smaller percentage of the gain to customers than that allocated under the depreciation method?

A In that event, the Company proposes that the customers' share of the gain first be used to offset all or a portion of the costs related to storm damages resulting from Ice Storm 1996. Then, if any customer gain remains, the remaining gain be used to offset a portion of the transition obligation for postretirement health care and life insurance benefits.

Q Will the Company's revenue requirement in its general rate case be impacted by the Company's proposal on how to handle the customer portion of the gain?

A Yes. Both items identified above will have the effect of reducing the revenue requirement in the Company's general electric rate case, Docket No. UE-991606 as well as reducing the revenue requirement in the future. If needed a Company witness will provide supplemental testimony and exhibits in that case, showing the impact on the revenue requirement of the Company's proposal. The Company does not want the effective date of its general rate increase delayed due to the Centralia sale.

Q Is there a rationale for using storm damage costs and postretirement benefit transition costs to offset any customer portion of the gain?

A Yes. The gain on the sale of the Centralia Power Plant is the type of event that does not occur on a regular basis. Likewise, the storm damage costs from Ice Storm 1996 relate to an unusual event. The postretirement benefit transition costs resulted from a one-time, accounting change. The combined amount of the two offset items equal the customer portion of the gain under the depreciation method of allocating the gain, and the two offset items will benefit customers by reducing revenue requirements in the current general rate case and to the future.

Q Does that conclude your direct testimony in this proceeding?

A Yes, it does.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

EXHIBIT NO. 312

WITNESS: RONALD L. MCKENZIE, AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 312
ADMIT ☑ W/D ☐ REJECT ☐

AVISTA CORPORATION

Terms of Centralia Plant/Transmission Sales Agreements

	TOTAL		AVISTA 15%	
Plant Sale Price	$454,698,000		$68,204,700	*
230KV Sale to Pacificorp	$120,000	+	$18,000	
Transfer Pension Benefits	($1,000,000)	-	($150,000)	
Retiree Benefit Plan Obligation	($1,100,000)	-	($165,000)	
Reclamation Accruals	($57,400,000)	-	($8,610,000)	
Projected Plant Sale Proceeds	$395,318,000	=	$59,297,700	
Projected Closing Costs		-	($625,000)	*
Projected Plant Additions		+	$600,000	
Projected RACT Compliance Expenditures		+	$3,634,650	
Projected Fuel Stock - 80% of balance at 5/31/99		+	$4,010,794	*
Projected Materials & Supplies Inventory:		+	$915,361	
Total Projected Cash Sale Proceeds		=	$67,833,505	

* **Items subject to adjustment that would affect final gain outcome**

Estimated Income Tax Calculation:

Gain on Sale of Plant		$40,375,548
Reclamation Liability Reversal		$8,610,000
Realized Gain - Trust		$1,730,233
Total Book Income (Gain)		$50,715,781
Net Plant-Books		$16,876,815
Net Plant-Tax		($8,075,890)
Net Book/Tax Difference (Sch M addition)		$8,800,925
Reclamation Liability (Sch M deduction)		($8,610,000)
Net Schedule M Addition	+	$190,925
Taxable Gain	=	$50,906,706
Tax Rate	x	37.5%
Estimated Current Tax liability	=	$19,090,015

Estimated Income Statement Affect

Gain on Sale of Plant	$40,375,548
Reclamation Liability Reversal	$8,610,000
Realized Gain - Trust	$1,730,233
DFIT Expense on Reclamation Trust Reversal	($3,013,500)
DFIT Expense-MACRS Reversal	$993,236
Income Taxes - Current Tax Expense	($19,090,015)
Current Income Statement Effect	$29,605,503

AVISTA CORPORATION

Record Sale of Plant & Other Assets

Account	Notes	Description	Debit	Credit	
0000913110	(1)	Cash - Plant Sale	$67,833,505		*
0000010100	(2)	Plant in Service - Centralia Balance @ 5/31/99		$57,073,691	
0000010841	(2)	Accumulated Depreciation Est Balance @ 12/31/99	$40,196,876		*
0000018300	(3)	Preliminary Survey & Investigation Balance @ 5/31/99		$417,638	
0000010100	(4)	Projected Plant Additions Est Additions @ 12/31/99		$600,000	
0000010700	(4)	RACT Compliance Expenditures - CWIP Est Balance @ 12/31/99		$3,634,650	
0000915111	(4)	Fuel Stock - Coal Inventory Balance @ 5/31/99		$5,013,493	*
0000915430	(4)	Materials & Supplies Inventory Balance @ 5/31/99		$915,361	
0000942110	(5)	Gain on Disposition of Property - Plant		$40,375,548	
0000010200	(6)	Electric Plant Sold		$40,375,548	
0000010200		Electric Plant Sold	$40,375,548		
0000928290	(7)	ADFIT-MACRS	$993,236		
0000941120		DFIT Expense-MACRS Reversal Est Balance at 12/31/99		$993,236	
0000928317	(8)	Estimated ADFIT-FAS 109 Reversal	$4,000,000		
0000918231		Estimated DFIT Expense-FAS109 Reversal Est Balance at 12/31/99		$4,000,000	
0000913110	(9)	Cash	$10,219,564		
0000912811	(9)	Other Funds - Reclamation Trust Investment: Recorded Trust Balance @ 5/31/99		$8,489,331	
0000942110	(9)	Gain on Disposition of Property - Trust Unrealized Gain in Trust @5/31/99		$1,730,233	*
0000925311	(10)	Other Deferred Credits - Reclamation Liability:	$8,610,000		
0000942110		Gain on Disposition of Property - Trust Est Balance @ 12/31/99		$8,610,000	
0000941020	(11)	DFIT Expense on Reclamation Trust Reversal	$3,013,500		
0000919011		ADFIT Reclamation Trust @35%		$3,013,500	
0000940921	(12)	Income Taxes - Current Tax Expense	$19,090,015		
0000923600		Current Taxes Payable		$19,090,015	*
		TOTAL	$194,332,245	$194,332,245	

* **Items subject to adjustment that would affect final gain outcome**

AVISTA CORPORATION

ACCOUNTING ENTRY ASSUMPTIONS-CENTRALIA PLANT SALE

(1) Proceeds from Plant and 230KV Sales, Fuel, M&S, Plant Additions, and RACT expenditures per Plant Sale contract - section 2.6 and Transmission Sales contract - section 2.3.

No adjustment made for Mine Sale breakeven allocation.
Includes $625,000 reduction for estimated Closing Costs
Includes dollar for dollar remuneration for Plant/RACT/Mat & Sup additions
Includes 20% estimated reduction in Fuel Stock remuneration

(2) Avista Plant in Service at 5/31/99 and projected Accumulated Depreciation at 12/31/99, covered under Plant Sale contract - section 2.6(a)

(3) Preliminary Survey balances at 5/31/99, included in plant sales price

(4) Estimated $150,000 in capital additions through 12/31/99, reimbursable under Plant Sale contract - section 2.6(f)(i) and 6.3(f)

Estimate 15% share of PPL's projected cash flow at 12/31/99 for RACT compliance, reimbursable under Plant Sale contract - section 2.6(c)

Fuel Stock and Materials & Supplies values at 5/31/99, reimbursable under Plant Sale contract - section 2.6(b)

(5) Projected Gain on sale of plant and other assets.

(6) Record electric plant sold through prescribed FERC accounts

(7) Reverse ADFIT for Estimated "MACRS" at 12/31/99

(8) Record reversal of Estimated FAS109 tax balances at 12/31/99

(9) Reclassify Reclamation Trust to cash for Trust balance at 5/31/99
Recognizes $1.7 M in unrealized gains not recorded in Trust balance

(10) Reverse Avista's 15% share of PP&L's estimated liability of $54 million at time of sale
Balance is a reduction in sales price per Plant Sale contract - section 2.6(d)

(11) Reverse ADFIT for Reclamation liability balance at 12/31/99

(12) Record current taxes on Plant Sale gain and tax adjustments
See Estimated Income Tax Calculation

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

EXHIBIT NO. 313

WITNESS: RONALD L. MCKENZIE, AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 313
ADMIT ☑ W/D ☐ REJECT ☐

AVISTA CORPORATION

Gain on Sale of the Centralia Power Plant
Depreciation Method of Allocating Gain
Between Customers and Shareholders

Line No.		Amount	Percent of Gross Plant	
	Projected gross plant at 12/31/99			
1	Plant in service at 5/31/99	$57,073,691		
2	Projected plant additions through 12/31/99	600,000		
3	Projected gross plant at 12/31/99	57,673,691	100.00%	
4	Projected accumulated depreciation at 12/31/99	40,196,876	69.70%	Customer share
5	Projected net (undepreciated) plant at 12/31/99	$17,476,815	30.30%	Shareholder share

	Allocation of Gain to Customers	System
6	Estimated net of tax gain	$29,605,503
7	Customer percentage per above	69.70%
8	Customer allocated share of gain	$20,635,036

	Allocation of Customer Share of Gain to Jurisdictions	System	Washington	Idaho
9	Current Production/Transmission allocation percentage	100.00%	66.99%	33.01%
10	Alllocated customer share of gain	$20,635,036	$13,823,411	$6,811,625

AVISTA CORPORATION

Proposal on How to Treat Customer Portion of Centralia Gain
State of Washington

Line No.		After Tax Amounts
1	Customer portion of gain under the depreciation method	$13,800,000
2	Storm damage costs (Ice Storm 1996)	-7,900,000
3	Post-retirement benefits other than pensions (FAS-106) transistion costs	-5,900,000
4	Net	$0

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BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

REBUTTAL TESTIMONY OF WILLIAM G. JOHNSON

REPRESENTING AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 314
ADMIT ☑ W/D ☐ REJECT ☐

Exhibit T-314

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. I am employed as a Power Contracts Analyst in the Resource Optimization Department.

Q Have you previously provided direct testimony in this proceeding?

A Yes.

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

A My testimony will respond to issues raised by Mr. Lazar's direct testimony on behalf of Public Counsel.

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

A. Yes. I am sponsoring Exhibit No(s). 315 through 317, as previously marked for identification, which were prepared under my supervision and direction.

Q. On page 9, line 21 of his direct testimony, Mr. Lazar asks if long-term forecasts of market prices are speculative. Do you agree with his response?

A. I agree with Mr. Lazar that forecasts of market prices are dependent on many factors including fuel costs, power plant construction costs and the power demand and supply balance. The uncertainty of these factors makes any long-term forecast speculative. I do not agree that the power prices forecast by the Northwest Power Planning Council which Mr. Lazar uses in his analysis are any better or any more appropriate for the analysis of the Centralia plant than are the market prices included in the sellers' analyses. Market price projections are very uncertain and models that predict market prices are based on assumptions that are also very uncertain.

Q. Does Mr. Lazar acknowledge the uncertainty of long-term power price forecasts?

A. Yes he does. In his Exhibit 502 "Economic Evaluation of Centralia Target Solution" he repeatably addresses the uncertainty of long-term power price forecasts. In the second paragraph on page 4 of Exhibit 502 he states, "The studies prepared by Pacificorp are based on specific assumptions, many of which are best guesses due to the uncertainties of long-run cost and market conditions." Again in the last paragraph on page 5 he states, "The value of power over a time far into the future is extremely uncertain." Finally in the third paragraph of page 11 he states, "Most important of these risks is that the value of power is extremely uncertain."

Q. On page 2, line 22 of his direct testimony, Mr. Lazar states that "At the time the proposed sale was conceived, expected future power prices were much lower than are forecast today." Do you agree with that statement?

A. Market energy prices have been moving up from the very low levels in 1995, 1996 and 1997 when prices were less than $14/MWh for an annual average. Prices have moved to around $21 to $22/MWh in 1998 and 1999. Year 2000 power is trading around $26/MWh currently whereas earlier in the year it was trading under $23/MWh. What this upward movement in near-term prices has done is to increase the starting point for long-term price forecasts. When similar long-term escalations are applied to the new higher starting points, the effect is to produce a much higher long-term forecast. Every price forecast used in the Centralia analysis starts from roughly today's prices and escalates upward.

Except for a pause in escalation in around 2010 in the Northwest Power Planning Forecast and Puget Sound Energy's Forecast (both use the Aurora model) the prices continuously increase. This is generally what happens in energy price forecasts because the forecasters do not attempt to model, do not understand how to model, or can't foresee future technologies, events or structural changes that may effect the future escalation of prices. Essentially, every forecast starts from were we are now (a known) and escalates upward continuously from that point.

In the past, energy price forecasts, showing escalating real prices, have been subject to extreme errors. For example, in 1990 BPA forecast the New Resource/Surplus Firm power rate, representing a proxy for the market price and new resources, to be $57.10/MWh in 2000 rising to $115.90/MWh in 2011. Exhibit 315 shows the BPA 1990 forecast. Actual market/new resource rates are less than one-half that in the year 2000. In fact, market prices were higher in 1985 than they were in 1998. Looking back, there may be plausible explanations for why this occurred but it is very unlikely that anyone in 1985 would have predicted prices to be lower in 1998.

Q. Has Avista seen market prices for the near-term, 2000 – 2006 that support the values for power that Mr. Lazar uses in his analysis?

A. We have not. Based on market price quotes for longer-term (through 2010) power purchases, Avista believes that replacement power will be less costly than projected plant costs over the next 10 years. Beyond 10 years the market is essentially non-existent and price assumptions are speculative.

Q. Is there precedent for focusing on the next 10 years with regard to resource planning.

A. Yes there is. In Avista's last Integrated Resource Plan (IRP) in 1997, The Washington Utilities and Transportation Committee (WUTC) agreed to allow the company to conduct a 10-year plan. The company proposed this change primarily because there is so much uncertainty beyond 10 years. Beyond 10 years there is a lot of uncertainty regarding the structure of the industry, what our load obligations might be, future generation technologies, fuel costs and environmental regulation. While it may not be appropriate to limit the evaluation of Centralia to 10 years, it may be appropriate to put a greater emphasis on the first 10 years when some of the unknowns are more predictable.

Q. Do you agree with Mr. Lazar's analysis in Exhibit 501 that estimates that the present value of future plant costs is around $1.1 billion less than the cost of replacement power?

A. No I do not. First, based on conversations in the last two weeks with staff at the Northwest Power Planning Council (NWPPC), it appears as though the market price forecast used in Exhibit 501 is not appropriate for valuing the replacement cost of Centralia power. The NWPPC forecast presented to its Regional Technical Forum included certain assumptions that created unrealistically high prices.

More importantly, the NWPPC market price forecast is not necessarily intended to project the market price of <u>longer-term</u> fixed purchase arrangement. The model is intended to project <u>spot market wholesale prices</u> in a deregulated environment. Avista is not planning to replace Centralia with spot market purchases.

Q. Do you agree with Mr. Lazar's assertion that ratepayer's have overpaid for Centralia power by $512 million?

A. I do not. Mr. Lazar's analysis as shown on Exhibit 504 compared the total cost of Centralia to short-term market prices. This is not a valid comparison. Centralia is a long-term firm energy resource. During the

1980's and until the later 1990's firm power, such as Centralia, was priced with both an energy and capacity component. The firm power replacement for Centralia during the period in Mr. Lazar's analysis, 1986 through 1998, needs to be calculated with both an energy and capacity value. Including the value of capacity with the short-term energy value Mr. Lazar uses in Exhibit 504 would produce a long-term firm power value that is more comparable with the total cost of Centralia. I calculated that the minimum average capacity value to eliminate Mr. Lazar's claimed $512 million "Ratepayer's Loss" would have had to be $2.45/kW/month over the period 1986 to 1998. During that period 1989 through 1997, Avista made a long-term firm power sale to Pacificorp with capacity rates ranging from $3.50/kW/month to $6.00/kW/month. In 1998, Avista sold firm-energy to Clark PUD with a capacity charge of $2.65/kW/month. Including an average capacity charge of $3.50/kW/month in Mr. Lazar's Exhibit 504 changes the claimed "Ratepayer's Loss" of $512 million to a gain of $219 million. These calculations are shown in Exhibit 316. The value of the Centralia plant as a firm power resource was much greater than just the value of shot-term energy as proposed in Mr. Lazar's Exhibit 504. Including the value of capacity in Mr. Lazar's analysis shows that the cost of the Centralia plant was less than the value of long-term firm power over the period 1986 to 1998.

Q. Do you have any comments on Mr. Lazar's testimony suggesting that a sale price for Centralia of $1.361 billion would be required for ratepayers to breakeven?

A. Yes. Mr. Lazar's sale price does not pass the test of reasonableness. Mr. Lazar's suggested sales price would be 10.8 times book value, as shown in the calculations below. The actual ratio of sales price to book value under the sale to TECWA is 3.4 times book value.

Mr. Lazar's suggested sale price for breakeven	$1,361,300,000
Less: Book value for mine per Exh. 501, Page 7	$107,200,000
Suggested sale price for plant	$1,254,100,000
Avista's ownership percentage	15%
Avista's share of Mr. Lazar's sale price	$188,115,000
Avista's estimated book value at 12/31/99	17,477,000
Ratio of sale price to book value	10.8 times

Sale proceeds from sale to TECWA	$59,298,000
Avista's estimated book value at 12/31/99	17,477,000
Ratio of TECWA sale price to book value	3.4 times

A November 1, 1999 article entitled "Did Power Plant Buyers Pay Too Much?" by Art Holland (Public Utilities Fortnightly, pp. 26-36), contains a table of eighteen recent power plant sales. The table shows a range of sale prices to net book value of 0.17 times to 5.85 times with an average of 2.18 times. This table is shown in Exhibit 317. It is understood that there are many factors that will cause one plant to receive a sale price multiple different that another, such as the age of the plant, the condition of the plant, environmental compliance, availability and quality of fuel, recent operating performance, etc. This data, however, suggests that Mr. Lazar's sale price of 10.8 times book value for the Centralia Plant is outside the bounds of reasonableness.

Q. Would you please summarize your testimony?

A. Yes. The analysis of the value of the Centralia plant depends, along with other factors, on the projection of replacement power costs. Projections of long-term power costs are highly uncertain. Mr. Lazar has used a long-term price forecast that is higher than the price forecast used by Avista or the other sellers. Price forecasts beyond 10 years are truly speculative and dependent on assumptions made in the forecasting process. The recent uptick in near-term prices has resulted in long-term forecasts increasing because of the higher starting point. While all forecasts tend to show prices continuously increasing, history has shown that energy prices can decrease as witnessed by 1998 market prices being lower than 1985 prices.

Mr. Lazar's analysis showing that the cost of power from Centralia exceeding the market price of power by $512 over the period 1986 through 1998 is flawed because it compares a long-term firm power resource, Centralia, with short-term energy prices. Including value for capacity for the period shows that the value of the power from Centralia exceeded the cost of the plant by $219 million.

Q. Does that conclude your rebuttal testimony?

A. Yes.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

EXHIBIT NO. 315

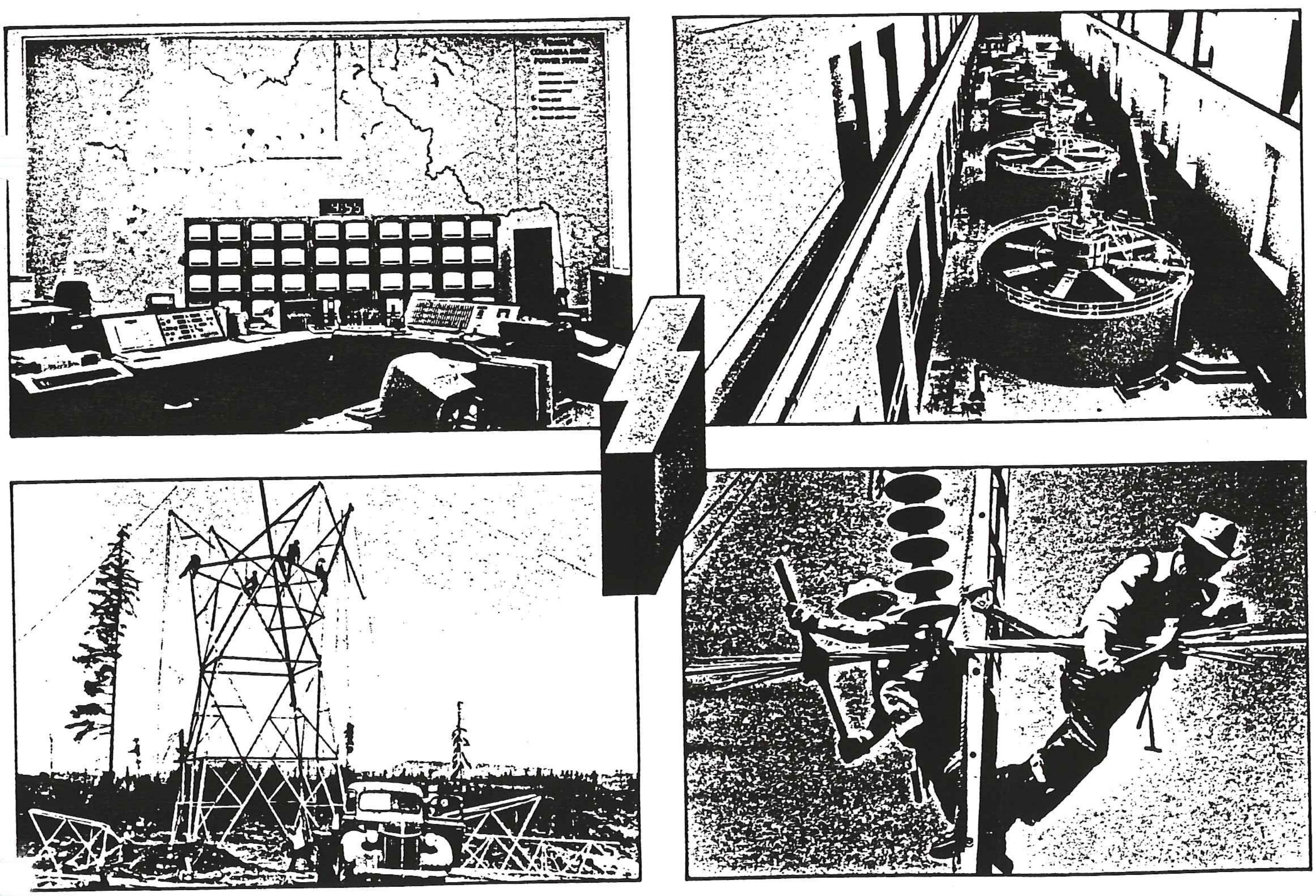
WITNESS: WILLIAM G. JOHNSON AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 315
ADMIT ☑ W/D ☐ REJECT ☐

Exhibit 315

Wholesale Power Rate Projections 1990 - 2011

and Historical Wholesale Power Rates 1940 - 1989



Bonneville
POWER ADMINISTRATION

Exhibit No. 315
Docket No. UE-991255
Johnson, Avista
Page 1 of 2

November 1990

TABLE 4

NEW RESOURCE/SURPLUS FIRM POWER RATE PROJECTIONS

Fiscal Year	Real 1990 Mills/kWh			Nominal Mills/kWh		
	Low Case	Medium Case	High Case	Low Case	Medium Case	High Case
1990	28.3	28.3	28.3	28.3	28.3	28.3
1991	29.8	29.8	29.8	31.0	31.0	31.0
1992	27.4	29.6	32.8	29.7	32.1	35.5
1993	27.5	30.8	33.8	31.1	34.8	38.2
1994	28.4	31.2	35.1	33.6	36.9	41.5
1995	28.9	32.4	35.8	35.8	40.2	44.3
1996	29.6	33.4	37.4	38.5	43.4	48.6
1997	31.3	35.2	39.3	42.7	48.0	53.6
1998	31.2	35.5	40.0	44.6	50.8	57.2
1999	31.3	35.9	40.1	47.1	54.0	60.3
2000	31.6	36.1	40.7	49.9	57.1	64.3
2001	31.5	36.5	41.5	52.4	60.7	69.0
2002	31.7	37.0	41.5	55.4	64.7	72.6
2003	31.9	37.2	41.7	58.8	68.5	76.7
2004	32.3	38.2	42.7	62.5	74.0	82.6
2005	32.7	38.9	43.7	66.5	79.1	88.8
2006	32.9	40.1	44.8	70.3	85.7	95.7
2007	32.9	40.2	46.6	73.8	90.2	104.5
2008	32.5	40.0	49.0	76.8	94.4	115.6
2009	32.8	40.9	49.4	81.5	101.5	122.6
2010	32.9	41.1	49.3	85.8	107.3	128.8
2011	32.6	42.4	53.4	89.4	115.9	146.4

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

EXHIBIT NO. 316

WITNESS: WILLIAM G. JOHNSON AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 316
ADMIT ☑ W/D ☐ REJECT ☐

Exhibit 316

Centralia Historical Cost and Value of Firm Power

1986 - 1998

Total Plant

	Centralia Plant Total Cost	Non-Firm Energy Value $/MWh	Total Cost minus Firm Energy $/MWh	Centralia Energy Millions MWh	Non-Firm Power Value Above or (Below) Centralia Cost $ millions/yr	Capacity Charge $/kW/mo	Capacity Value $ millions/yr	Firm Power Value Above or (Below) Centralia Cost $ millions/yr
1986	$32.52	$11.71	-$20.81	4.09	-$85	$3.50	$56	-$29
1987	$25.37	$15.49	-$9.88	8.85	-$87	$3.50	$56	-$31
1988	$23.75	$19.44	-$4.31	8.29	-$36	$3.50	$56	$21
1989	$24.18	$22.95	-$1.23	8.63	-$11	$3.50	$56	$46
1990	$26.65	$19.17	-$7.48	7.29	-$55	$3.50	$56	$2
1991	$22.58	$15.98	-$6.60	7.75	-$51	$3.50	$56	$5
1992	$21.36	$21.70	$0.34	8.85	$3	$3.50	$56	$59
1993	$22.48	$25.75	$3.27	8.37	$27	$3.50	$56	$84
1994	$20.86	$22.34	$1.48	9.53	$14	$3.50	$56	$70
1995	$26.80	$12.46	-$14.34	5.14	-$74	$3.50	$56	-$17
1996	$23.76	$13.80	-$9.96	8.45	-$84	$3.50	$56	-$28
1997	$25.67	$13.41	-$12.26	6.81	-$83	$3.50	$56	-$27
1998	$22.94	$24.02	$1.08	8.55	$9	$3.50	$56	$66
Total					($512)		$732	$219

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

EXHIBIT NO. 317

WITNESS: WILLIAM G. JOHNSON AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 317
ADMIT ☑ W/D ☐ REJECT ☐

Exhibit 317

Table 1: Examples of Recent Power Plant Sales

Buyer	Asset(s)	Capacity (MW)	Net Book Value $000	Net Book Value $/kW	Purchase Price $000	Purchase Price $/kW	Multiple of NBV
Edison Mission	Homer City	1,884	562,200	298	1,800,000	955	3.20
FPL Group	CMP Portfolio	1,185	222,632	188	846,000	714	3.80
AES	NGE Gen. (6 coal plants)	1,415	593,750	420	950,000	667	1.60
Firstenergy Corp.	GPU (Seneca interest)	87	16,000	193	43,000	518	2.69
Edison Mission	Unicom	9,772	1,300,000	133	4,813,000	493	3.70
Southern Energy Inc.	ComEnergy	984	79,000	80	462,480	470	5.85
PG&E Generating	NEES (fossil, hydro, PPA)	4,000	1,039,216	260	1,590,000	418	1.53
Sithe Energies Inc.	GPU (23 plants+sites)	4,117	814,000	198	1,680,000	408	2.06
NRG Energy	ConEd (Arthur Kill)	1,456	220,000	151	505,000	347	2.30
Orion Power Holdings	ConEd (Astoria)	1,855	250,000	135	550,000	296	2.20
Keyspan Energy	ConEd (Ravenswood)	2,168	330,000	152	597,000	275	1.81
Sithe Energies Inc.	Boston Edison (fossil)	2,000	450,000	225	536,000	268	1.20
Southern Co.	PG&E	3,065	432,000	141	801,000	261	1.85
NRG Energy	EUA-Montaup (Somerset)	229	30,556	133	55,000	240	1.80
Duke	PG&E	2,645	380,000	144	501,000	189	1.32
Southern/Dominion	Unicom	1,598	250,000	156	250,000	156	1.00
FPL Group	PG&E	1,224	160,000	131	175,000	143	1.09
Amergen	GPU (Three Mile Island 1)	786	600,000	763	100,000	127	0.17

Exhibit No. 317
Docket No. UE-991255
Johnson, Avista
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BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

REBUTTAL TESTIMONY OF THOMAS D. DUKICH

REPRESENTING AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 318
ADMIT ☑ W/D ☐ REJECT ☐

Exhibit T-318

Q. Please state your name, business address and present position with the Company?

A. My name is Thomas D. Dukich. My business address is East 1411 Mission Avenue, Spokane, Washington. I am the Director of Rates and Tariff Administration.

Q. Have you previously filed testimony in this proceeding?

A. Yes.

Q. What is the scope of your rebuttal testimony?

A. In my rebuttal testimony I respond to the testimony of staff and intervenor witnesses related primarily to the disposition of the gain on the sale of Centralia. Where possible I have responded to the particular issue raised, rather than responding separately to the testimony of each witness.

Q. Are you sponsoring any exhibits with your rebuttal testimony?

A. Yes, I am sponsoring Exhibit Nos. 319 through 321, as marked for identification.

Q: Do you have any opening comments before turning to the specific issues raised by other witnesses in the case?

A: Yes. First of all I would like to clarify and summarize my testimony since there may be some confusion regarding the rationale for Avista's proposal regarding the disposition of the gain. Our proposal is premised upon balancing the interests of customers and shareholders. In my direct testimony I outlined what I believe to be the current status of this balance as the Commission faces the decision regarding the gain on the sale: Customers have been well served by Avista as evidenced by the fact that rates have varied between the lowest and the fifth lowest in the United States over the last 20 years. Several independent studies have rated Avista's customer service and business operations as outstanding. How have shareholders faired during this time? They have clearly not been shielded from significant losses. Before tax write-offs since 1985 have totaled over $96 million. Regulated rates of return since 1973, which exclude the impact of these write-offs, have not unduly enriched shareholders.

My testimony speaks to the balance of interests between customers and shareholders, and requests that the Commission consider this balance in its decision. It is our position that allowing Avista to retain all or a portion of the gain balances the interests involved without diminishing future customer service or rates.[1]

In evaluating the Company's position, I believe it would be helpful to focus on an important threshold question: Should the gain from the sales of Avista's utility assets always go to customers? For the following reasons, we believe the answer to this question is no.

1. **Commission Rules and Policies Allow a Gain to Shareholders:** We are not aware of any stated Commission policies or rules that require gains from sales of

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[1] One approach to allocating gain on the sale of an asset was outlined in Democratic Central Committee v. Washington Metro. Area Transit Comm., 485 F.2d 786 (D.C. Cir. 1973). On pages 805-806 the court framed the task as follows:
"Investors, we have concluded, are not automatically entitled to gains in value of operating utility properties simply as an incident of the ownership conferred by their investments. And it goes without saying that consumers do not succeed to such gains simply because they are users of the service furnished by the utility. Neither capital investment nor service consumption contributes in any special way to value-growth in utility assets. Rather, the values with which we are concerned have grown simply because of a rising market.
Investors and consumers thus start off on an equal footing, and the disposition of the growth must depend on other factors. We thus reach the dual critical inquiry; identification of the principles which must guide the allocation, as between investors and consumer groups, of appreciation in value of utility assets while in operating status; and application of those principles to transit's situation."
Over 25 years have passed since this decision. There have been significant changes in the electric utility industry during this time and this case may not be entirely on point. Nevertheless, it can provide a useful framework for debate and discussion and I have used it for this purpose.

utility assets to flow exclusively to customers. In fact, in the Commission's order related to the sale of Colstrip by Puget Sound Energy, states as follows:

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

Therefore, the Commission's rules and policies do not seem to preclude the assignment of all, or a portion, of the gain on the sale of Centralia to shareholders.

2. **<u>The Allowed Rate of Return does not Preclude a Gain to Shareholders:</u>** Sales of assets such as Centralia are subject to a specific decision of the Commission granting approval of the sale. With regard to any gains on these sales, the Commission has stated that there are instances where the Commission must determine "whether or how to share those benefits between ratepayers and shareholders." If the rate of return was either implicitly or explicitly established under the assumption that all gains from all sales of assets were to be assigned to customers, then there would be no need for the Commission to pose such a question. It would already be answered. The rate of return established by the Commission for the Company does not, in and of itself, preclude a decision by the Commission to assign all, or a portion, of the gain on Centralia to shareholders. In the past the Commission has issued decisions disallowing recovery of a portion of investments made by the Company in generating facilities. In both instances, either a disallowance of investment recovery or an assignment of a gain to shareholders, the decision of the Commission has a direct financial impact on financial statements and shareholders, <u>irrespective of the rate of</u>

return authorized by the Commission for the Company. Regulated rates of return do not reflect the impact of disallowances or book gains.

3. **The Commission is a Surrogate for Competition:** One theory of regulation is that the Commission serves as a substitute or surrogate for competition to ensure that pricing to customers is fair, just and reasonable, and that service is safe and reliable.[2] The presumed monopoly status of the utility and the corresponding regulation by the Commission, however, does not result in customers owning the utility's assets. Commission regulation is primarily economic in the sense that prices are regulated through an analysis of various costs, including capital return. Legal and operational ownership, however, resides with, and is the responsibility of, the utility. It is the Company's decision, in the first instance, to determine whether to acquire or dispose of assets. Many of the Company's decisions, however, are subject to the specific approval of the Commission, including the financial impact on customers from those decisions. In the competitive world, both the gains and losses from investment decisions rest with the business owners. Monopoly status, in and of itself, does not preclude the assignment of both gains and losses to shareholders. As the surrogate for competition, it is the Commission's decision as to how gains and losses are shared between customers and shareholders.

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[2] The Company is also subject to other sources of competition in the form of alternate fuel sources, neighboring public utilities (Washington does not have exclusive service territories), and Bonneville Power Administration (BPA). BPA serves as wholesale provider of preference power to public agencies within a statutorily defined region in the Northwest that includes all of Avista's service territories. Avista competes with BPA's public agency preference customers for retail load on the fringes of its service territory. In addition, certain customers, such as federal agencies, have direct rights to purchase from BPA. In 1990 Avista lost the housing load of Fairchild Air Force Base to BPA. All of this competition places pressure on Avista to keep its rates low to meet competition.

4. **Symmetry:** On Page 16, Line 8 of his testimony, Mr. Elgin states that, "Indeed, if any of the gain is kept by the utility, shareholders will be provided excessive returns through accretion in the utility's book value." We agree with Mr. Elgin that the Centralia gain assigned to shareholders will result in an increase in book value for the Company. However, it is also true that the Company's book value has been significantly decreased in the past for the investments that were disallowed for recovery by the Commission related to WNP-3, Skagit, and Kettle Falls (Exhibit No. 309). If there is to be symmetry (fairness), it is necessary for there to also be an increase in book value from time to time, along with the decreases that have occurred from the investment disallowances. Therefore, it would be appropriate for there to be an increase in book value associated with the gain on Centralia. To my knowledge there are no Commission orders that state in any way that the allowed return on rate base for the Company is a "No Gains" return. That is, the allowed rate of return has not been characterized as a return that requires the Company to absorb losses associated with the acquisition of assets, but precludes the Company from receiving any gains on the disposition of assets. Again, as I stated in my direct testimony, the purpose of the Company's testimony regarding the prior disallowances of investment by the Commission is not to complain or to call into question the fairness of those prior decisions. The Company is simply requesting that the Commission carefully consider the balance of equities between customers and shareholders in its decision regarding the disposition of the gain.

Q: On Page 15 of Mr. Elgin's testimony he discusses market based returns on net book value as fair compensation to shareholders (Line 20). Do you have any comments on this portion of his testimony?

A: Yes. It is important to note that Mr. Elgin has referred to a return on "net book value." Furthermore, on Page 24, Line 19 Mr. Elgin states as follows:

> "Shareholders are compensated for accepting this ongoing risk of prudently managing the resource <u>while it is in rate base</u>, and as long [as] Centralia continues to produce power, <u>ratepayers will pay rates that reflect the ongoing reasonable costs of power produced by the plant. These costs include compensation to shareholders for the risks of ownership</u>." (underscores added)

"Net book value" and "rate base" include the value of any investments for which the Commission has granted recovery through retail rates. In general, an investment which has been disallowed for rate making purposes must be written off by the Company, and net book value and rate based is reduced. The Company receives neither a return on, nor a return of this investment. Therefore, the Company has the opportunity to earn the allowed return <u>only</u> on the investment that the Commission has approved for recovery in rates.

Q: In his discussion of investment disallowances at the bottom of Page 21, Mr. Elgin states that ratepayers paid for resources that never reached commercial operation. Do you have any comments on this testimony?

A: Yes. To my knowledge, the Skagit Project is the only resource investment made by the Company where no power was received, and for which some cost recovery was provided through retail rates. For Skagit, the Company received only <u>partial recovery</u> of its investment through an adjustment to retail rates. The cost of this project was split approximately 50% to customers and 50% to shareholders. The Company is receiving power from the Kettle Falls Project, and is also receiving power related to its investment in the WNP-3 Project. The Company wrote off its $11.2 million investment in the Creston Project without receiving or requesting a change in retail rates.

Although customers absorbed a portion of the costs of the Skagit Project, shareholders also incurred a write-off and and reduction to book value. Customers, however, are also receiving substantial benefits from favorable resource decisions made by the Company, such as the low-cost power contracts with the Mid-Columbia PUDs explained on Page 7 of my direct testimony.

The gain on the sale of Centralia represents economic value over and above the book value of the asset and the amount rate based. Customers have not been charged a return on this economic value (the gain), nor have they paid depreciation based on this economic value. Any portion of the gain assigned to shareholders, therefore, would not take away from customers any value that they have or are currently receiving.

Q: On Page 23 of his testimony, Mr. Elgin suggests that Avista's direct testimony calls into question the fairness of prior decisions of the Commission. Do you have any comments on this portion of Mr. Elgin's testimony?

A: Yes. It is very important that our testimony not be misinterpreted. Perhaps I was not clear enough, so I would like to restate our position in this regard. The purpose of our testimony is not to complain, contest, revisit, or call into question the fairness of the prior decisions of the Commission. The purpose is to simply show that past Commission decisions have in fact resulted in significant write-offs (losses) to shareholders, and that a balance of interests for customers and shareholders points to occasional gains for shareholders along with the losses.

Q: On Page 16 of his testimony, Mr. Elgin states that ". . . Centralia was depreciated too quickly. Therefore, ratepayers paid excessive depreciation expense and shareholders benefited since capital was returned too quickly." Do you have any comments on these statements?

A: Yes. With regard to the question of a benefit to shareholders, retail rates are set to provide a <u>return of</u> capital to the Company equal to the depreciation expense, and a <u>return on</u> the remaining investment that has not yet been depreciated. The Company no longer earns a return on the portion of its investment that has been depreciated. The revenue received related to the depreciated portion must be reinvested by the Company in order for it to continue to earn a return on its capital. If Centralia had been depreciated at a slower pace, it would have had no earnings impact on the Company. <u>The lower depreciation expense would have resulted in lower revenues to the Company</u>, and no net change in earnings, i.e., the revenue to the Company is set to match the depreciation expense.

As to whether Centralia was depreciated too quickly, we may have been dealing with a write-off in this case associated with shutting Centralia down due to air quality requirements or some other reasons. If that were the case, it could be said that the plant was not depreciated quickly enough, and that depreciation expense had been too low. In fact, just such a result logically follows from Mr. Lazar's testimony (Page 3, Line 24) with regard to his 1997 position on the value of Centralia.

Centralia has been in operation since 1972. There have been many opportunities since that time to adjust the depreciation expense for Centralia. On Page 23, Line 5 of his testimony, Mr. Elgin states that, "Prior decisions by this Commission evaluated all relevant evidence and treated all parties fairly." Then on the same page, Line 8, he states that "It would be inequitable and unfair to the parties in those prior rate proceedings to revisit those prior decisions." We concur. The same can be said of the allowed level of depreciation for Centralia. There are many factors that affect the useful life and value of a generating plant, including location, access to fuel supply, operating history, environmental impacts, etc. The historical depreciation expense, approved by the Commission, was based on the best information available and we can only conclude that it was set at a level that was fair, just and reasonable.

Q: On Page 18 of his testimony, Mr. Elgin proposes that the Commission's treatment of the gain on the sale of Centralia be uniformly applied to each of the three utilities. Do you agree with this proposal?

A: No. Although the Commission is obviously not precluded from ordering similar treatment of the gain for the three utilities, the Commission in the past has avoided a "one size fits all" approach to regulation. For example, the investment recovery provided by the Commission related to WNP-3 was different for Avista and Puget Sound Energy. Both companies had invested in the same generating project, but received different cost recovery treatment. In this case, it may be appropriate for differing treatment of the disposition of the gain for each utility, based on the unique circumstances of each utility. I have outlined Avista's unique circumstances in my direct testimony.

Q Beginning on Page 4, Line 8 of his testimony, Mr. Elgin recommends deferring decisions regarding the disposition of the gain from the sale of Centralia to a general rate case? Do you have any comments on this testimony?

A Yes. Decisions of the Commission regarding the exact disposition of the gain represent additional conditions related to the sale of Centralia, over and above the decision whether or not to allow the sale. It is reasonable and appropriate for the Company to have knowledge of these regulatory conditions in making its final decision related to selling the plant. Therefore, decisions related to the disposition of the gain on the sale of Centralia should be made in this proceeding. Should the Commission determine that a portion of the gain related to the sale of Centralia be assigned to customers, Mr. McKenzie's direct testimony explains the Company's position regarding the treatment of the customer portion of the gain.

Q: On Page 4 of Mr. Martin's testimony, he discusses a prior decision of the Commission related to gains on sales of property in a Puget Sound Energy case. Do you have any comments on this testimony?

A: Yes. We believe it can be helpful to look at prior decisions of the Commission, if the issues and circumstances in the case are such that a direct application can be made to the current case. The case referred to by Mr. Martin, however, involved multiple sales of non-depreciable real property by Puget Sound Power & Light during the period 1974 to 1989 (Docket U-89-2688-T). We do not believe that the issues and circumstances in that case support a similar decision in this case, or in any way binds the Commission to a similar decision, especially since that case involved a stipulation.

The Stipulation in Docket U-89-2688-T clearly states that the gains at issue in the case were related solely to sales of non-depreciable real property. In Avista's current filing, the gain is related to the sale of a major base-load generating resource. The Company's investments in generating resources have been subjected to rigorous reviews that have resulted in substantial write-offs for the Company. A decision related to the disposition of the gain on the sale of Centralia is clearly in a different category than that of the relatively minor real property transactions.

Q: Beginning on Page 4, Line 15 of his testimony, Mr. Martin discusses the disposition of a gain on the sale of a combustion turbine generator by the Company. Do you have any comments on this testimony?

A: Yes. In 1987 the Company sold its Othello combustion turbine generator and realized an after-tax gain of $143,000 applicable to the Washington jurisdiction. The turbine was fueled by oil, and was relatively inefficient, and consequently, in the years leading up to the sale, was called upon very little by the Company. In its order approving the sale in Docket No. 87-1533-AT, the Commission ordered the Company to defer the gain in a deferred credit account until final disposition of the gain was determined in the Company's next general rate case.

In a stipulation filed with the Commission in 1990 (Docket No. UE-900093) the Company and Commission Staff reached agreement to apply $84,000 of the gain to offset Company write-offs related to Othello turbine fuel and Shawnee transmission materials. The remaining $59,000 of the gain was included as a rate base reduction in the calculation of the Company's revenue requirement in Docket No. UE-900093. The gain on the sale of Othello involved a stipulation and was obviously relatively immaterial, and in our opinion should not be considered precedent setting.

Q Do you agree with Mr. Lazar's recommendation, beginning at Page 3, Line 18 of his testimony, that approval of the sale of Centralia should be conditioned upon a covenant by the Company to supply power in the future at the estimated cost of ownership and operation of Centralia?

A No, this would not be an acceptable condition. The Company is not compensated in its allowed rate of return for guaranteeing that market prices for the next 20 years or more will be below certain levels. Furthermore, such a condition was not factored into Avista's decision to sell the plant.

Q: On Page 6, Line 1 of Mr. Wolverton's testimony, he states that "To allocate less than 100 percent of the gain to ratepayers would deprive ratepayers of the benefits of the asset they have paid for over time, and which they will otherwise receive if the sale is not completed." Do you have any comments on this statement?

A: Yes. On Page 13, Line 19 of his testimony Mr. Wolverton also states with regard to Centralia that:

> "It is, in effect, a ratepayer asset. Because ratepayers have been responsible for paying all the costs associated with Centralia, ratepayers should receive all of the benefits from the sale."

Historically, customers have not paid all of the investment costs associated with generating projects, as evidenced by the write-offs experienced by the Company, e.g., WNP-3 and Kettle Falls. Customers no more own the generating assets than I own some of McDonalds because I purchased some of their Big Macs. Simple use of a product, even if the price is based on cost, does not result in ownership of the means of producing that product.

As I have previously stated in my testimony, monopoly status, and the existence of regulation as a surrogate for competition, does not transfer ownership of assets to customers, and does not preclude shareholders from receiving gains from the sale of assets.

Q: On Page 7 of Mr. Wolverton's testimony, he states that ". . . it is prudent to adopt policies now that balance the interests of shareholders and ratepayers regarding potential stranded costs or benefits." Do you agree?

A: No. Electric industry restructuring on a broad scale has not yet occurred in the State of Washington, nor does it seem imminent. It would be premature to make decisions, or adopt policies, related to electric restructuring now, before all the factors that would need to be taken into consideration are known, including any possible legislation. It is also not necessary or prudent to make specific stranded cost or benefit decisions now, in dealing with the proposed sale of Centralia.

Q: Beginning on Page 17 of his testimony, Mr. Wolverton uses non-production cost calculations on a per customer basis for various utilities to draw conclusions related to the efficiency of Avista as a utility. Do you have any comments on this testimony?

A: Yes. While benchmarking creates some interesting comparisons between companies, it is important to be mindful of factors that may mislead or confound the comparison. For example, in a comparison of non-production costs, the difference in population density from one company's service territory to another may cause materially different costs per customer by various cost categories. Puget Sound Energy has approximately 65% more customers per distribution line mile than Avista Utilities, and over twice the number of customers per transmission line mile, which could result in major differences in transmission and distribution costs on a per customer basis. In fact, as shown in Exhibit No. 319, for Avista, PSE, Idaho Power, and PacifiCorp, there is a substantial correlation between customers per distribution line mile and non-production costs ($r = 0.73$). In this instance, non-production cost can be said to reflect customer density per line mile rather than efficiency as claimed by Mr. Wolverton. The age of the distribution system can also have an influence on costs.

In addition, the size of a utility has an influence on fixed costs per customer. Customer service expenses, including call centers and computer systems, can serve a much larger customer base with relatively minor incremental costs. Spreading these fixed costs over a smaller customer base drives up the cost on a per customer basis. Pacificorp has almost five times the number of customers as Avista, and Puget has almost three times the number of customers as Avista.

Because of the obvious geographical, demographic, and size differences in the service territories, we do not believe the data provided by Mr. Wolverton provides a proper representation of the efficiency of Avista.

Avista has consistently ranked high in independent studies of economic efficiency and business excellence. I have cited four such studies in Exhibit No. 320, which provide a more comprehensive indication of comparative efficiencies. A 1999 study published by Fitch Investors Services provides another indication of Avista's efficiency. The Fitch study includes a comparison of the embedded costs of transmission service, the embedded costs of distribution service, and embedded common and general costs among utilities. Avista ranked either first or second lowest among other Western utilities for each cost category, as shown in Exhibit No. 321.

<u>These studies provide comparisons based on what customers actually pay: cents per kilowatt-hour.</u> In our opinion, this is a much more comprehensive and valid measure than the one selected by Mr. Wolverton.

Q: Do you have any further comments related to the testimony of staff and intervenor witnesses in the proceeding?

A: Yes. Some of the staff and intervenor witnesses raised the same or similar issues. For the sake of brevity the Company has not attempted to respond to each statement of each witness on the common issues. To the extent that a witness has made a statement that the Company has not specifically responded to, our silence does not indicate agreement.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

EXHIBIT NO. 319

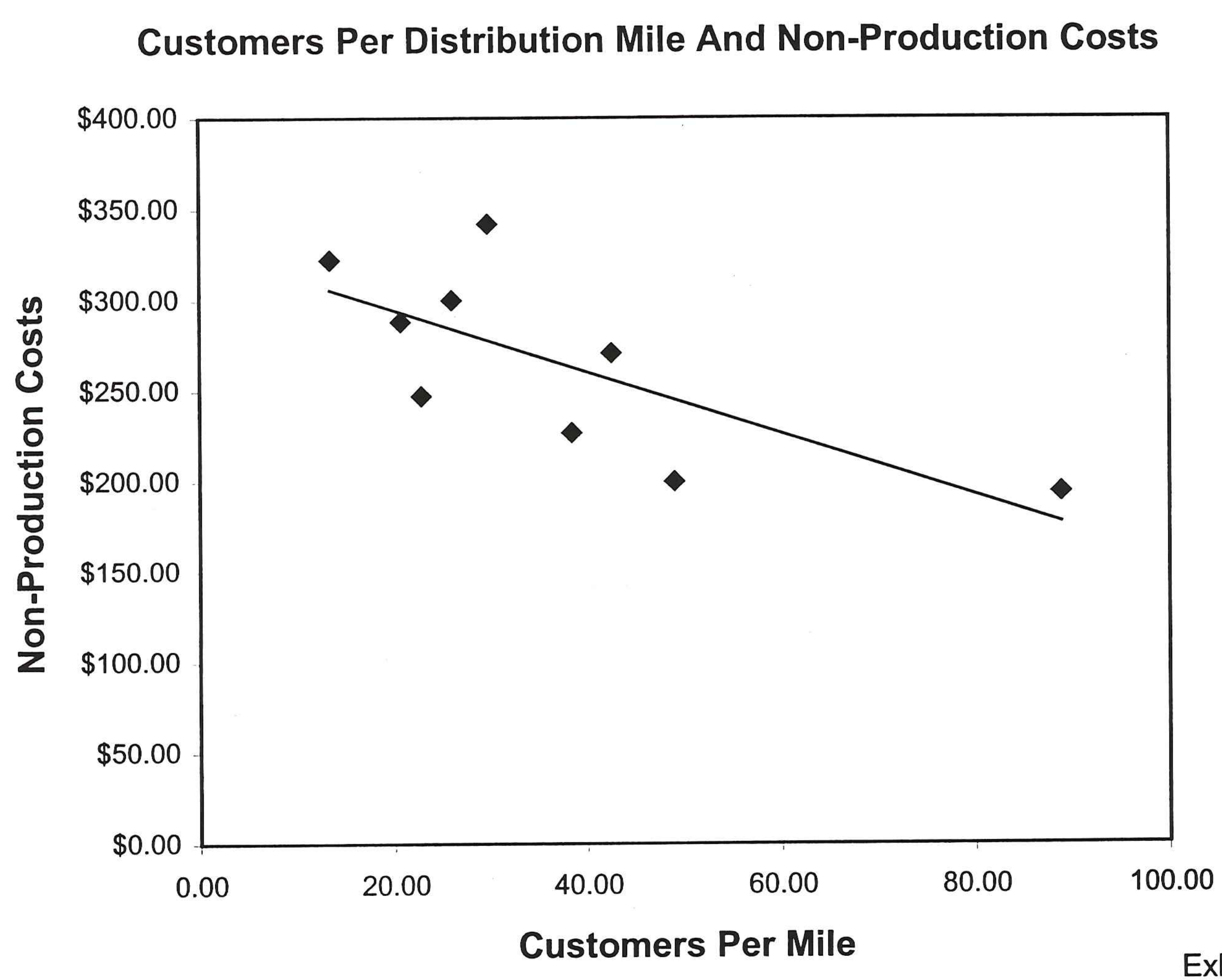
WITNESS: THOMAS D. DUKICH, AVISTA CORPORATION

WUTC DOCKET NO. UT-991255
EXHIBIT NO. 319
ADMIT ☑ W/D ☐ REJECT ☐

Correlation Between Customers Per Distribution Mile and Non-Production Costs (1)

Utility	Customers Per Distribution Line Mile	Non-Production Cost Per Customer
Avista	29.76	$342.01
Puget Sound Energy	49.00	$200.07
Idaho Power	13.41	$322.31
PacifiCorp	26.00	$300.13
Sierra Pacific	22.84	$247.33
So Cal Edison	38.48	$227.18
PGE	42.59	$271.04
Tucson Electric	20.71	$288.25
San Diego G & E	88.83	$194.02
	-0.7302476	

(1) Source for customers per distribution mile was Electric World Directory of Electric Power Producers and Distributors, 1999. Source for non-production costs was Wolverton Exhibit Nos. 604 and 605.



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Studies Performed by Independent Parties

1. <u>1997: Rated second out of 94 electric utilities on efficiency.</u>
   In a study conducted by Barakat & Chamberlin, Inc. and reported by Public Utilities Fortnightly (June 15, 1997), the Company was ranked near the top of utilities best positioned to meet the needs of customers in a more competitive utility marketplace. The Company was rated second in competitive efficiency among 94 U.S. electric utilities, achieving a rating of 99.9%. This analysis considered such efficiency factors as total electric sales, average system power rate, total electric sales per employee, operating expenses, and percentage of power purchased from other sources.

2. <u>1998: Avista recognized by McGraw-Hill for business excellence and innovation.</u>
   Electrical World Business Magazine selected the Company as one of only five 1998 recipients of the James H. McGraw Award for business excellence in recognition of important contributions to the progress and future of the energy industry. Specifically Avista was recognized for "creatively and successfully pursuing market opportunities by leveraging astute business strategies and outstanding technical and engineering capabilities in risk management, retail products and services and environmental stewardship."

3. <u>1998: One of only 19 utilities nationwide to merit distinction.</u>
   Based on figures for 1996, the Company tied for fifth place among 140 utilities surveyed for most efficient utility operations. The top nineteen utilities were singled out for merit. Survey results, as reported by Public Utilities Fortnightly (September 1, 1998), were based on detailed information drawn from labor costs, operations and maintenance expenses, pensions and benefits, fuel and capital outlays. Even though the survey included a period in which the Company experienced substantial costs for ice storm restoration efforts, which affected the Company's standings in this survey, Avista finished near the top of the industry.

4. <u>1998: Avista ranks number 1 in overall customer service performance.</u>
   Theodore Barry & Associates, in an independent survey of electric utilities, ranked the Company number one in overall customer service performance. Among 33 other energy providers, the Company had the lowest annual customer service expense, while receiving one of the highest customer satisfaction ratings in the survey group.

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Embedded Cost of Electric Service* (continued)

(Cents/kwh, Year Ended Dec. 31, 1998)

	Generation					Transmission			Distribution				Common and General	
Company	Capital Charge	Fuel	Purchased Power	Operations and Maintenance	Total	Capital Charge	Operations and Maintenance	Total	Capital Charge	Operations and Maintenance	Customer Service	Total	Total	Total Embedded Costs
Duke Energy Corp.	1.06	0.93	0.19	0.69	2.87	0.19	0.06	0.24	0.70	0.16	0.14	1.00	0.86	4.97
Georgia Power Co.	1.41	1.17	0.50	0.57	3.65	0.29	0.07	0.36	0.74	0.23	0.27	1.23	0.55	5.80
Gulf Power Co.	0.74	1.58	0.35	0.53	3.21	0.13	0.06	0.20	0.54	0.21	0.23	0.98	0.54	4.92
South Carolina Electric & Gas Co.	1.37	1.00	0.55	0.49	3.40	0.20	0.04	0.24	0.62	0.14	0.14	0.90	0.71	5.25
Virginia Electric and Power Co.	0.30	N.A.	N.A.	N.A.	N.A.	0.05	N.A.	N.A.	0.23	N.A.	N.A.	N.A.	0.13	N.A.
SPP Weighted Average	0.79	1.39	0.89	0.35	3.42	0.23	0.05	0.28	0.49	0.12	0.12	0.73	0.48	4.92
Cleco Corp.	0.52	1.53	0.91	0.28	3.24	0.34	0.06	0.41	0.72	0.17	0.21	1.10	0.56	5.31
Entergy Arkansas, Inc.	0.70	0.82	1.36	0.44	3.31	0.22	0.04	0.26	0.54	0.12	0.12	0.78	0.56	4.92
Entergy Gulf States, Inc.	1.23	1.40	0.82	0.34	3.79	0.20	0.11	0.30	0.34	0.09	0.10	0.53	0.43	5.05
Entergy Louisiana, Inc.	1.09	1.24	1.23	0.50	4.06	0.19	0.04	0.23	0.44	0.11	0.10	0.65	0.45	5.38
Entergy Mississippi, Inc.	0.26	1.50	1.88	0.26	3.91	0.35	0.05	0.40	0.53	0.18	0.18	0.89	0.41	5.60
Entergy New Orleans, Inc.	0.10	1.24	2.56	0.22	4.13	0.07	0.10	0.17	0.45	0.12	0.15	0.72	0.55	5.56
Kansas City Power & Light Co.	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Kansas Gas and Electric Co.	2.00	1.17	0.26	0.85	4.28	0.27	0.05	0.32	0.56	0.18	0.10	0.85	0.61	6.06
Oklahoma Gas and Electric Co.	0.56	1.48	0.98	0.21	3.23	0.21	0.05	0.26	0.71	0.16	0.13	1.00	0.55	5.05
Public Service Co. of Oklahoma	0.44	1.66	0.34	0.38	2.82	0.25	0.01	0.26	0.66	0.15	0.11	0.92	0.54	4.55
Southwestern Electric Power Co.	0.57	1.61	0.15	0.25	2.59	0.23	0.05	0.28	0.47	0.10	0.08	0.65	0.51	4.03
Southwestern Public Service Co.	0.61	1.84	0.10	0.17	2.73	0.25	0.03	0.28	0.29	0.08	0.10	0.46	0.32	3.80
WSCC Weighted Average	0.95	0.58	1.89	0.75	4.16	0.28	0.11	0.39	0.79	0.21	0.21	1.22	0.72	6.49
Arizona Public Service Co.	1.45	0.85	0.81	0.67	3.79	0.31	0.07	0.38	1.15	0.17	0.23	1.56	0.72	6.45
Avista Corp.	0.30	0.16	1.73	0.11	2.31	0.10	0.07	0.17	0.24	0.06	0.08	0.38	0.24	3.09
El Paso Electric Co.	1.75	1.30	0.24	0.68	3.97	0.30	0.05	0.34	0.40	0.15	0.12	0.67	1.28	6.27
Idaho Power Co.	0.41	0.23	1.45	0.21	2.29	0.11	0.04	0.16	0.24	0.10	0.05	0.40	0.24	3.09
Montana Power Co.	0.79	0.39	0.72	0.75	2.66	0.51	0.18	0.69	0.69	0.22	0.10	1.01	0.57	4.93
Nevada Power Co.	0.63	1.01	1.90	0.16	3.69	0.34	0.05	0.39	0.92	0.14	0.21	1.26	0.68	6.02
Pacific Gas and Electric Co.	2.18	0.52	2.00	1.15	5.85	0.32	0.12	0.43	1.44	0.53	0.39	2.36	1.12	9.77
PacifiCorp	0.52	0.58	1.16	1.68	3.93	0.25	0.10	0.35	0.43	0.10	0.12	0.66	0.59	5.54
Portland General Electric Co.	0.43	0.31	1.04	0.27	2.06	0.13	0.12	0.25	0.54	0.15	0.11	0.80	0.42	3.53
Public Service Co. – New Mexico	0.70	0.86	1.13	0.96	3.66	0.15	0.12	0.27	0.40	0.12	0.12	0.64	0.52	5.09
Public Service Co. of Colorado	0.54	0.69	1.93	0.24	3.40	0.20	0.07	0.26	0.67	0.17	0.12	0.96	0.49	5.11
Puget Sound Energy, Inc.	0.31	0.18	2.14	0.12	2.75	0.21	0.13	0.34	0.61	0.15	0.09	0.86	0.36	4.31
San Diego Gas & Electric Co.	2.05	1.04	1.82	0.74	5.65	0.47	0.12	0.60	1.69	0.41	0.46	2.56	1.43	10.23
Sierra Pacific Power Co.	0.61	1.20	1.64	0.25	3.70	0.59	0.05	0.64	0.83	0.17	0.11	1.11	0.68	6.12
Southern California Edison Co.	1.18	0.45	4.26	0.57	6.45	0.44	0.25	0.70	1.15	0.27	0.45	1.88	1.16	10.18
Tucson Electric Power Co.	0.71	1.51	0.60	1.02	3.83	0.32	0.06	0.38	0.43	0.10	0.13	0.66	0.72	5.59
Hawaiian Electric Co., Inc.	0.55	1.83	3.43	0.43	6.24	0.86	0.11	0.97	1.44	0.23	0.29	1.96	0.92	10.08

*North American Electric Reliability Council (NERC) averages are weighted based on total investor-owned utility kilowatt-hour sales and reflect only the investor-owned utilities listed for each region.
Source: Data obtained from Navigant Knowledge System provided under license by Navigant Consulting, Inc. N.A. – Not available.

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BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

REBUTTAL TESTIMONY OF RONALD L. MCKENZIE

REPRESENTING AVISTA CORPORATION

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 322
ADMIT ☑ W/D ☐ REJECT ☐

Exhibit T-322

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

A My name is Ronald L. McKenzie and my business address is East 1411 Mission Avenue, Spokane, Washington. I am employed by Avista Corporation as a Senior Rate Accountant.

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

A My rebuttal testimony explains why the proposal of Staff witness, Mr. Martin, to adjust the gain subject to sharing by the reclamation balance should be rejected.

Q Would you please explain why Mr. Martin's proposal to adjust the gain subject to sharing by the reclamation balance should be rejected?

A Yes. At page 11, beginning at line 3, of Mr. Martin's direct testimony he states that if the Commission finds that there is a basis for gain sharing based on a method such as the depreciation-based methodology, then the gain subject to sharing should exclude the accrued reclamation balance. He argues that the accrued reclamation balance should be directly assigned to customers since fuel costs included reclamation charges.

The Commission should reject Mr. Martin's proposal to directly assign the reclamation balance to customers. The depreciation method of allocating gain is an overall approach that, if adopted, should apply to all components of the net of tax gain on the sale of the Centralia Power Plant. Specific components of the net of tax gain should not be singled out for assignment to either customers or shareholders.

While Avista is not proposing to directly assign components of the net of tax gain, Mr. Martin's proposal is flawed from the standpoint that he looks at only one component that, if directly assigned, would produce a benefit to customers. He fails to consider the direct assignment of other components that would reduce the benefit to customers.

One such direct assignment that would reduce the benefit to customers is a direct assignment of federal income tax associated with the sale. Federal income tax associated with the sale will be computed on the difference between the sales price and the net depreciated tax basis of the plant. Hence, a portion of the taxable gain relates to the cumulative amount of depreciation taken for tax purposes. It is estimated that accumulated tax depreciation at December 31, 1999 will be $44,767,210 and the associated federal income tax on that portion of the gain will be $15,668,523 ($44,767,210 x 35%). Since tax benefits relating to approximately $42,029,393 or 93.88% of the total amount of tax depreciation of $44,767,210 will cumulatively have been passed on to customers at December 31, 1999, 93.88% of the $15,668,523 tax on the gain or $14,709,609 could be directly assigned to customers with $958,914 being assigned to shareholders.

Q How does a direct assignment of a portion of the federal income tax on the gain on sale compare to Mr. Martin's proposal to directly assign the reclamation trust?

A The amount of <u>reduction</u> in customer benefit from directly assigning a portion of federal income tax on the gain to customers is $14.7 million. The comparable amount of <u>increase</u> in customer benefit associated with directly assigning the reclamation trust balance would be $6.7 million after federal income tax.

Q Would you please summarize Avista's position on directly assigning portions of the gain on the sale?

A Yes. Avista's position is that components of the net of tax gain on the sale should not be directly assigned. If the Commission adopts the depreciation method of assigning the gain between customers and shareholders, the methodology should be applied to the entire net of tax gain. If the Commission does decide to directly assign portions of the gain on the sale, then the Commission should directly assign items such as federal income taxes in the manner described above.

Q Does that conclude your rebuttal testimony in this proceeding?

A Yes, it does.

Ex. 323

AVISTA UTILITIES
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	Washington	DATE PREPARED:	12/29/99
DOCKET NO:	UE-991255	WITNESS:	Gary G. Ely
REQUESTER:	Public Counsel	RESPONDER:	Ronald L. McKenzie
TYPE:	Data Request	DEPT:	Rates & Tariff Admin.
DUE DATE:	December 30, 1999	TELEPHONE:	(509) 495-4320
REQUEST NO.:	27		

REQUEST:
Provide the complete written reports and all other documents (including notes, emails, telephone transcriptions, etc.) provided to Avista or any of the other Centralia owners by New Harbor or any other consultant hired to assist with the evaluation of the bids for Centralia.

RESPONSE:
No written evaluations of the bids were made by the Centralia owners. Because of the need to expeditiously review the bids and select an entity with which to negotiate final definitive agreements, the owners met in Seattle and reviewed the bids in a meeting during which it was determined that the TransAlta bid should be selected.

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 323
ADMIT ☑ W/D ☐ REJECT ☐

AVISTA UTILITIES
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	Washington	DATE PREPARED:	12/29/99
DOCKET NO:	UE-991255	WITNESS:	Gary G. Ely
REQUESTER:	Public Counsel	RESPONDER:	Ronald L. McKenzie
TYPE:	Data Request	DEPT:	Rates & Tariff Admin.
DUE DATE:	December 30, 1999	TELEPHONE:	(509) 495-4320
REQUEST NO.:	28		

REQUEST:

Provide any evaluations and all other documents (including notes, emails, telephone transcriptions, etc.) of the various final bids (including both conforming and non-conforming bids) for Centralia prepared by or for Avista or any of the other Centralia owners.

RESPONSE:

No written evaluations of the bids were made by the Centralia owners. Because of the need to expeditiously review the bids and select an entity with which to negotiate final definitive agreements, the owners met in Seattle and reviewed the bids in a meeting during which it was determined that the TransAlta bid should be selected.

AVISTA UTILITIES
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	Washington	DATE PREPARED:	12/29/99
DOCKET NO:	UE-991255	WITNESS:	Gary G. Ely
REQUESTER:	Public Counsel	RESPONDER:	Ronald L. McKenzie
TYPE:	Data Request	DEPT:	Rates & Tariff Admin.
DUE DATE:	December 30, 1999	TELEPHONE:	(509) 495-4320
REQUEST NO.:	29		

REQUEST:
Provide copies of all materials provided to/from Avista from/to other Centralia owners regarding the final bids reviewed, including analyses, evaluations, recommendations, and any other material provided.

RESPONSE:
No written evaluations of the bids were made by the Centralia owners. Because of the need to expeditiously review the bids and select an entity with which to negotiate final definitive agreements, the owners met in Seattle and reviewed the bids in a meeting during which it was determined that the TransAlta bid should be selected.

CENTRALIA PLANT
1999 5-YEAR CAPITAL PLAN
100% DIRECT COST

Direct Project Cost ($000)

Proj #	BUCKET	Project Description	Overhaul Related "x"	Prior Years	NO OH 1999	NO OH 2000	U-2 9WK 2001	U-1 9WK 2002	NO OH 2003	Future Years	Total Direct
		PROJECTS < $100K									
15201		COMMON, BLANKET FOR MISC. CAPITAL COSTS			10						10
47668	RR	COMMON, REPLACE CONVEYOR BELT			64						64
47682	RR	COMMON, REPLACE 8" BOILER DRAIN LINE			62						62
47671	RR	COMMON, REWIND OR REPLACE LARGE MOTORS AND TRANSFORMERS			52						52
47669	RR	COMMON, REWIND BCP MOTORS			50						50
47672	RR	COMMON, PURCHASE SMALL TOOLS			40						40
47703	RR	COMMON, REPLACE SAFETY DEPARTMENT VEHICLE			0						0
47700	RR	COMMON, REPLACE DRAFTING COPIER			17						17
47704	RM	COMMON, UPGRADE CEMS MOISTURE ANALYZER & EDR SOFTWARE			41						41
47681	RM	COMMON, RAISE SEWAGE TREATMENT PLANT OXIDATION POND			33						33
47702	MU	UNIT #2, INSTALL BOTTOM ASH IMAGING SYSTEM			98						98
47674	MU	COMMON, PURCHASE COMPUTER EQUIPMENT			87						87
Moved to O&M		UNIT #1, INSTALL MECHANICAL SEALS ON HOT AIR BLAST GATES			0						0
Moved to O&M		UNIT #2, INSTALL MECHANICAL SEALS ON HOT AIR BLAST GATES			0						0
47699	MU	COMMON, INSTALL PUMP FROM CPRO PONDS TO NORTH EFF POND			44						44
47680	MU	COMMON, REPLACE LOAD CENTER TRANSFORMER			32						32
47701	MU	COMMON, PROVIDE ELECTRICAL POWER TO CPRO PONDS			23						23
47667	MU	COMMON, PURCHASE INTERACTIVE TRAINING SYSTEM			23						23
47673	MU	COMMON, PURCHASE OFFICE EQUIPMENT			6						6
		COMMON, FUTURE YEARS BLANKET PROJECTS				800	800	800	800		3,200
		SUBTOTAL PROJECTS <100K	0	0	682	800	800	800	800	0	3,882
		PROJECTS > $100K									
47553	RR	COMMON, REPLACE 10TH FLOOR ROOF			650						650
47677	RR	COMMON, REPLACE CRAWLER 10			810						810
47670	RR	COMMON, REPLACE MISC PUMPS, MOTORS, VALVES, ETC.			144						144
47675	MU	UNIT #2, REPLACE COOLING TOWER FILL			1,157						1,157
	MU	COMMON, REPLACE EQUIPMENT FOR YEAR 2000 COMPLIANCE			143						143
47678	MU	COMMON, REPLACE FLYASH TRANSPORT SYSTEM CONTROLS			102						102
	RR	COMMON, REPLACE ROOF ON TURB AND DEMIN ROOM				725					725
	RR	COMMON, REPLACE JLG MANLIFT				100					100
	MU	COMMON, REPLACE AUX BOILER CONTROLS				105					105
	RR	UNIT #1, REPLACE COOLING TOWER FILL				1,200					1,200
47482	RR	UNIT #2, REPLACE DISSIMILAR METAL WELDS	x	60			833				893
	RR	UNIT #2, REPLACE PCB TR's	x				600				600
	RR	COMMON, REPLACE DROTT MOBILE CRANE					340				340
	RR	COMMON, REPLACE 930 LOADER					250				250
47531	RR	UNIT #2, REPLACE HYDROGEN COOLERS	x	8			169				177
12896	RR	UNIT #2, REPAIR STRUCTURAL STEEL AND THROAT TUBES	x	163			79				242
	RR	UNIT #2, CRITICAL PIPING REPAIR (REPLACE HRH ELBOWS)	x				750				750
	RM	COMMON, REPLACE CEMS, UNIT #1 & UNIT #2					400				400
	MU	UNIT #2, INSTALL MILL INERTING SYSTEM					900				900
47421	MU	UNIT #2, REWIND GENERATOR (PHASE I, PARTS)	x	4,913							4,913
	MU	UNIT #2, REWIND GENERATOR (PHASE II INSTALLATION)	x				5,956				5,956
47481	MU	UNIT #2, REPLACE GENERATOR ROTOR (PHASE I, PARTS)	x	1,812							1,812
	MU	UNIT #2, REPLACE GENERATOR ROTOR (PHASE II, INSTALLATION)	x				827				827
	RR	UNIT #2, REPLACE AIR PREHEATER BASKETS	x				1,495				1,495
	MU	UNIT #2, REPLACE LODGE PRECIP AVC'S	x				168				168
	MU	UNIT #2, REPLACE #21 AND #22 AUX TURBINE ALARMS	x				115				115
	RR	UNIT #1, CRITICAL PIPING REPAIR (REPLACE HRH ELBOWS)	x					750			750
	RR	UNIT #1, REPLACE PCB TR's	x					600			600
47532	RR	UNIT #1, REPLACE HYDROGEN COOLERS	x	8				169			177
47420	MU	UNIT #1, REWIND GENERATOR	x	13			4,414	6,783			11,210
	MU	UNIT #1, INSTALL MILL INERTING SYSTEM						900			900
	MU	UNIT #1, REPLACE LODGE PRECIP AVC'S	x					168			168
	MU	COMMON, UPGRADE COAL RECLAIM AND GALLERY SYSTEMS						120			120
47651	MU	UNIT #1, REPLACE #11 & #12 AUX TURBINE ALARMS						115			115
	RR	COMMON, REPLACE CAT 627 SCRAPER							922		922
	RR	COMMON, REPLACE D8 CRAWLER							800		800
		SUBTOTAL PLANT PROJECTS <100K		0	682	800	800	800	800	0	3,882
		SUBTOTAL PLANT PROJECTS >100K		6,977	3,006	2,130	17,297	9,605	1,722	0	40,737
		UNFORSEEN		0	0	0	0	0	0	0	3,882
		TOTAL, REGULAR CAPITAL PROJECTS		6,977	3,688	2,930	18,097	10,405	2,522	0	48,501
		CLEAN AIR PROJECTS									
		SCRUBBER AND LOW NOx BURNERS		2,786	7,347	36,145	55,716	64,650	29,386	0	196,029
		TOTAL, CLEAN AIR PROJECTS		2,786	7,347	36,145	55,716	64,650	29,386		196,029
		TOTAL, REGULAR PROJECTS		6,977	3,688	2,930	18,097	10,405	2,622		44,619
		TOTAL, ALL CAPITAL PROJECTS		9,763	11,035	39,075	73,813	75,055	31,908		240,648

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 324
ADMIT ☑ W/D ☐ REJECT ☐

AVISTA UTILITIES
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	Washington	DATE PREPARED:	11/23/99
DOCKET NO:	UE-991255	WITNESS:	William G. Johnson
REQUESTER:	Public Counsel	RESPONDER:	William G. Johnson
TYPE:	Data Request	DEPT:	Resource Optimization
DUE DATE:	December 2, 1999	TELEPHONE:	(509) 495-4046
REQUEST NO.:	Data Request No. 18		

REQUEST:

Provide any estimates the Company has prepared of the value of power from Centralia relative to market price index power at Mid-Columbia and/or California/Oregon Border, taking into account any of the following:

a) the proximity of Centralia to loads
b) the ancillary service value of Centralia
c) transmission costs and losses
d) economic dispatch of Centralia during low priced periods

RESPONSE:

Avista's analysis of Centralia plant cost in comparison to market prices includes the capacity value of the Centralia plant, the transmission cost and transmission savings due to the proximity of Centralia to western Washington load centers, and the economic dispatch of the plant during low-priced periods.

The company's analysis includes a capacity value of around $1/MWh, a dispatch value of $1.71/MWh compared to 100% load factor market purchases, transmission costs of $2.45/MWh and transmission savings related to the plants location to load centers of $1.57/MWh.

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 325
ADMIT ☒ W/D ☐ REJECT ☐

326

AVISTA UTILITIES
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	Washington	DATE PREPARED:	10/27/99
DOCKET NO:	UE-991255	WITNESS:	William G. Johnson
REQUESTER:	Public Counsel	RESPONDER:	William G. Johnson
TYPE:	Data Request	DEPT:	Resource Optimization
DUE DATE:	11/1/99	TELEPHONE:	(509) 495-4046
REQUEST NO.:	Data Request No. 9		

REQUEST:

Provide monthly secondary market average prices since January 1, 1986.

RESPONSE:

See attached page of Secondary Energy Market Prices for January 1986 through September 1999.

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 326
ADMIT ☑ W/D ☐ REJECT ☐

Avista Corp.
Secondary Energy Market Prices

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1986	$21.90	$15.37	$7.67	$9.03	$10.09	$9.11	$10.74	$11.46	$11.92	$10.48	$10.66	$10.45
1987	$12.58	$15.06	$15.69	$15.62	$13.43	$16.36	$17.77	$15.16	$12.88	$13.22	$16.68	$19.40
1988	$20.37	$19.13	$20.93	$19.63	$17.82	$18.63	$19.54	$20.58	$20.89	$19.02	$17.31	$17.78
1989	$18.54	$34.08	$23.81	$17.19	$11.06	$16.17	$26.43	$23.80	$22.13	$21.41	$24.29	$24.64
1990	$26.26	$24.14	$15.87	$16.44	$17.40	$12.67	$16.53	$20.97	$22.64	$20.91	$16.62	$17.80
1991	$16.10	$12.49	$12.78	$15.20	$11.16	$9.18	$10.19	$14.93	$19.21	$21.49	$24.48	$19.70
1992	$18.60	$20.05	$15.11	$18.62	$18.71	$15.51	$20.38	$25.91	$24.68	$25.04	$25.98	$28.78
1993	$38.31	$39.80	$28.09	$21.43	$9.76	$13.26	$14.74	$22.22	$24.43	$22.53	$27.03	$31.43
1994	$20.90	$23.66	$18.76	$17.91	$16.74	$17.38	$23.81	$25.53	$24.78	$23.37	$24.93	$24.66
1995	$15.92	$11.48	$11.58	$12.12	$9.51	$6.05	$10.64	$15.88	$16.27	$13.17	$13.09	$10.82
1996	$12.38	$11.48	$8.29	$9.51	$8.26	$7.97	$13.77	$13.95	$14.52	$16.93	$21.81	$21.20
1997	$13.80	$8.83	$9.77	$10.94	$12.07	$8.40	$9.92	$15.48	$18.36	$16.11	$17.24	$18.68
1998	$18.10	$13.17	$17.26	$21.86	$12.05	$10.67	$23.34	$41.23	$33.97	$28.67	$27.22	$28.68
1999	$16.47	$16.39	$14.63	$20.45	$20.01	$17.01	$20.72	$24.84	$29.94			

Source: Company records 1986 through April 1996
Dow Jones Mid Col Firm Index May 1996 through September 1999

Public Counsel Request No. 9
10/26/1999
WGJ

AVISTA UTILITIES
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	Washington	DATE PREPARED:	11/23/99
DOCKET NO:	UE-991255	WITNESS:	William G. Johnson
REQUESTER:	Public Counsel	RESPONDER:	William G. Johnson
TYPE:	Data Request	DEPT:	Resource Optimization
DUE DATE:	December 2, 1999	TELEPHONE:	(509) 495-4046
REQUEST NO.:	Data Request No. 19		

REQUEST:

Provide any revised or newer estimates of the value of power prepared by or for the Company after the data in WGJ-2 was assembled. Based on discussions between Mr. Lazar and Mr. Johnson, it is our understanding that the Company has newer, and higher estimates of market prices than those reflected in the original WGJ-2.

RESPONSE:

The company prepares a 10-year market price projection on or around the first of every month. Attached is the price projection at the Mid Columbia prepared on November 1, 1999.

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 327
ADMIT ☑ W/D ☐ REJECT ☐

WASHINGTON WATER POWER
Forward Price - Mid Col
November 1, 1999

		Annual Increase			Monthly Energy Prices			Annual Energy Prices (*simple average*)		
		Flat Increase	On-Peak Increase	Off-Peak Increase	On-Peak 6x16	Off-Peak 6x8+24	Flat 7x24	On-Peak 6x16	Off-Peak 6x8+24	Flat 7x24
	Jan-99				$17.57	$13.05	$15.59			
	Feb-99				$19.49	$13.55	$16.95			
	Mar-99				$15.83	$11.54	$13.99			
	Apr-99				$17.50	$13.74	$17.03			
	May-99				$17.38	$15.95	$18.91			
	Jun-99				$17.25	$9.32	$13.85			
	Jul-99				$20.59	$15.19	$18.28			
	Aug-99				$28.00	$24.28	$26.40			
	Sep-99				$32.00	$23.45	$28.34			
	Oct-99				$36.25	$22.07	$30.17			
	Nov-99				$39.50	$23.02	$32.44			
1999	Dec-99				$36.25	$24.62	$31.27	$24.80	$17.48	$21.93
	Jan-00				$31.45	$25.41	$28.86			
	Feb-00				$25.75	$20.86	$23.65			
	Mar-00				$25.09	$20.34	$23.06			
	Apr-00				$20.43	$13.09	$17.28			
	May-00				$18.81	$12.05	$15.91			
	Jun-00				$19.21	$12.31	$16.25			
	Jul-00				$33.33	$21.21	$28.14			
	Aug-00				$42.90	$27.16	$36.15			
	Sep-00				$40.41	$25.61	$34.07			
	Oct-00				$33.77	$25.00	$30.01			
	Nov-00				$34.77	$25.69	$30.88			
2000	Dec-00				$38.10	$28.03	$33.78	$30.34	$21.40	$26.50
	Jan-01	$0.55	$0.70	$0.35	$32.15	$25.76	$29.40			
	Feb-01	$0.55	$0.70	$0.35	$26.45	$21.21	$24.20			
	Mar-01	$0.55	$0.70	$0.35	$25.79	$20.69	$23.60			
	Apr-01	$0.55	$0.70	$0.35	$21.13	$13.44	$17.82			
	May-01	$0.55	$0.70	$0.35	$19.51	$12.40	$16.46			
	Jun-01	$0.55	$0.70	$0.35	$19.91	$12.66	$16.79			
	Jul-01	$0.55	$0.70	$0.35	$34.03	$21.56	$28.67			
	Aug-01	$0.55	$0.70	$0.35	$43.60	$27.51	$36.68			
	Sep-01	$0.55	$0.70	$0.35	$41.11	$25.96	$34.60			
	Oct-01	$0.55	$0.70	$0.35	$34.47	$25.35	$30.55			
	Nov-01	$0.55	$0.70	$0.35	$35.47	$26.04	$31.42			
2001	Dec-01	$0.55	$0.70	$0.35	$38.80	$28.38	$34.32	$31.04	$21.75	$27.04
	Jan-02	$0.25	$0.32	$0.16	$32.47	$25.92	$29.65			
	Feb-02	$0.25	$0.32	$0.16	$26.77	$21.37	$24.45			
	Mar-02	$0.25	$0.32	$0.16	$26.11	$20.85	$23.85			
	Apr-02	$0.25	$0.32	$0.16	$21.45	$13.60	$18.07			
	May-02	$0.25	$0.32	$0.16	$19.83	$12.56	$16.71			
	Jun-02	$0.25	$0.32	$0.16	$20.23	$12.82	$17.04			
	Jul-02	$0.25	$0.32	$0.16	$34.35	$21.72	$28.92			
	Aug-02	$0.25	$0.32	$0.16	$43.92	$27.67	$36.93			
	Sep-02	$0.25	$0.32	$0.16	$41.43	$26.12	$34.85			
	Oct-02	$0.25	$0.32	$0.16	$34.79	$25.51	$30.80			
	Nov-02	$0.25	$0.32	$0.16	$35.79	$26.20	$31.67			
2002	Dec-02	$0.25	$0.32	$0.16	$39.12	$28.54	$34.57	$31.35	$21.91	$27.29
2003		$0.25	$0.32	$0.16				$31.67		$27.54
2004		$0.25	$0.32	$0.16				$31.99		$27.79
2005		$0.25	$0.32	$0.16				$32.31		$28.04
2006		$0.25	$0.32	$0.16				$32.63		$28.29
2007		$2.00	$2.55	$1.27				$35.18		$30.29
2008		$2.00	$2.55	$1.27				$37.72		$32.29
2009		$2.00	$2.55	$1.27				$40.27		$34.29
2010		$2.00	$2.55	$1.27				$42.82		$36.29

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AVISTA UTILITIES
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	Washington	DATE PREPARED:	12/29/99
DOCKET NO:	UE-991255	WITNESS:	William G. Johnson
REQUESTER:	Public Counsel	RESPONDER:	William G. Johnson
TYPE:	Data Request	DEPT:	Resource Optimization
DUE DATE:	12/30/99	TELEPHONE:	(509) 495-4046
REQUEST NO.:	Data Request No. 23		

REQUEST:

Provide each "market price quote for longer term (through 2010) power purchases" that Avista has received or prepared since July 1, 1999.

RESPONSE:

Attached are notes on market rates gathered on 8-27-99, 9-28-99 and 11-4-99. Also attached are the company's 10 year Mid Columbia price projections prepared since July 1, 1999.

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 328
ADMIT ☑ W/D ☐ REJECT ☐

AC No. 23
Page 1

8-27-99 TFS

8/27/99 Kevin = TFS

M-C Cal 2000 LL 19.25 / 20.0 (19.6) > 25.1
HL 29.0 / 29.5 (29.25)

2001 LL 19.75 / 21.0 (20.4) > 26.0
HL 29.75 / 30.65 (30.2)

02-06 27.25 / 28.25 (27.75)

00-10 27.50 / 29.50 (28.5) [illegible]

AC No. 23
Page 2

Date: 9/28/1999 2:37 PM
Sender: Ed Groce
To: Bob Lafferty; Dick Storro; Bill Johnson; Steve Silkworth; Tim Carlberg; Bruce Folsom; Kelly Norwood
Priority: Normal
Receipt requested
Subject: Mid-C Prices

I just received the following prices form Kevin Say at TFS, September 28, 1999.

Cal 2000, Mid-C, Flat 26.50
Cal 2001, Mid-C, Flat 27.75

Cal 2002 - 2006, Mid-C Flat, 27.00 / 28.50 average = 27.75
(TFS has not seen this change since last week)

I received the following prices from Kevin on August 27, 1999 as you can see not much change in the last month.

Cal 2002 - 2006, Mid-C Flat, 27.25 / 28.25 average = 27.75
Cal 2000 - 2010, Mid-C Flat, 27.50 / 29.50 average = 28.50

The following has been computed using the above prices and has not been acquired from the market.

Cal 2007 - 2010, Mid-C Flat, 30.15

The long-term market is not liquid and actual prices may go up if someone were to try and hit the sale price, especially with any notable quantity. Note that the long term prices are now very close to the prices for the next couple of years, therefore, long-term market downward price swings are very unlikely compared with the chance of upward price swings.

Pc No. 2
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Date: 11/4/1999 9:56 AM
Sender: Ed Groce
To: Bob Lafferty; Dick Storro; Bill Johnson; Steve Silkworth; Tim Carlberg; Bruce Folsom; Kelly Norwood; Rhonda Horobiowski
Priority: Normal
Receipt requested
Subject: Mid-C Prices

I just received the following prices from Kevin Say at TFS, Doug Edwards at PreBon and Mike Espazito at Nat Source.

Cal 2000, Mid-C	HL 29.90 / 30.50 and 30.00 / 30.75
	LL 21.50 / 22.50 and 21.25 / 22.00
	Flat 26.30 / 27.10 Calculated from above
	Flat 25.75 / 26.50
Cal 2001, Mid-C	Flat 26.00 / 27.50
Cal 2002 - 2006 Mid-C	Flat 28.00 / 29.00
Cal 2000 - 2010 Mid-C	Flat 27.75 / 28.75

2001 over 2000 1.10 - 1.20 HL
2001 over 2000 0.65 LL

2002 over 2001 0.80 - 0.90 HL

The following has been computed using the above prices and has not been acquired from the market.

Cal 2007 - 2010, Mid-C Flat, 28.85

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WASHINGTON WATER POWER
Forward Price - Mid Col
August 2, 1999

		Annual Increase			Monthly Energy Prices			Annual Energy Prices (simple average)		
		Flat Increase	On-Peak Increase	Off-Peak Increase	On-Peak 6x16	Off-Peak 6x8+24	Flat 7x24	On-Peak 6x16	Off-Peak 6x8+24	Flat 7x24
	Jan-99				$17.57	$13.05	$15.59			
	Feb-99				$19.49	$14.02	$17.15			
	Mar-99				$15.83	$11.49	$13.97			
	Apr-99				$17.50	$11.98	$14.07			
	May-99				$17.38	$12.46	$17.42			
	Jun-99				$17.25	$9.92	$14.11			
	Jul-99				$24.00	$17.67	$21.29			
	Aug-99				$35.00	$17.33	$27.43			
	Sep-99				$37.25	$21.58	$30.54			
	Oct-99				$31.75	$22.42	$27.75			
	Nov-99				$34.02	$26.69	$30.88			
1999	Dec-99				$34.52	$29.19	$32.23	$25.13	$17.32	$21.87
	Jan-00				$28.85	$24.85	$27.14			
	Feb-00				$25.20	$19.73	$22.86			
	Mar-00				$22.10	$17.77	$20.24			
	Apr-00				$22.05	$14.05	$18.62			
	May-00				$20.05	$11.38	$16.34			
	Jun-00				$19.05	$11.72	$15.91			
	Jul-00	$1.80	$2.16	$1.08	$26.16	$18.75	$22.97			
	Aug-00	$1.80	$2.16	$1.08	$37.16	$18.41	$29.10			
	Sep-00	$1.80	$2.16	$1.08	$39.41	$22.66	$32.21			
	Oct-00	$1.80	$2.16	$1.08	$33.91	$23.50	$29.43			
	Nov-00	$1.80	$2.16	$1.08	$36.18	$27.77	$32.56			
2000	Dec-00	$1.80	$2.16	$1.08	$36.68	$30.27	$33.92	$28.90	$20.07	$25.11
	Jan-01	$1.00	$1.20	$0.60	$30.05	$25.45	$28.07			
	Feb-01	$1.00	$1.20	$0.60	$26.40	$20.33	$23.79			
	Mar-01	$1.00	$1.20	$0.60	$23.30	$18.37	$21.18			
	Apr-01	$1.00	$1.20	$0.60	$23.25	$14.65	$19.55			
	May-01	$1.00	$1.20	$0.60	$21.25	$11.98	$17.27			
	Jun-01	$1.00	$1.20	$0.60	$20.25	$12.32	$16.84			
	Jul-01	$1.00	$1.20	$0.60	$27.36	$19.35	$23.92			
	Aug-01	$1.00	$1.20	$0.60	$38.36	$19.02	$30.04			
	Sep-01	$1.00	$1.20	$0.60	$40.61	$23.27	$33.15			
	Oct-01	$1.00	$1.20	$0.60	$35.11	$24.10	$30.38			
	Nov-01	$1.00	$1.20	$0.60	$37.38	$28.37	$33.51			
2001	Dec-01	$1.00	$1.20	$0.60	$37.88	$30.87	$34.87	$30.10	$20.67	$26.05
	Jan-02	$0.50	$0.60	$0.30	$30.65	$25.75	$28.54			
	Feb-02	$0.50	$0.60	$0.30	$27.00	$20.63	$24.26			
	Mar-02	$0.50	$0.60	$0.30	$23.90	$18.67	$21.65			
	Apr-02	$0.50	$0.60	$0.30	$23.85	$14.95	$20.02			
	May-02	$0.50	$0.60	$0.30	$21.85	$12.28	$17.74			
	Jun-02	$0.50	$0.60	$0.30	$20.85	$12.62	$17.31			
	Jul-02	$0.50	$0.60	$0.30	$27.96	$19.65	$24.39			
	Aug-02	$0.50	$0.60	$0.30	$38.96	$19.32	$30.52			
	Sep-02	$0.50	$0.60	$0.30	$41.21	$23.57	$33.63			
	Oct-02	$0.50	$0.60	$0.30	$35.71	$24.40	$30.85			
	Nov-02	$0.50	$0.60	$0.30	$37.98	$28.67	$33.98			
2002	Dec-02	$0.50	$0.60	$0.30	$38.48	$31.17	$35.34	$30.70	$20.97	$26.52
2003		$0.50	$0.60					$31.30		$27.02
2004		$0.50	$0.60					$31.90		$27.52
2005		$0.50	$0.60					$32.50		$28.02
2006		$0.50	$0.60					$33.11		$28.52
2007		$0.50	$0.60					$33.71		$29.02
2008		$0.50	$0.60					$34.31		$29.52

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WASHINGTON WATER POWER
Forward Price - Mid Col
August 31, 1999

		Annual Increase			Monthly Energy Prices			Annual Energy Prices (simple average)		
		Flat Increase	On-Peak Increase	Off-Peak Increase	On-Peak 6x16	Off-Peak 6x8+24	Flat 7x24	On-Peak 6x16	Off-Peak 6x8+24	Flat 7x24
	Jan-99				$17.57	$13.05	$15.59			
	Feb-99				$19.49	$13.55	$16.95			
	Mar-99				$15.83	$11.54	$13.99			
	Apr-99				$17.50	$13.74	$17.03			
	May-99				$17.38	$15.95	$18.91			
	Jun-99				$17.25	$9.32	$13.85			
	Jul-99				$20.59	$15.19	$18.28			
	Aug-99				$28.00	$24.28	$26.40			
	Sep-99				$32.00	$23.45	$28.34			
	Oct-99				$33.35	$22.34	$28.63			
	Nov-99				$32.75	$24.23	$29.10			
1999	Dec-99				$34.50	$34.50	$34.50	$23.85	$18.43	$21.80
	Jan-00				$29.96	$23.92	$27.37			
	Feb-00				$24.35	$19.46	$22.25			
	Mar-00				$23.69	$18.94	$21.66			
	Apr-00				$20.47	$13.13	$17.32			
	May-00				$18.85	$12.09	$15.95			
	Jun-00				$19.25	$12.35	$16.29			
	Jul-00				$32.75	$20.63	$27.56			
	Aug-00				$42.32	$26.58	$35.57			
	Sep-00				$39.83	$25.03	$33.49			
	Oct-00				$29.97	$21.20	$26.21			
	Nov-00				$30.97	$21.89	$27.08			
2000	Dec-00				$34.30	$24.23	$29.98	$28.89	$19.96	$25.06
	Jan-01	$0.75	$0.96	$0.48	$30.92	$24.40	$28.11			
	Feb-01	$0.75	$0.96	$0.48	$25.31	$19.94	$23.00			
	Mar-01	$0.75	$0.96	$0.48	$24.65	$19.42	$22.40			
	Apr-01	$0.75	$0.96	$0.48	$21.43	$13.61	$18.06			
	May-01	$0.75	$0.96	$0.48	$19.81	$12.57	$16.70			
	Jun-01	$0.75	$0.96	$0.48	$20.21	$12.83	$17.03			
	Jul-01	$0.75	$0.96	$0.48	$33.71	$21.11	$28.29			
	Aug-01	$0.75	$0.96	$0.48	$43.28	$27.06	$36.30			
	Sep-01	$0.75	$0.96	$0.48	$40.79	$25.51	$34.22			
	Oct-01	$0.75	$0.96	$0.48	$30.93	$21.67	$26.95			
	Nov-01	$0.75	$0.96	$0.48	$31.93	$22.37	$27.82			
2001	Dec-01	$0.75	$0.96	$0.48	$35.26	$24.71	$30.72	$29.85	$20.43	$25.80
	Jan-02	$0.75	$0.96	$0.48	$31.87	$24.88	$28.86			
	Feb-02	$0.75	$0.96	$0.48	$26.26	$20.42	$23.75			
	Mar-02	$0.75	$0.96	$0.48	$25.60	$19.90	$23.15			
	Apr-02	$0.75	$0.96	$0.48	$22.38	$14.08	$18.81			
	May-02	$0.75	$0.96	$0.48	$20.76	$13.05	$17.45			
	Jun-02	$0.75	$0.96	$0.48	$21.16	$13.31	$17.78			
	Jul-02	$0.75	$0.96	$0.48	$34.66	$21.59	$29.04			
	Aug-02	$0.75	$0.96	$0.48	$44.23	$27.53	$37.05			
	Sep-02	$0.75	$0.96	$0.48	$41.74	$25.99	$34.97			
	Oct-02	$0.75	$0.96	$0.48	$31.88	$22.15	$27.70			
	Nov-02	$0.75	$0.96	$0.48	$32.88	$22.85	$28.57			
2002	Dec-02	$0.75	$0.96	$0.48	$36.21	$25.18	$31.47	$30.80	$20.91	$26.55
2003		$0.75	$0.96	$0.48				$31.76		$27.30
2004		$0.75	$0.96	$0.48				$32.71		$28.05
2005		$0.75	$0.96	$0.48				$33.67		$28.80
2006		$0.75	$0.96	$0.48				$34.62		$29.55
2007		$2.00	$2.55	$1.27				$37.17		$31.55
2008		$2.00	$2.55	$1.27				$39.72		$33.55
2009		$2.00	$2.55	$1.27				$42.27		$35.55
2010		$2.00	$2.55	$1.27				$44.82		$37.55

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WASHINGTON WATER POWER
Forward Price - Mid Col
October 1, 1999

		Annual Increase			Monthly Energy Prices			Annual Energy Prices (*simple average*)		
		Flat Increase	On-Peak Increase	Off-Peak Increase	On-Peak 6x16	Off-Peak 6x8+24	Flat 7x24	On-Peak 6x16	Off-Peak 6x8+24	Flat 7x24
	Jan-99				$17.57	$13.05	$15.59			
	Feb-99				$19.49	$13.55	$16.95			
	Mar-99				$15.83	$11.54	$13.99			
	Apr-99				$17.50	$13.74	$17.03			
	May-99				$17.38	$15.95	$18.91			
	Jun-99				$17.25	$9.32	$13.85			
	Jul-99				$20.59	$15.19	$18.28			
	Aug-99				$28.00	$24.28	$26.40			
	Sep-99				$32.00	$23.45	$28.34			
	Oct-99				$36.25	$22.07	$30.17			
	Nov-99				$35.75	$22.60	$30.12			
1999	Dec-99				$37.65	$24.78	$32.13	$24.60	$17.46	$21.81
	Jan-00				$31.96	$25.92	$29.37			
	Feb-00				$26.35	$21.46	$24.25			
	Mar-00				$25.69	$20.94	$23.66			
	Apr-00				$20.53	$13.19	$17.38			
	May-00				$18.91	$12.15	$16.01			
	Jun-00				$19.31	$12.41	$16.35			
	Jul-00				$35.03	$22.91	$29.84			
	Aug-00				$44.60	$28.86	$37.85			
	Sep-00				$42.11	$27.31	$35.77			
	Oct-00				$30.57	$21.80	$26.81			
	Nov-00				$31.57	$22.49	$27.68			
2000	Dec-00				$34.90	$24.83	$30.58	$30.13	$21.19	$26.30
	Jan-01	$0.75	$0.96	$0.48	$32.92	$26.40	$30.11			
	Feb-01	$0.75	$0.96	$0.48	$27.31	$21.94	$25.00			
	Mar-01	$0.75	$0.96	$0.48	$26.65	$21.42	$24.40			
	Apr-01	$0.75	$0.96	$0.48	$21.49	$13.67	$18.12			
	May-01	$0.75	$0.96	$0.48	$19.87	$12.63	$16.76			
	Jun-01	$0.75	$0.96	$0.48	$20.27	$12.89	$17.09			
	Jul-01	$0.75	$0.96	$0.48	$35.99	$23.39	$30.57			
	Aug-01	$0.75	$0.96	$0.48	$45.56	$29.34	$38.58			
	Sep-01	$0.75	$0.96	$0.48	$43.07	$27.79	$36.50			
	Oct-01	$0.75	$0.96	$0.48	$31.53	$22.27	$27.55			
	Nov-01	$0.75	$0.96	$0.48	$32.53	$22.97	$28.42			
2001	Dec-01	$0.75	$0.96	$0.48	$35.86	$25.31	$31.32	$31.08	$21.67	$27.03
	Jan-02	$0.25	$0.32	$0.16	$33.23	$26.56	$30.36			
	Feb-02	$0.25	$0.32	$0.16	$27.62	$22.10	$25.25			
	Mar-02	$0.25	$0.32	$0.16	$26.96	$21.58	$24.65			
	Apr-02	$0.25	$0.32	$0.16	$21.80	$13.82	$18.37			
	May-02	$0.25	$0.32	$0.16	$20.18	$12.79	$17.01			
	Jun-02	$0.25	$0.32	$0.16	$20.58	$13.05	$17.34			
	Jul-02	$0.25	$0.32	$0.16	$36.30	$23.55	$30.82			
	Aug-02	$0.25	$0.32	$0.16	$45.87	$29.49	$38.83			
	Sep-02	$0.25	$0.32	$0.16	$43.38	$27.95	$36.75			
	Oct-02	$0.25	$0.32	$0.16	$31.84	$22.43	$27.80			
	Nov-02	$0.25	$0.32	$0.16	$32.84	$23.13	$28.67			
2002	Dec-02	$0.25	$0.32	$0.16	$36.17	$25.47	$31.57	$31.40	$21.83	$27.28
2003		$0.25	$0.32	$0.16				$31.72		$27.53
2004		$0.25	$0.32	$0.16				$32.04		$27.78
2005		$0.25	$0.32	$0.16				$32.36		$28.03
2006		$0.25	$0.32	$0.16				$32.68		$28.28
2007		$2.00	$2.55	$1.27				$35.22		$30.28
2008		$2.00	$2.55	$1.27				$37.77		$32.28
2009		$2.00	$2.55	$1.27				$40.32		$34.28
2010		$2.00	$2.55	$1.27				$42.87		$36.28

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WASHINGTON WATER POWER
Forward Price - Mid Col
November 1, 1999

		Annual Increase			Monthly Energy Prices			Annual Energy Prices (simple average)		
		Flat Increase	On-Peak Increase	Off-Peak Increase	On-Peak 6x16	Off-Peak 6x8+24	Flat 7x24	On-Peak 6x16	Off-Peak 6x8+24	Flat 7x24
	Jan-99				$17.57	$13.05	$15.59			
	Feb-99				$19.49	$13.55	$16.95			
	Mar-99				$15.83	$11.54	$13.99			
	Apr-99				$17.50	$13.74	$17.03			
	May-99				$17.38	$15.95	$18.91			
	Jun-99				$17.25	$9.32	$13.85			
	Jul-99				$20.59	$15.19	$18.28			
	Aug-99				$28.00	$24.28	$26.40			
	Sep-99				$32.00	$23.45	$28.34			
	Oct-99				$36.25	$22.07	$30.17			
	Nov-99				$39.50	$23.02	$32.44			
1999	Dec-99				$36.25	$24.62	$31.27	$24.80	$17.48	$21.93
	Jan-00				$31.45	$25.41	$28.86			
	Feb-00				$25.75	$20.86	$23.65			
	Mar-00				$25.09	$20.34	$23.06			
	Apr-00				$20.43	$13.09	$17.28			
	May-00				$18.81	$12.05	$15.91			
	Jun-00				$19.21	$12.31	$16.25			
	Jul-00				$33.33	$21.21	$28.14			
	Aug-00				$42.90	$27.16	$36.15			
	Sep-00				$40.41	$25.61	$34.07			
	Oct-00				$33.77	$25.00	$30.01			
	Nov-00				$34.77	$25.69	$30.88			
2000	Dec-00				$38.10	$28.03	$33.78	$30.34	$21.40	$26.50
	Jan-01	$0.55	$0.70	$0.35	$32.15	$25.76	$29.40			
	Feb-01	$0.55	$0.70	$0.35	$26.45	$21.21	$24.20			
	Mar-01	$0.55	$0.70	$0.35	$25.79	$20.69	$23.60			
	Apr-01	$0.55	$0.70	$0.35	$21.13	$13.44	$17.82			
	May-01	$0.55	$0.70	$0.35	$19.51	$12.40	$16.46			
	Jun-01	$0.55	$0.70	$0.35	$19.91	$12.66	$16.79			
	Jul-01	$0.55	$0.70	$0.35	$34.03	$21.56	$28.67			
	Aug-01	$0.55	$0.70	$0.35	$43.60	$27.51	$36.68			
	Sep-01	$0.55	$0.70	$0.35	$41.11	$25.96	$34.60			
	Oct-01	$0.55	$0.70	$0.35	$34.47	$25.35	$30.55			
	Nov-01	$0.55	$0.70	$0.35	$35.47	$26.04	$31.42			
2001	Dec-01	$0.55	$0.70	$0.35	$38.80	$28.38	$34.32	$31.04	$21.75	$27.04
	Jan-02	$0.25	$0.32	$0.16	$32.47	$25.92	$29.65			
	Feb-02	$0.25	$0.32	$0.16	$26.77	$21.37	$24.45			
	Mar-02	$0.25	$0.32	$0.16	$26.11	$20.85	$23.85			
	Apr-02	$0.25	$0.32	$0.16	$21.45	$13.60	$18.07			
	May-02	$0.25	$0.32	$0.16	$19.83	$12.56	$16.71			
	Jun-02	$0.25	$0.32	$0.16	$20.23	$12.82	$17.04			
	Jul-02	$0.25	$0.32	$0.16	$34.35	$21.72	$28.92			
	Aug-02	$0.25	$0.32	$0.16	$43.92	$27.67	$36.93			
	Sep-02	$0.25	$0.32	$0.16	$41.43	$26.12	$34.85			
	Oct-02	$0.25	$0.32	$0.16	$34.79	$25.51	$30.80			
	Nov-02	$0.25	$0.32	$0.16	$35.79	$26.20	$31.67			
2002	Dec-02	$0.25	$0.32	$0.16	$39.12	$28.54	$34.57	$31.35	$21.91	$27.29
2003		$0.25	$0.32	$0.16				$31.67		$27.54
2004		$0.25	$0.32	$0.16				$31.99		$27.79
2005		$0.25	$0.32	$0.16				$32.31		$28.04
2006		$0.25	$0.32	$0.16				$32.63		$28.29
2007		$2.00	$2.55	$1.27				$35.18		$30.29
2008		$2.00	$2.55	$1.27				$37.72		$32.29
2009		$2.00	$2.55	$1.27				$40.27		$34.29
2010		$2.00	$2.55	$1.27				$42.82		$36.29

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Standard MC

PC No. 2
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WASHINGTON WATER POWER
Forward Price - Mid Col
December 1, 1999

		Annual Increase			Monthly Energy Prices			Annual Energy Prices (simple average)		
		Flat Increase	On-Peak Increase	Off-Peak Increase	On-Peak 6x16	Off-Peak 6x8+24	Flat 7x24	On-Peak 6x16	Off-Peak 6x8+24	Flat 7x24
	Jan-99				$17.57	$13.05	$15.59			
	Feb-99				$19.49	$13.55	$16.95			
	Mar-99				$15.83	$11.54	$13.99			
	Apr-99				$17.50	$13.74	$17.03			
	May-99				$17.38	$15.95	$18.91			
	Jun-99				$17.25	$9.32	$13.85			
	Jul-99				$20.59	$15.19	$18.28			
	Aug-99				$28.00	$24.28	$26.40			
	Sep-99				$32.00	$23.45	$28.34			
	Oct-99				$36.25	$22.07	$30.17			
	Nov-99				$39.50	$23.02	$32.44			
1999	Dec-99				$36.25	$24.62	$31.27	$24.80	$17.48	$21.93
	Jan-00				$31.45	$25.41	$28.86			
	Feb-00				$21.25	$16.36	$19.15			
	Mar-00				$20.59	$15.84	$18.56			
	Apr-00				$19.85	$12.51	$16.70			
	May-00				$18.23	$11.47	$15.33			
	Jun-00				$18.63	$11.73	$15.67			
	Jul-00				$33.08	$20.96	$27.89			
	Aug-00				$42.65	$26.91	$35.90			
	Sep-00				$40.16	$25.36	$33.82			
	Oct-00				$37.67	$28.90	$33.91			
	Nov-00				$38.67	$29.59	$34.78			
2000	Dec-00				$27.00	$23.67	$25.57	$29.10	$20.73	$25.51
	Jan-01	$0.80	$1.02	$0.51	$32.47	$25.92	$29.65			
	Feb-01	$0.80	$1.02	$0.51	$22.27	$16.87	$19.95			
	Mar-01	$0.80	$1.02	$0.51	$21.61	$16.35	$19.35			
	Apr-01	$0.80	$1.02	$0.51	$20.87	$13.02	$17.49			
	May-01	$0.80	$1.02	$0.51	$19.25	$11.98	$16.13			
	Jun-01	$0.80	$1.02	$0.51	$19.65	$12.24	$16.46			
	Jul-01	$0.80	$1.02	$0.51	$34.10	$21.47	$28.67			
	Aug-01	$0.80	$1.02	$0.51	$43.67	$27.42	$36.68			
	Sep-01	$0.80	$1.02	$0.51	$41.18	$25.87	$34.60			
	Oct-01	$0.80	$1.02	$0.51	$38.69	$29.41	$34.70			
	Nov-01	$0.80	$1.02	$0.51	$39.69	$30.10	$35.57			
2001	Dec-01	$0.80	$1.02	$0.51	$28.02	$24.18	$26.37	$30.12	$21.24	$26.30
	Jan-02	$0.50	$0.64	$0.32	$33.11	$26.24	$30.15			
	Feb-02	$0.50	$0.64	$0.32	$22.91	$17.19	$20.45			
	Mar-02	$0.50	$0.64	$0.32	$22.25	$16.67	$19.85			
	Apr-02	$0.50	$0.64	$0.32	$21.51	$13.34	$17.99			
	May-02	$0.50	$0.64	$0.32	$19.89	$12.30	$16.63			
	Jun-02	$0.50	$0.64	$0.32	$20.29	$12.56	$16.96			
	Jul-02	$0.50	$0.64	$0.32	$34.74	$21.79	$29.17			
	Aug-02	$0.50	$0.64	$0.32	$44.31	$27.74	$37.18			
	Sep-02	$0.50	$0.64	$0.32	$41.82	$26.19	$35.10			
	Oct-02	$0.50	$0.64	$0.32	$39.33	$29.72	$35.20			
	Nov-02	$0.50	$0.64	$0.32	$40.33	$30.42	$36.07			
2002	Dec-02	$0.50	$0.64	$0.32	$28.66	$24.49	$26.87	$30.76	$21.55	$26.80
2003		$0.50	$0.64	$0.32				$31.40		$27.30
2004		$0.50	$0.64	$0.32				$32.03		$27.80
2005		$0.50	$0.64	$0.32				$32.67		$28.30
2006		$0.50	$0.64	$0.32				$33.31		$28.80
2007		$1.80	$2.29	$1.15				$35.60		$30.60
2008		$1.80	$2.29	$1.15				$37.89		$32.40
2009		$1.80	$2.29	$1.15				$40.19		$34.20
2010		$1.80	$2.29	$1.15				$42.48		$36.00

12/2/1999
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AVISTA UTILITIES
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	Washington	DATE PREPARED:	10/29/99
DOCKET NO:	UE-991255	WITNESS:	William G. Johnson
REQUESTER:	Public Counsel	RESPONDER:	William G. Johnson
TYPE:	Data Request	DEPT:	Resource Optimization
DUE DATE:	11/1/99	TELEPHONE:	(509) 495-4046
REQUEST NO.:	Data Request No. 7		

REQUEST:

Provide the Company's most recent natural gas price forecasts for the use of natural gas as an electric generation fuel for the Pacific Northwest and such other locations as the Company obtains such forecasts.

RESPONSE:

See attached table and chart of historical and projected natural gas prices.

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 329
ADMIT ☑ W/D ☐ REJECT ☐

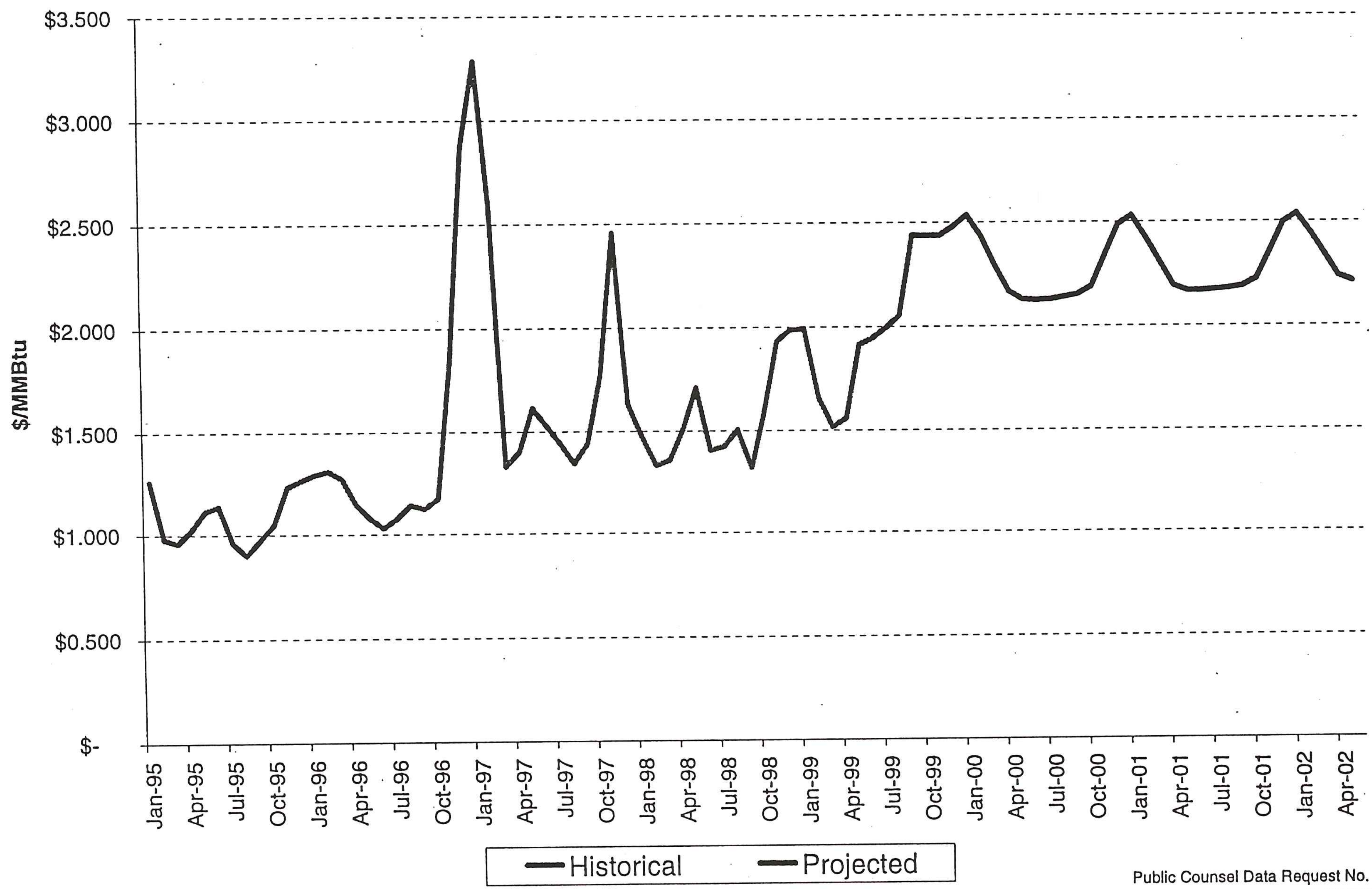
Avista Corp.
Historical and Projected Natural Gas Prices
Weighted Undelivered Average of Domestic and Canadian Supplies

	Historical	Projected
Jan-95	$1.26	
Feb-95	$0.98	
Mar-95	$0.96	
Apr-95	$1.03	
May-95	$1.12	
Jun-95	$1.14	
Jul-95	$0.96	
Aug-95	$0.90	
Sep-95	$0.98	
Oct-95	$1.05	
Nov-95	$1.23	
Dec-95	$1.27	
Jan-96	$1.29	
Feb-96	$1.31	
Mar-96	$1.27	
Apr-96	$1.15	
May-96	$1.08	
Jun-96	$1.03	
Jul-96	$1.08	
Aug-96	$1.14	
Sep-96	$1.13	
Oct-96	$1.18	
Nov-96	$1.84	
Dec-96	$2.88	
Jan-97	$3.29	
Feb-97	$2.60	
Mar-97	$1.33	
Apr-97	$1.40	
May-97	$1.61	
Jun-97	$1.53	
Jul-97	$1.44	
Aug-97	$1.34	
Sep-97	$1.44	
Oct-97	$1.78	
Nov-97	$2.46	
Dec-97	$1.63	
Jan-98	$1.48	
Feb-98	$1.33	
Mar-98	$1.36	
Apr-98	$1.51	
May-98	$1.71	
Jun-98	$1.41	
Jul-98	$1.42	
Aug-98	$1.51	
Sep-98	$1.32	

	Historical	Projected
Oct-98	$1.59	
Nov-98	$1.93	
Dec-98	$1.99	
Jan-99	$1.99	
Feb-99	$1.66	
Mar-99	$1.52	
Apr-99	$1.56	
May-99	$1.91	
Jun-99	$1.95	
Jul-99	$1.99	
Aug-99	$2.05	
Sep-99	$2.44	$2.44
Oct-99		$2.44
Nov-99		$2.44
Dec-99		$2.48
Jan-00		$2.54
Feb-00		$2.44
Mar-00		$2.30
Apr-00		$2.17
May-00		$2.13
Jun-00		$2.13
Jul-00		$2.13
Aug-00		$2.14
Sep-00		$2.15
Oct-00		$2.19
Nov-00		$2.34
Dec-00		$2.49
Jan-01		$2.53
Feb-01		$2.43
Mar-01		$2.31
Apr-01		$2.20
May-01		$2.17
Jun-01		$2.17
Jul-01		$2.17
Aug-01		$2.18
Sep-01		$2.19
Oct-01		$2.23
Nov-01		$2.36
Dec-01		$2.50
Jan-02		$2.54
Feb-02		$2.45
Mar-02		$2.34
Apr-02		$2.24
May-02		$2.21

Public Counsel Data Request No. 7
10/29/1999
WGJ

Avista Corp.
Natural Gas Prices Monthly Index
(Weighted Undeliverd Domestic & Canadian Supplies)



Public Counsel Data Request No. 7
10/29/1999
WGJ

Gas Price Forecast 95-current chart

Plant in Service 1.../2

Cei

BOOK BASIS

Acct.	Balance 5/31/99	Book Depr. Rate	Accum. Depr. Thru 12/31/99 (Estimated)	Net Plant
310.20	285,148.44		-	285,148.44
311.00	6,305,385.78	0.033000	4,817,161	1,488,224.78
312.00	32,825,619.56	0.035200	25,438,460	7,387,159.56
314.00	13,013,668.66	0.036600	6,914,830	6,098,838.66
315.00	2,935,240.12	0.031100	2,182,216	753,024.12
316.00	707,226.77	0.046800	254,284	452,942.77
331.00	50,103.07	0.028570	13,385	36,718.07
332.00	2,789.72	0.028570	200	2,589.72
333.00	359,887.97	0.028570	94,999	264,888.97
334.00	90,734.23	0.028570	24,624	66,110.23
350.40	13,465.44	0.013200	4,621	8,844.10
352.00	16,945.19	0.020900	9,546	7,399.29
353.00	309,019.71	0.026400	206,014	103,005.71
354.00	50,308.65	0.014000	19,369	30,939.82
355.00	8,399.88	0.033400	6,279	2,121.23
356.00	39,460.89	0.015900	17,254	22,206.62
395.00	(36.86)		-	-
396.00	(750.92)		-	-
394.00	9.66		-	-
	57,012,625.96		40,003,242	17,010,162
Location 099 transferred from Loc. 210				
391.00	33,287.37	0.054200	10,321	22,966.38
391.10	29,077.80	0.089600	20,612	8,465.85
392.00	5,603.00	0.049338	2,880	2,723.06
394.00	36,737.44	0.043100	12,553	24,184.22
395.00	4,909.36	0.039400	588	4,321.10
396.00	204,863.59	0.074333	100,210	104,653.78
397.00	250,101.41	0.070000	179,677	70,423.93
Total	57,577,205.93		40,330,083.64	17,247,900.41

TAX BASIS

Tax	Tax Basis as of 5/31/99	Accum. Depr. as of 12/31/99	Net Tax Basis
Land	285,148	-	285,148
Thermal - Pre 80	39,362,096	38,406,711	955,385
Thermal (81-5/99)	11,722,301	5,182,761	6,539,540
* Transmission	405,459	391,924	13,536
* General	564,580	523,980	40,600
* Hydro	503,515	261,834	241,681
	52,843,100	44,767,210	8,075,890

RMc
12/16/99

Deferred Taxes

Per Acufile II Estimated 12/31/99-Thermal Plant only $ 993,236.00
Estimated excess deferred tax above 35% -35,000.00
Estimated deferred tax restated at 35% $958,236.00
÷35%
$2,737,817

* Transmission was assumed pre 80 with the exception of $20,237
* which is Macrs 20 (1987-1998 additions). General is Macrs 7 years,
* and Hydro is Macrs 20 (1990-1998)

Estimated tax depreciation not yet passed on to customers $2,737,817

Tax depreciation passed on to customers $42,029,393 ($44,767,210 - $2,737,817)

Total tax depreciation $44,767,210

Percent of total tax depreciation passed on to customers = 93.88%

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WUTC DOCKET NO. UE-991255
EXHIBIT NO. 330
ADMIT ☑ W/D ☐ REJECT ☐

330

BR-1
Ex. 331

AVISTA UTILITIES
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION:	Washington	DATE PREPARED:	12/29/99
DOCKET NO:	UE-991255	WITNESS:	Thomas D. Dukich
REQUESTER:	Commission	RESPONDER:	Ronald L. McKenzie
TYPE:	Bench Request	DEPT:	Rates & Tariff Admin.
DUE DATE:	December 30, 1999	TELEPHONE:	(509) 495-4320
REQUEST NO.:	1		

REQUEST:
Avista has recommended that a portion of the gain on sale of Centralia that is to be allocated to rate-payers be used to offset the costs incurred by Washington Water Power as a result of the 1996 Ice Storm. Please provide any press statements or any other public statements made to the press or financial community concerning cost incurred during the 1996 Ice Storm.

RESPONSE:
As indicated in Mr. Dukich's testimony, Avista is proposing that all the gain should be assigned to shareholders. In the event that the Commission were to allocate a portion of the gain to customers, such as an allocation under the depreciation method, Avista is proposing that the customers' share of the gain first be used to offset the costs associated with Ice Storm 1996. Attached is a copy of the following documents related to Ice Storm 1996:

Form 8-K dated December 1, 1996
News Release dated December 5, 1996
News Release dated January 28, 1997
Ice Storm '96 Overview report dated January 28, 1997

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 331
ADMIT ☑ W/D ☐ REJECT ☐

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): December 1, 1996

THE WASHINGTON WATER POWER COMPANY
(Exact name of registrant as specified in its charter)

Washington	1-3701	91-0462470
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

1411 East Mission Avenue, Spokane, Washington
(Address of principal executive offices)

99202-2600
(Zip Code)

Registrant's telephone number, including area code: 509-489-0500

None
(Former name or former address, if changed since last report)

Item 5. Other Information

On November 19, 1996 the eastern Washington and northern Idaho region experienced an ice storm that resulted in damage to the Company's electric transmission and distribution system. The Company's service area was affected by continuing snow and rain, which hampered the Company's efforts to restore electric service to some customers until December 1, 1996. Initially, over one-third, or 100,000, of the Company's retail electric customers were without electric service. However, the Company estimates that approximately 75% of those customers had their electric service fully restored within 72 hours of the first storm.

Preliminary estimates indicate that the repair of damage to the Company's system could cost in the range of $10-15 million. It is estimated that approximately 80-90% of the costs will be operations and maintenance expenses, including labor and materials, for the repair of damaged lines, transformers and other equipment. The remainder of the cost represents capital expenditures to replace poles and other equipment damaged beyond repair.

The Company accrues reserves for estimated injuries and damages and as of October 31, 1996 this reserve amounted to approximately $1.3 million. The Company anticipates offsetting this reserve against the overall expenses incurred. The majority of the repair expenses are expected to be recognized in the Company's 4th quarter 1996 financial results. These estimated expenses are anticipated to reduce earnings per share of common stock by $0.08-$0.14 on an after-tax basis. The capital expenditures related to these storms will be depreciated under normal accounting procedures.

The Company does not expect to raise electric prices as a result of the storm damage costs.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE WASHINGTON WATER POWER COMPANY
(Registrant)

Date: December 5, 1996

/s/ Jon E. Eliassen
Jon E. Eliassen
Vice President - Finance and
Chief Financial Officer
(Principal Accounting and
Financial Officer)

Washington Water Power

News Release

Contact: Dana Anderson–(509) 482-4174 or
Patrick Lynch--(509) 482-4246

FILE COPY

FOR IMMEDIATE RELEASE:
December 5, 1996

Ice Storm '96: Washington Water Power electric prices will remain unchanged

WWP estimates cost of Ice Storm power restoration efforts will range between $10-15 million

Spokane, Wash.: Washington Water Power (NYSE: WWP) said today that preliminary estimates to repair Ice Storm-related damages to the company's electric system range between $10-15 million.

Paul A. Redmond, Washington Water Power's chairman of the board and chief executive officer, said electric prices will remain unchanged in the aftermath of Ice Storm and the subsequent related storms that caused extensive damage to the company's electric transmission and distribution systems.

"Make no mistake, this natural disaster has caused a significant financial loss for our company," Redmond said. "But our decision is to write-off the cost of this storm against our 1996 fourth quarter earnings. In preserving our ten-year record of energy price stability, our customers will see no change in electric prices as a result of the storm damage costs."

Redmond estimated that the impact on company earnings would be in the range of $0.08-$0.14 per share on an after-tax basis. He said there is no insurance coverage available to cover this type of storm.

About 80-90 percent of storm-related costs will be operations and maintenance expenses, including labor and materials for the repair of damaged lines, transformers and other equipment. The remainder of the cost represents capital expenditures to replace poles and other equipment damaged beyond repair.

Rob Fukai, Washington Water Power's vice president of external relations, said the company has initiated an extensive review of its response to Ice Storm.

"We're interested in learning all we can from this extraordinary event," Fukai said. "Every event provides an opportunity for improvement. What we take away from our review of the events of Ice Storm will be extremely valuable as we prepare for the future."

Fukai said the company's review would focus on several key areas, including information systems and communication technology, operations and maintenance practices and procedures, coordination of people, materials and equipment, internal and external communications and information flow, and field safety practices.

"We're open to all constructive input," Fukai said. "Our review will involve state utility regulators, city and county officials, Emergency Operations Center officials, our own field and office employees, other utilities, the public, and the media."

In the aftermath of the initial ice storm, Washington Water Power estimated that at least 100,000 of its electric customers were without service. Within 72 hours of the initial storm, electric service had been restored to about 75 percent of affected customers.

"Without question, this storm caused the most damage we've ever seen to our electric system," said Nancy Racicot, Washington Water Power's senior vice president and general manager for the company's energy delivery business. "In the first eight hours of the storm, our area received 1 ¼ inches of precipitation, all in the form of ice. Every part of our system suffered extensive damage—from our transmission system all the way down to individual home services. Damage was so extensive in some areas that we literally had to rebuild the system from the ground up."

Initial work focused on the restoration of vital services, which included services critical to infrastructure, health and emergency services, environmental-related services, and services that affect the general well-being of the community.

Racicot added that the thrust of the restoration effort was to repair lines that would restore service to the greatest number of customers. She said initial efforts were concentrated on the repair of the company's transmission system. With the transmission system intact, crews could then turn their attention to the lengthy process of repairing the dozens of main distribution feeders that were out of service.

Racicot said each distribution feeder had to be patrolled foot-by-foot to make sure the line was clear of trees and other related debris. Only after the line had been cleared could it be brought back into service.

"It was a laborious, time-intensive process, but for the safety of our crews and our customers, that was how this work had to be done," Racicot said.

She said the same process had to be repeated in restoring service on the "lateral" lines—those lines that come off the main distribution feeders and extend into individual neighborhoods. The final phase of the process involved restoring power to individual services—the wires that extend from the distribution transformer to homes and businesses

"The most gratifying part of the restoration process was the outpouring of support from the community and the generosity of our customers toward our people in the field," Racicot said. "It was heartening for our employees, in the face of this natural disaster, to know how much their efforts were appreciated."

More than 180,000 man-hours were devoted to Ice Storm power restoration—or the equivalent of 1,300 people working 24 hours per day through the restoration effort. At the peak of the storm, Washington Water Power's call center received nine times the normal volume of calls. The call center received more than 109,000 calls over the duration of the power restoration effort. In some cases, the company purchased more than six times its average annual use of certain construction materials.

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Washington Water Power

News Release

Contact: Media Contact: Patrick Lynch (509) 482-4246; e-mail: plynch@wwpco.com
Investment Community Contact: Diane Thoren (509) 482-4331; e-mail: dthoren@wwpco.com

FOR IMMEDIATE RELEASE:
January 28, 1997

Washington Water Power reports year-end, fourth quarter earnings

Lower earnings reflect impact of ice storm, costs of terminated merger

Spokane, Wash.: Washington Water Power (NYSE: WWP) today reported year-end net income for common stock of $75.5 million and 1996 earnings of $1.35 per share, reflecting the impact of $21.4 million in after-tax expenses related to last November's ice storm and the company's now-terminated merger with Sierra Pacific Resources. The company earned $1.41 per share in 1995, with net income for common stock of $78 million.

Merger and ice storm-related costs reduced 1996 earnings by $0.38 per share, with after-tax ice storm costs accounting for $11.1 million, or $0.20 per share.

Fourth quarter net income was $12.4 million, with earnings of $0.22 per share, compared with net income of $30.4 million and earnings of $0.54 per share in the fourth quarter of 1995. The reduced level of earnings in the fourth quarter of 1996 reflected ice storm-related expenses as well as reduced transactional gains from Pentzer Corporation, the company's private investment firm, in the fourth quarter of 1996, compared with the same period in 1995.

Masked by the merger and storm expenses was Washington Water Power's strong business growth in 1996. The company's business units produced a record $945 million in revenues for the year, a 25 percent improvement over the previous high of $755 million in revenues posted in 1995.

"The one-time events of 1996 should not detract from the substantial progress we made in our business during the past year," said Paul A. Redmond, Washington Water Power chairman of the board and chief executive officer. "We restructured our company to aggressively meet the demands of a changing utility industry. We solidified our major presence in the wholesale electric marketplace. We positioned our company as a national leader in the delivery of customer-focused energy services. And we continued to see solid customer and sales growth in our franchise utility business."

Redmond said the company's 1996 results were strengthened by significant contributions from the company's wholesale electric business. Wholesale electric revenues for the year were a record \$231 million, more than double 1995 wholesale electric sales of \$109 million. For the first time in its history, Washington Water Power sold more power in wholesale markets than it did to retail customers. The company sold 11.2 billion kilowatt-hours of electricity to wholesale customers in 1996, compared with 7.8 billion kilowatt-hours to retail customers.

Washington Water Power's success in the wholesale marketplace, Redmond added, was supported by exceptional regional streamflow conditions, which were 145 percent of normal for the year. The result was the best hydroelectric plant performance in company history. Redmond said the company's hydro plants generated 557 average megawatts of electricity for the year. The previous best was 490 average megawatts in 1991.

"In the past year, we have emerged as a leading provider of wholesale energy services," Redmond said. "While increased competition will continue to put pressure on margins, we believe our customer-focused approach will enable us to continue to build on our successes in western markets and will prove invaluable as we begin establishing a national presence in 1997."

While making a strong contribution to earnings, Redmond said, the company's wholesale business has also played a key role in keeping Washington Water Power energy prices among the very lowest in the nation, helping the company maintain its decade-long record of energy price stability for retail customers.

Washington Water Power continued to add impressive numbers of customers to its electric and natural gas systems, Redmond noted. The company added 13,400 new natural gas customers in 1996, for a growth rate of almost 6 percent. Electric customer growth of nearly 2.5 percent and 7,000 new customers exceeded forecasts.

Non-utility earnings for the year were $0.38 per share, compared with $0.27 per share a year ago. Net income for the year from all non-utility operations was $21 million, more than $6 million higher than the $15 million in non-utility net income recorded during 1995. Redmond said Pentzer earnings were supported by improved performance by portfolio companies and also benefited from transactional gains recorded during the year, including the first quarter sale of the Spokane Industrial Park and the third quarter sale of stock Pentzer held in Spokane-based meter-reading technology provider, Itron.

"Pentzer allows us to put capital to work outside our utility operations and provides diversity in both our earnings profile and our investment base," Redmond said. "Pentzer, through returns from operation of its portfolio companies and through transactional gains, will continue to play an important role in our ability to grow our company and earn an adequate return on the investment our shareholders have made in our company."

Washington Water Power, one of the nation's lowest-cost providers of energy services, is an investor-owned utility with operations in five western states. The company provides electric service to nearly 300,000 customers in eastern Washington and northern Idaho and natural gas service to 230,000 customers in parts of four states—Washington, Idaho, Oregon and California.

For additional information about Washington Water Power, visit the company's World Wide Web site at **http://www.wwpco.com**

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THE WASHINGTON WATER POWER COMPANY

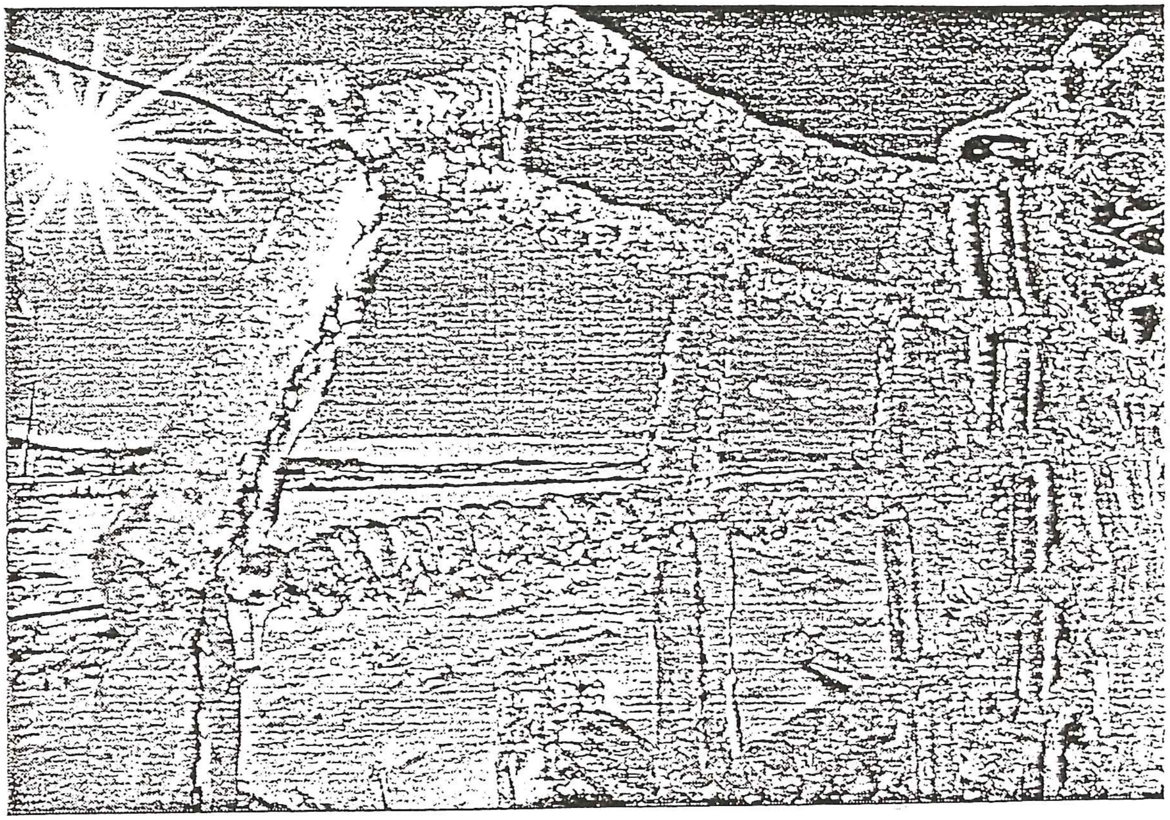
CONSOLIDATED COMPARATIVE STATEMENTS OF INCOME (UNAUDITED)

(Dollars in Thousands except Per Share Amounts)

	4th Quarter		For the Twelve Months Ended December 31	
	1996	1995	1996	1995
OPERATING REVENUES	$281.302	$240.239	$944.957	$755.009
OPERATING EXPENSES:				
Operations and maintenance	192,437	135,068	559,962	388,119
Administrative and general	19,704	17,781	76,972	62,486
Depreciation and amortization	18,736	17,693	72,097	67,572
Taxes other than income taxes	11.465	9.999	49.005	46.992
Total operating expenses	242.342	180.541	758.036	565.169
INCOME FROM OPERATIONS	38.960	59.698	186.921	189.840
OTHER INCOME (EXPENSE):				
Interest expense	(15,793)	(14,862)	(63,255)	(59,022)
Net gain on subsidiary transactions	39	7,376	23,953	9,328
Merger-related expenses	-	-	(15,848)	-
Other - net	1,013	(570)	1.191	(609)
Total other income (expense) - net	(14.741)	(8.056)	(53.959)	(50.303)
INCOME BEFORE INCOME TAXES	24,219	51,642	132,962	139,537
INCOME TAXES	10.006	19,023	49.509	52.416
NET INCOME	14,213	32,619	83,453	87,121
DEDUCT - Preferred stock dividend requirements	1.780	2.260	7.978	9.123
INCOME AVAILABLE FOR COMMON STOCK	$ 12.433	$ 30,359	$ 75,475	$ 77,998
Average common shares outstanding (thousands)	55,960	55,745	55,960	55,173
EARNINGS PER COMMON SHARE:	$0.22	$0.54	$1.35	$1.41
DIVIDENDS PER SHARE OF COMMON STOCK	$0.31	$0.31	$1.24	$1.24

SUPPLEMENTAL INFORMATION				
NET INCOME:				
Utility operations	$12,054	$25,424	$62,404	$72,310
Non-utility operations	$2,159	$7,195	$21,049	$14,811

Washington Water Power



Ice Storm '96 Overview

Two Months Later

January 28, 1997

Contents

A Thank You to the Community and WWP's Restoration Employees

This Overview is dedicated to our customers, who showed resiliency and outstanding spirit, and t(our employees who responded to customer outages and restored service.

There is, of course, no adequate way to express our appreciation for the community's demonstrati of support to our employees. It is most gratifying to know that an overwhelming number of our customers reacted to the difficulties imposed upon them by mother nature with uncommon patien(and kindness. In the face of severe storm damage, WWP's customers pulled together as a commu nity. In neighborhoods throughout our service area, our crews were greeted with countless cups o hot coffee poured by those who had waited for them in the cold. And in the aftermath of Ice Storr '96, customers continue to share heartening expressions of appreciation for WWP efforts to repair the electrical system.

With much of our electrical system on the ground, the restoration work was particularly physical. Many downed poles had to be re-set by hand. Thousands of trees and tree branches had to be removed from lines. With many areas inaccessible to bucket trucks, pole climbing was a requirement to make repairs. In many instances, heavy equipment could not be delivered by truck and w: hand-carried to the work site. Adding to the fatigue was the exhaustive impact of long shifts.

Customer service representatives and volunteers staffed phones around the clock and did their bes to make restoration information available to customers. Other customer service specialists initiate the request for the Red Cross to provide shelters, contacted and assisted hundreds of customers on life support or in potentially life threatening circumstances, verified the condition of at-risk custon ers in the field, and confirmed the service restorations of all life support customers.

Meter readers searched for downed power lines and made customers aware of damages homeown(would need to have repaired in order for our crews to be able to restore service when they arrived. Other outside service people worked with customer service specialists to assist elderly and special needs customers by delivering wood or pellets or, in some cases, to arrange transportation to alternate locations.

To the community and the Company's service response and restoration teams, thank you for your heart and determination. Your resiliency, spirit, cooperation, and dedication served as an inspiratic during this difficult time.

Paul A. Redmond

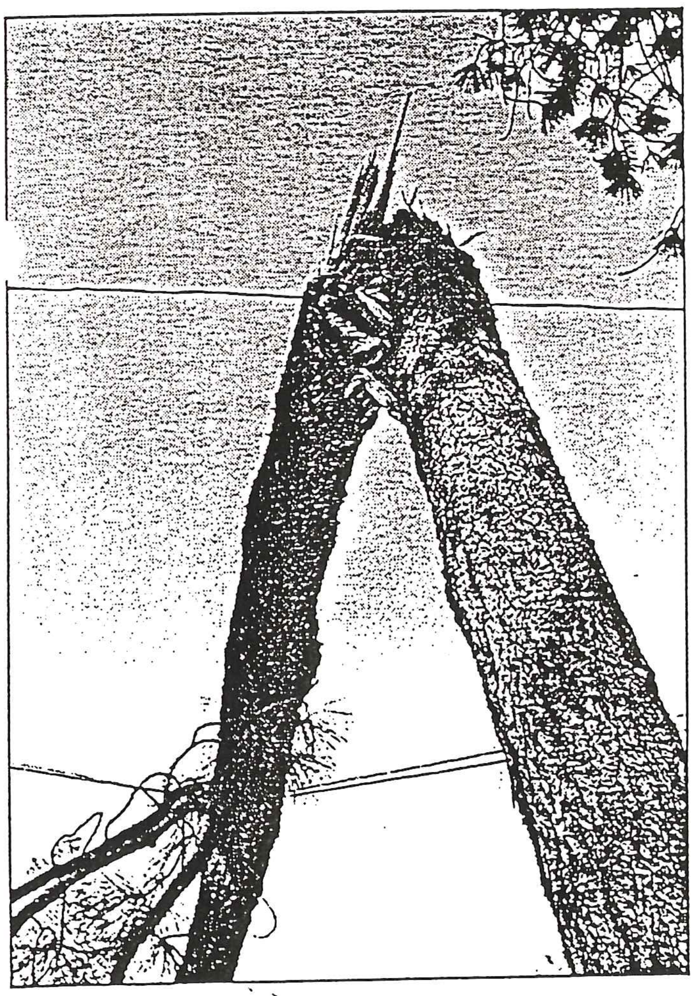
Paul A. Redmond

1.0 Executive Summary

Background

Freezing rain conditions caused up to one and one-quarter inches of ice to accumulate on above-ground structures in the Spokane and Coeur d'Alene areas between 8:25 a.m. and 5:36 p.m. on Tuesday, November 19, 1996. Temperatures remained below freezing and the icing conditions persisted for eight more days until Wednesday, November 27. Icing conditions on all aspects of Washington Water Power's delivery system led to over 100,00(of WWP's 291,000 electric customers being without electric power for periods ranging from several hours to thirteen days.

Washington Water Power activated its Emergency Operation Plan (EOP) as a level 2 storm at 2 p.m on November 19. At 5 p.m., the Company upgraded the EOP to a level 3 response—the highest level. For purposes of this overview, the duration of Ice Storm '96 is considered to be the thirteen day period from November 19 through December 1, when the last ice-related outage was reconnected.



Cause of Damage

The National Weather Service categorized this ice storm as the only event of its kind in 115 years of record. By way of illustration, a typical 30 foot top of a pine tree had an additional 1500 to 2500 pounds of ice, or two to five times its normal weight. For comparison, a sack of cement weighs 90 pounds. The primary causes of outages were 1) tree limbs breaking under the increasec weight of ice and making contact with electrical wires, 2) the upper half to one-third of trees breaking under increased weight and falling onto wires and poles, and 3) full length trees falling into wires and poles.

All components of WWP's delivery system experienced significa damage: transmission lines, primary feeders, lateral distribution lines, and service drops. Recurrence of damage to just-repaired lines was common. Washington Water Power has an ongoing tree trimming program of approximately $4,000,000 per year. Significantly, neighborhoods which had trees trimmed as recently as the summer of 1995 were affected to the same extent as other neighborhoods.

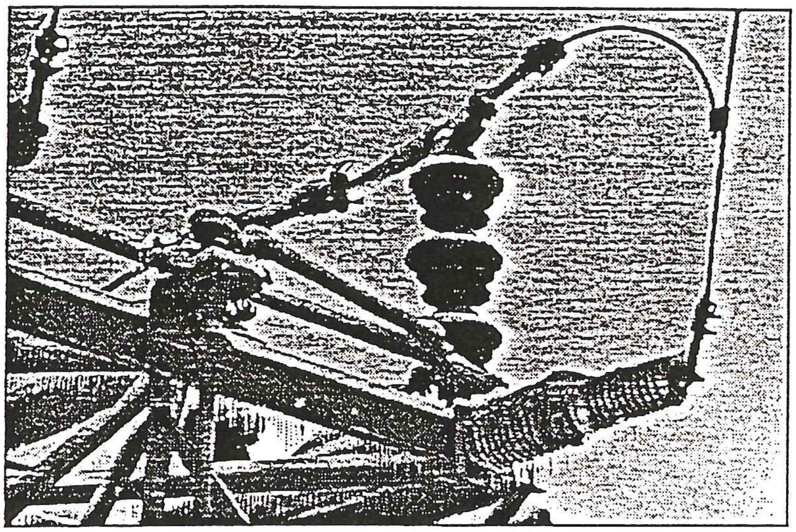
To repair system damage caused by Ice Storm '96, Washington Water Power purchased 163 miles of wire, 134,464 sleeves, 160C crossarms, and 10,715 fuselinks. This procurement, during a ten day period, is <u>one-half to ten times</u> the Company's <u>annual</u> volum of these purchases.

Call Center and Crew Response

Washington Water Power immediately expanded its normal Call Center coverage by enlisting company volunteers who had previous customer contact experience. Sixty-eight incoming lines were being answered. An updated "hold message" provided current storm information. The Call Center went into 24 hour coverage for the duration of the storm.

WWP's Call Center received 110,000 calls during Ice Storm '96, which is five times the normal number of calls. On the first day of the storm, 18,000 calls were received compared with a norm day's average of 2,500 calls. The Company's previous one day record number of calls was 8,000 Though further improvements may be necessary, the company Call Center response was aided significantly by the prior networking of its Call Centers in Spokane, Coeur d'Alene, and Lewisto in 1995 to handle overflow calls.

Service was restored to 75% of customers within the first 72 hours. Extra line crews increased frc the normal complement of 17 (in the Spokane and Coe d'Alene areas) to 88 at the peak of the storm response, not including 55 tree trimming crews (up from WWP's normal count of 20). Crews were secured from througl out Washington, Oregon, Idaho, Montana, British Colu bia, and Alberta. The Company prioritized offers of hel based on previous work done by contract crews and the Company's ability to safely manage and coordinate a five-fold increase in crew force. Washington Water Pov capped its crew force and declined additional offers of help based on reaching the maximum number of crews which could be safely coordinated in a limited geograp area during the potentially dangerous re-energization b system operators.



Media and Coordination with Emergency Services

Washington Water Power issued 22 press releases that included restoration and safety informatior initiated or responded to over 1200 media contacts, and held two press conferences during the 13 day ice storm. WWP provided 24 hour on-site assistance to the City/County Emergency Operatio Center ("EOC"), operated by the County Sheriff's Office of Emergency Services. Washington Wa Power coordinated efforts with those involved in the EOC—police, fire, ambulance, other utilitie: Red Cross, and water districts.

Themes for Review Thus Far

Washington Water Power believes its response to restore power was timely and thorough within tl necessary constraints of safe practices. Because Ice Storm '96 was the most devastating event eve to occur on its system, WWP gained experience which can be applied to future wide scale outage: Areas that are receiving particular focus are summarized below. These are only preliminary findings. Washington Water Power is continuing to solicit input from the community in a series of targeted public meetings.

Field Restoration: The service area locations that had the most rapid and efficient restoration were generally those worked by teams assigned to one feeder. A typical team consisted of one line cre' two fielders, one tree crew, one escort, and one two-man service crew. Additionally, logistical anc organizational improvements may be designed into the assessment phase of the restoration effort.

Communications: Both internal and external input has suggested a need for improving the clarity, accuracy, and amount of customer communication in such a devastating event. There are many approaches to be considered and evaluated before a decision can be made. In addition, the compa looks forward to gaining more external input. This will help the company understand the extent c and the most valued information desired by customers. Cell phones and portable radios were critical to WWP's restoration effort and were in high demand. More portable radios are required that operate in the correct frequency. More dedicated emergency cell phone numbers with priority clearance may be established.

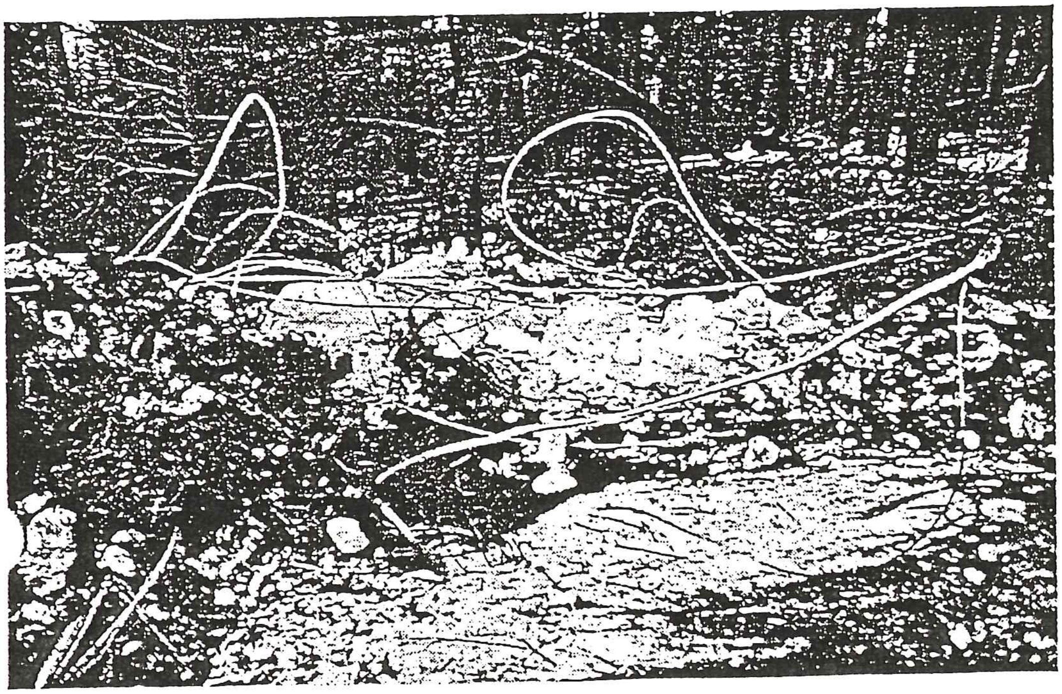
Operations—Volunteer Mobilization: The company mobilized a tremendous response from all departments and job classifications immediately when the call went out for emergency help. Employees with at least one specific preassigned job to perform in an emergency will aid preparation and speed of mobilization.

Operations—Area Access: During Ice Storm '96, many individuals rallied to critical areas to offer assistance. In addition many people required critical information from key areas. Access to the "Wa Room", System Operations, and Central Dispatch should be limited to only the people directly working in these areas.

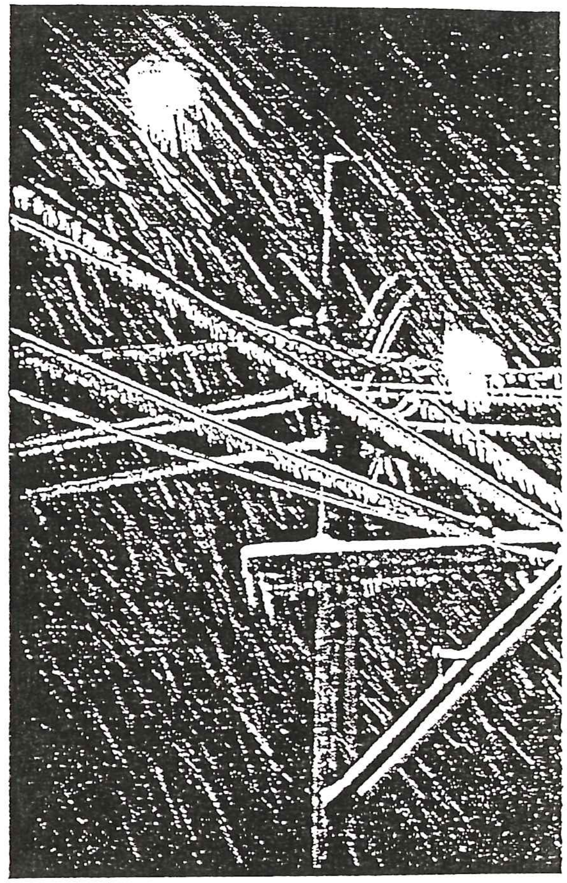
Operations—Clearer Priorities for Restoration: The company moved quickly to restore critical load identified in the Emergency Operating Plan. However, choices within those priorities had to be made. A clear prioritization in greater detail of what specific loads to restore first and why is being established including details of feeders, laterals, etc. (a "prioritization within the prioritization").

System Design: The storm debriefing illustrated many common concerns and recommendations fo system and equipment improvements. For example, the SCADA system update with a new operating system and including segregation between non-electric system data and other areas is continuing. Redundancy will be added to the uninterruptible power supply ("UPS") and other items that ar considered critical loads are being studied for possible inclusion in the UPS back-up.

Safety and Training: Given the extent of the damage to WWP's system, numerous dangerous conditions were confronted by emergency workers and other infrastructure workers. Washington Water Power will continue to emphasize safety and training by continuing regular safety training fo all parties in contact with WWP's system (e.g., Cable TV, Telephone, and emergency personnel including ambulance, fire department, etc.) and encourage employees to attend a basic electrical safety class.



2.0 Chronology of Events



2.1 Storm Conditions

Steady rain began at approximately 8:25 a.m. of November 19 and continued through 5:36 p.m.. Rain froze upon contact with tree limbs, utility wires, cars and fences. Due to retained ground heat, no ice formed on streets, sidewalks, and buildings.

Ice sheaths ranging from 1/4 to 1 1/4 inches immediately formed on above-ground objects. Intermittent rain and snow showers occurred during the duration of Ice Storm '96. On Tuesday, November 26, two to five inches of snow fell in northeast Washington and north Idaho.

Severe icing conditions remained for eight days. The ten day high and low temperatures and precipitation were as follows.

TABLE 1 — Weather Conditions

Day	High	Low	Precipitation
Tuesday, November 19	33	27	1.24
Wednesday, November 20	29	22	.01
Thursday, November 21	28	17	.21
Friday, November 22	30	24	.15
Saturday, November 23	26	22	0
Sunday, November 24	29	24	.35
Monday, November 25	30	25	.01
Tuesday, November 26	31	25	0
Wednesday, November 27	38	29	1.04
Thursday, November 28	39	20	0

Warmer temperatures on Wednesday, November 27, relieved all tree branches from excess ice and snow for the first time in nine days. During Ice Storm '96, wind was minimal and was not a contrib uting factor to utility system damage.

Accumulation of freezing rain on above-ground objects to any extent is extremely rare in the Spokane area. The National Weather Service has characterized Ice Storm '96 storm as the only event of its kind in 115 years of record.

No comparable ice storm has occurred since the recording of weather statistics. One major storm has stressed Washington Water Power's system in the last twenty years. The Siberian Express in 1989 caused extreme low temperatures and high loads on WWP's generation and transmission line Other notable events include volcanic fallout from the Mount St. Helens eruption in 1981 and clos to four feet of snow during a several day period in November 1992. No significant outages occurre at these times. The previous peak widescale outage on WWP's system involved 50,000 customers a result of Firestorm '91. However, these outages were restored, for the most part, within 24 hours and Firestorm restoration did not occur during extreme weather conditions.

2.2 Damage to WWP's System

A one inch ice sheath on a twenty foot tree limb with an average diameter of three inches adds 99 pounds, not including additional weight from ice on branches and leaves. Ice added two to five times the normal weight to tree limbs. As a reference point, one cubic foot of ice weighs 57 pound The excess weight from ice caused both large and small tree limbs and, in many cases, the whole tree or portions of the upper tree trunk to break. Falling trees and tree limbs caused damage to roof cars, fences and utility wires.

The City of Spokane forestry surveys indicate there are 70,000 "publicly owned" trees on street rights of way and parks within its 58.4 square mile area. Significant tree damage was suffered to one-third of these trees, requiring pruning, due to the severity of this storm. The City estimates tha 3,000 of these trees will not survive due to substantial loss to the trees' limbs and trunks. Given the rarity of ice storms in the greater Spokane area, trees had not been "pruned" by previous ice storm as has occurred in the Portland area due to the frequency of ice storms in the Columbia Gorge.

All components of Washington Water Power's delivery system—transmission lines, primary feeders, lateral connections, and service drops—experienced significant damage from trees. *Primary o. main feeders* deliver power from distribution substations to *lateral connections* which serve neighborhoods. *Service drops* are the wires which distribute power directly to homes from the lateral connections on the street.

TABLE 2—Electrical System Overview

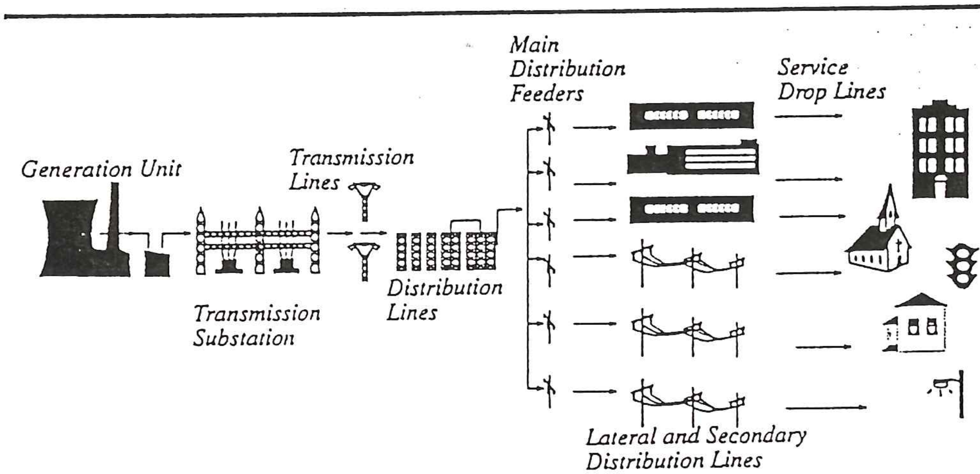
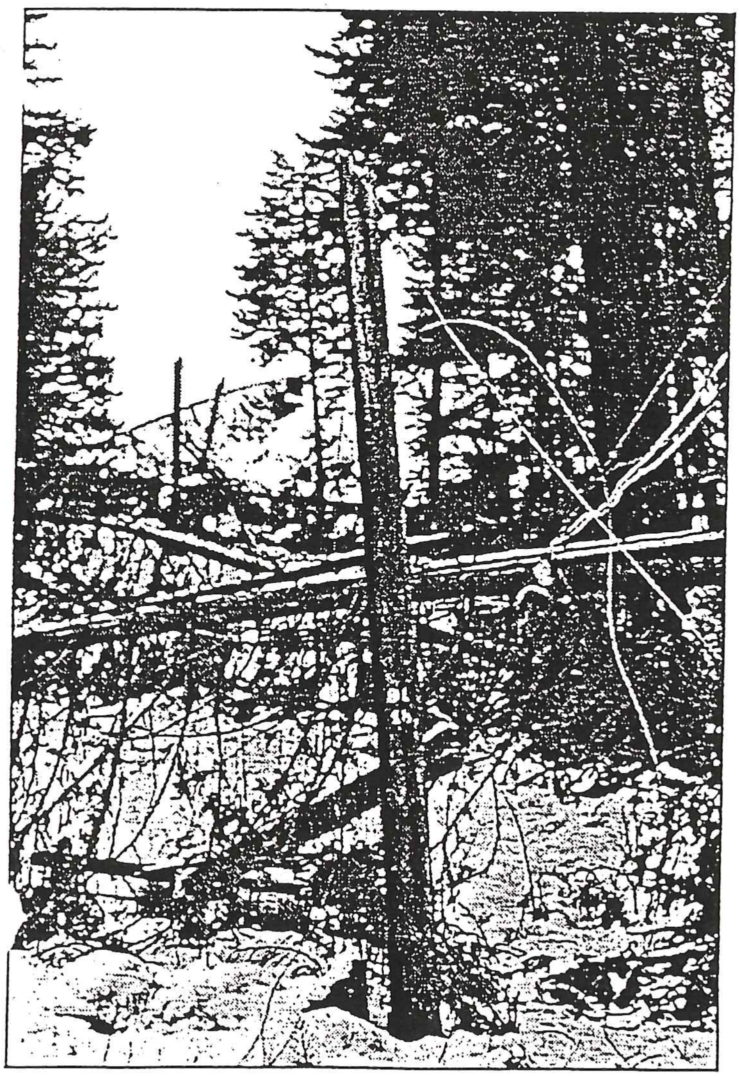


*TABLE 3—
System Damage*

System Component	Ice Storm Outages [1]	System Wide Total	Restoration Crew Time
Transmission			10%
230 kV lines	1	20	
115 kV lines	21	75	
Distribution			30%
Feeders	104	315	
Sub-stations de-energized	34	163	
Laterals and service drops		60%	

Footnote (1): Each outage represents a different line; some lines had multiple outages not reflected in the above counts; these outages did not occur simultaneously

Tree limbs came in contact with primary feeders, lateral connections, and service drops. On a quarter mile line, for example, 20 to 40 downed trees were a common occurrence. Eighty-four of the 104 (81%) damaged distribution feeders were in the Spokane and Coeur d'Alene areas. Tree tops and limbs continued to fall into power lines throughout the nine day period of heavy icing. Crews would repair a line only to be called back due to further tree damage. Heavily treed neighb hoods such as Spokane's South Hill, despite recent tree trimming, suffered significant repeat outages; restoration was hampered by limited access to lines by bucket trucks in those older neighborhoods.



Substantial damage to all components of a utility's distributio system is unique. Generally, damage is contained to either on component such as a primary feeder or a limited geographic area such as a wildfire. In Ice Storm '96, these same custome needed repairs to laterals and service drops before power coul be restored.

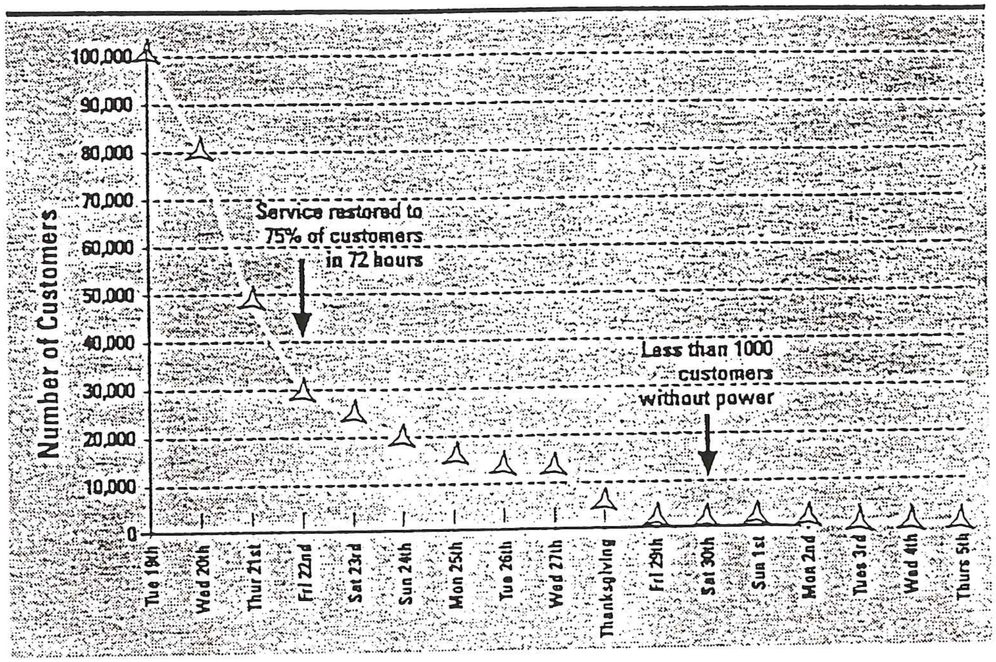
2.3 Outages and Reconnections

Washington Water Power has 291,000 electric customers in eastern Washington and north Idaho. At the peak outage perio over 100,000 of WWP's electric customers were without pow within the first four hours of the ice storm. In the Spokane an Coeur d'Alene areas, approximately 85% of WWP's custome experienced a power outage.

Seventy-five percent of the initial customer outage was restore within 72 hours, or three days. Continued icing and falling tre caused repeat outages, causing many customers to experience several power interruptions.

Washington Water Power has never experienced outages of the magnitude which occurred in Ice Storm '96. The previous pea outage on WWP's system occurred in 1991 at which time 50,000 customers were without power for up to 24 hours, but not in extreme weather conditions.

TABLE 4— Customer Ice Storm Outage Estimates Over Time



Outages of over three days were due to several factors. Heavily treed areas experienced multiple and repeat line failures caused by ongoing tree limb breakages coming into contact with wires. Remote areas required greater and more time-consuming repairs. Some areas were inaccessible by bucket trucks and work had to be done by hand, including re-setting poles and crossarms.

Service restoration was prioritized according to the Emergency Operation Plan. Implementation of the Plan focused on major medical facilities, public safety and essential services. The top categorie shown in Table 5 were addressed simultaneously in restoration efforts.

3.0 Review of WWP Response

Washington Water Power went into the highest level of emergency response at 5 p.m. on Novembe

TABLE 5— Prioritization of Service Restoration

- Medical (Hospitals, Spokane Ambulance, STA Paratransit)
- Public Safety (Spokane County Jail, Geiger Correctional Facility, Spokane County Public Safety Building, City of Spokane Court House, Fairchild AFB)
- Essential Services and Dispatch of Essential Services (Fire Flow Water, Sewage Treatment Plant, Sewer Lifts, Police, Fire)
- Neighborhoods with at-risk citizens (seniors, disabled, nursing homes)
- Communications (Radio and TV)
- Emergency Shelters (The American Red Cross, schools designated as emergency shelters)
- Transportation (Spokane International Airport)
- Critical Food Storage/Distribution Centers
- Banks
- Large Business and Media
- Individual customers with (non-life threatening) medical needs (and back-up power sources)
- Customers at large

19. The focus was on answering incoming calls, providing information to customers through the media, restoring service (through crew deployment and supply procurement), and coordinating storm response efforts with other public safety and essential service providers

3.1 Emergency Operation Plan

Washington Water Power implemented its Emergency Operation Plan (EOP) at 2 p.m. as a level 2 response on Tuesday, November 19. At 5 p.m., this was upgraded to a level three, or the highest lev The EOP is designed to immediately implement a pre-planned internal disaster response and a coordinated external communicati approach with customers and the media. Ice Storm '96 was the firs event to which the WWP's latest EOP was applied.

3.2 Call Center

The Call Center began twenty-four hour coverage immediately. Normal Call Center coverage is from 7 a.m. to 6:30 p.m. with incoming calls during the nighttime hours handled by dispatchers. Of 96 incoming lines, 68 were from areas affected by the ice storn

Volunteers were enlisted from throughout the Company who had previous customer service experience. Employees available to staf phone lines was increased from an average complement of 80 to 120. The Call Center recorded locations of outages for transmittal the line crew central dispatch.

Washington Water Power's Call Center is a networked system of three offices: Spokane, Couer d'Alene, and Lewiston. An incomin call is automatically routed to the next available representative. Estimates of holding times are provided. A "hold message" was implemented giving callers updates on where company crews wer working throughout the storm.

The number of incoming calls was constrained by two factors, available trunk lines into WWP and overloading on the local telephone network. A customer receiving a "quick busy" signal was due to the local telephone exchar being at capacity.

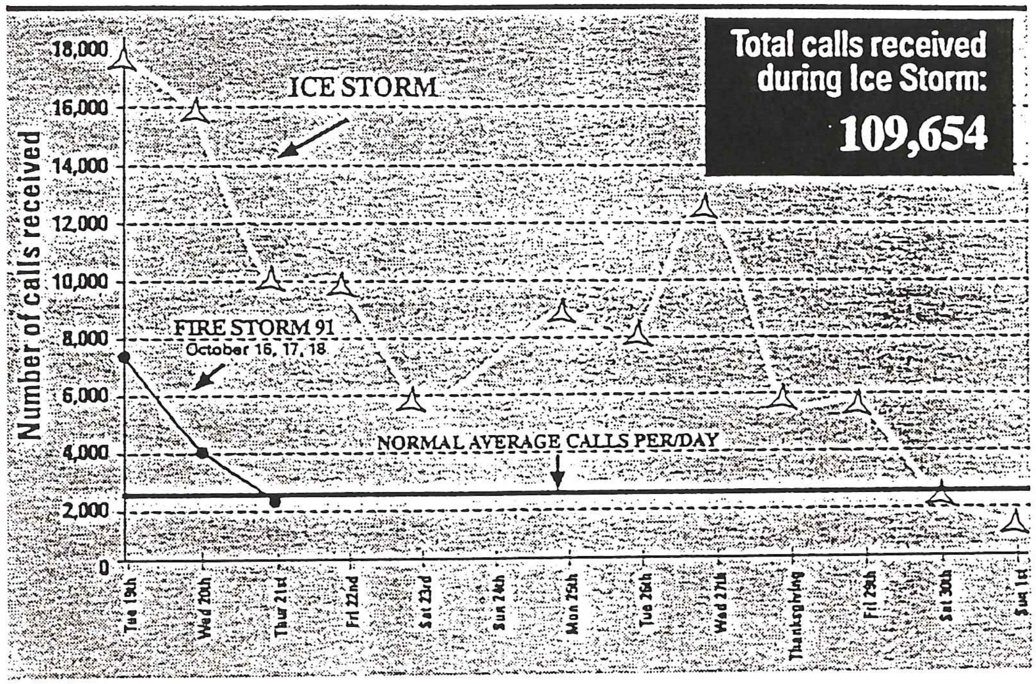
The Call Center responded to 110,000 calls during Ice Storm '96. Over 18,000 calls were receive on the first day of the storm, surpassing WWP's previous one day record of 8,000. For compariso purposes, the average number of calls received on a normal weekday is approximately 2,500. The incoming number of calls is shown in Table 6.

3.3 Crew Deployment

The Spokane and Coeur d'Alene operations area has a normal complement of 17 four to five pers crews and 20 tree trim crews. These crews are supplemented by contract crews on an "as-needed" basis. Starting at noon on November 19, WWP sought additional line crews.

Normal practice for crew enhancement is to enlist aid from other regional utilities and contract

TABLE 6—Total Calls Received During Ice Storm

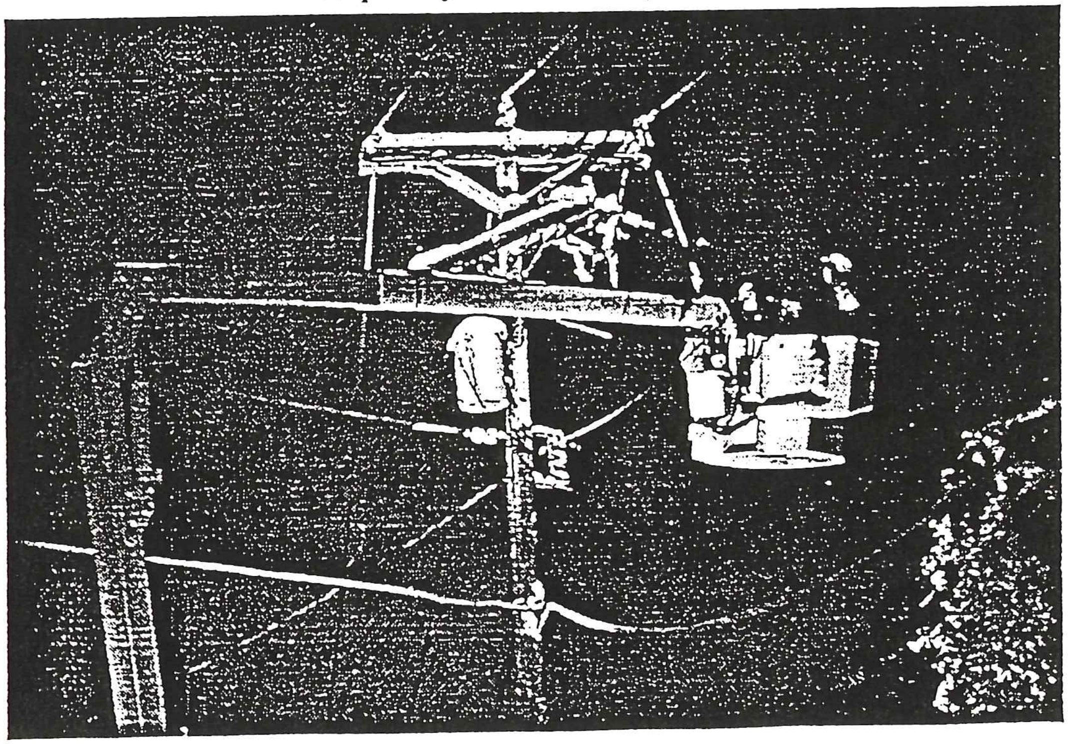


crews through mutual assistance agreements. The weather situation across the Pacific Northwest had the majority of extra crews from regional utilities engaged in restoration of their own facilities

WWP was able to obtain seven additional contract crews on the first day of the storm. At its peak, Washington Water Power had a total of 88 crews and 55 tree trimming crews.

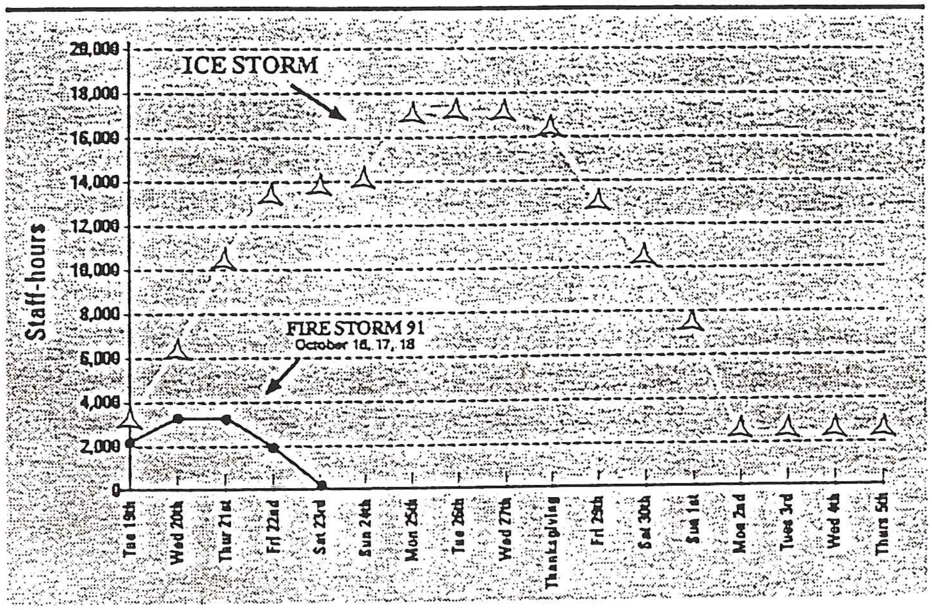
In a confined area with existing infrastructure, there is a maximum number of crews which can be effectively utilized to avoid possible fatal accidents. Prior to re-energizing a line, central system operators must be assured that no crew is in the process of repairing any portion of that line.

As primary feeders were repaired, the service drops became the focus of restoration efforts. At this time, larger crews were reconstituted into smaller crews. Service drop reconnections are best handled by two person crews. This is a "house by house" effor



A tabulation of staff-hours is shown above. The increased cou in the second and third day reflects greater availability of crews from other utilities as they became available. The increase in the 2-3 person crews occurred as the Company transitioned to house-by-house service drop repair after the majority of the primary feeders and lateral connections were restored.

TABLE 7—Ice Storm Response in Staff-hours



3.4 *External communications*

Washington Water Power's Emergency Operation Plan places priority on the dissemination of accurate and timely information regarding safety and estimation of damage and restoration of service. Implementation of the EOP recognizes that the region's media required accurate and timel information to respond to the community crises.

WWP's Communications staff distributed 22 press releases during Icestorm '96. These press releases focused on safety and realistic expectations of service restoration. Television media were allowed for the first time to broadcast live from WWP's Call Center. WWP sought interviews with the electronic and print media. Over 1200 media contacts were handled by WWP. Company execu tives traveled to radio stations for live interviews and discussions on "talk radio". Line crews were frequently interviewed when time and safety permitted (e.g., one television interview was curtailed due to falling trees which appeared on-screen).

Washington Water Power appreciates the Inland Northwest media's coverage of Ice Storm '96. Th coverage resulted in customers who were informed about safety tips ranging from downed wires t locations of warm storm shelters. Additionally, customers were aware of timetables for likely service restoration.

TABLE 8—Media Statistics

WWP Press Releases	22
Media Contacts	1200
Press Conferences	2

3.5 Coordination with County Office of Emergency Services

The County Sheriff's Office of Emergency Service coordinated the area's storm response through the City/County Emergency Operations Center. Washington Water Power was one of several community institutions participating in the EOC. Other participants included police and fire, ambulance services, the Red Cross, and other utilities.

The experience of Washington Water Power personnel associated with the Emergency Operations Center was very positive. The EOC functioned well and as planned. As with WWP's response, the first 24 hours of Ice Storm '96 was the most difficult as the magnitude of the event was fully registered.

Washington Water Power is in the process of debriefing its coordination in the EOC through solici ing evaluations from EOC participants and the community through targeted meetings.

3.6 Material, Supplies, and Equipment

No line crew was without needed supplies and equipment during Ice Storm '96. WWP procureme staff and suppliers went to extraordinary effort to acquire wire, line hardware, and associated materials. A factory in Roseburg, Oregon added a third shift, moving to 24 hour production, to me Washington Water Power's need for electric wire. Additionally, WWP rented pick up trucks from local vendors and number of aerial lift bucket trucks from as far away as Seattle and Salt Lake Cit

TABLE 9— Additional Material and Supplies Procured During Ice Storm '96

Component	Amount Ordered in 10 days	Compared to Normal Purchase and Usage
Wire	848,873 feet (approximately 163 miles)	2 - 5 years [1]
Clamps	28,439	1 - 5 years [1]
Sleeves	134,464	1 - 10 years [1]
Crossarms	1,600	1/2 year
Fuselinks	10,715	4 years

1) Because of different types of wire, clamps, and sleeves, the normal purchase times vary.

3.7 Costs and Cost Recovery

The initial estimate of incremental costs to Washington Water Power of Ice Storm '96 was $10-15 million. Incremental costs are additional costs incurred for storm response and restoration.

Significant line work, tree clean-up and tree removal costs through December were beyond the estimated estimates. For example, nine contract crews were retained for line work through Decem ber. Total costs due to Ice Storm '96 are $21.8 million. Of this amount, $4.7 million represents ne "plant" (e.g., wires, poles, etc.) which according to accounting treatment is an asset and will be capitalized. The remaining $17.1 million ($11.1 million after-tax) will be included with other non insured losses from storms and accidents. The annual expense level is determined through use of a six-year average. WWP will not seek a specific rate surcharge due to the costs of Ice Storm '96 restoration.

4.0 Questions Identified Regarding WWP's Response

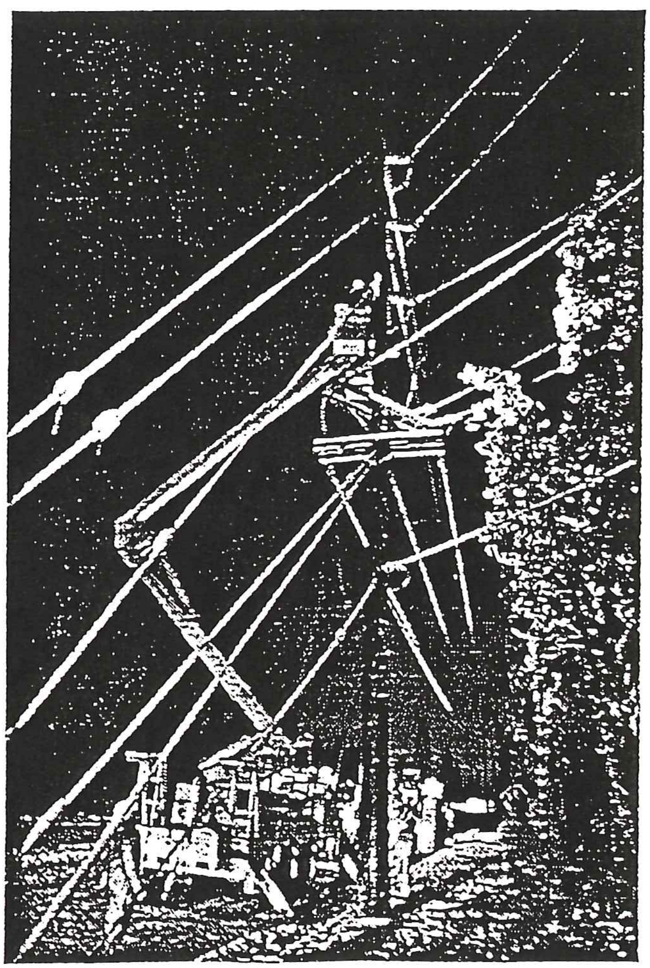
4.1 Why could I not immediately get through to WWP by telephone?

Washington Water Power had 24 hour telephone coverage throughout the duration of Ice Storm '9 Despite this phone coverage, WWP recognizes that not all customers were able to reach the Company in the first two days of the ice storm. The sheer magnitude of outages and calls taxed WWP's telephone system. Because telephone wires experienced outages and overloading, some "busy signals" were no doubt the result of reduced telephone circuits available in the Spokane area.

A recent survey conducted by Washington Water Power indicates that 33% (or 44,249) of WWP's Spokane customers attempted to call the Company during Ice Storm '96. While the average numb of attempts to reach WWP was five times, half of those attempting to reach the company made on or two attempts. Approximately half of those who could remember said that their call was <u>initially</u> answered by a person rather than a recording. From the time a customer got a recording, the avera number of minutes before they spoke with a live operator was 5.68 minutes. Seventy-five percent (those receiving a recorded message with an outage status said that the recorded message was usefu

4.2 Why wasn't WWP able to provide more specific information on the progress of the power restoration or when individual areas and neighborhoods could expect their powe to be restored?

The damage to WWP's system during Ice Storm '96 was much more complete and complex than anything in previous experience. Many customers were separated from our system at several stages or levels of the system. Before service could be restored, crews might have to make repairs to transmission, one or more levels of distribution, and sometimes to tl 'laterals' and individual service lines along the customer's street or through the customer's own yard.



Further complicating the restoration was the fact that damage contir ued to be incurred in many areas for over a week. For example, 46% of WWP's Spokane customers experienced more than one power outage according to the Company's recent survey.

For these reasons, progress at any one point in the system often faile to restore power to many customers farther down the system. Even presuming completed repairs would not be undone by subsequent tr damage, the extent of additional damage to other stages of the syste was often unknown until crews were actually able to reach each stag and conduct an assessment.

While WWP could identify the locations of its crews fairly specifically, the information was often of little value in projecting when service might be restored to a particular area. Service was restored t most of our customers by crews working at some distance from thei neighborhoods. Conversely, some customers could not hope for service restoration until crews actually worked their way to their particular block.

Recent developments in remote information gathering technology have resulted in the creation of systems which could potentially allow WWP to remotely assess the extent of outages and the natu of damages to its system. The operational effectiveness of such systems has yet to be widely teste particularly in situations involving the kind of widespread system damage encountered in Ice Stor '96. Whether such systems would substantially improve the ability to predict restoration times under emergency conditions is unclear.

Nonetheless, technological and operational approaches to improving the company's ability to project restoration timelines and provide more detailed information to customers during major outages should be evaluated as part of a continuing review of the company's ability to meet the needs of customers.

4.3 Would an expanded tree trimming program have reduced damage to WWP' system

The size of the limbs and the type of tree trunk breakage resulted in line damage. Washington Wa Power's tree trimming expenses have averaged close to $4 million per year in the past four years. Given the severity of the storm and the type of damage incurred, even a greatly expanded tree trimming effort would not have significantly prevented the widespread outages. As an example, WWP undertook a major tree trimming project on Spokane's South Hill during the summer of 1995. The neighborhoods which were trimmed incurred as much damage in the Ice Storm as did other neighborhoods with a comparable amount of trees.

4.4 Would undergrounding wires be a viable alternative to explore?

The two main advantages of an underground electric delivery system include resistance to storm damage and improved aesthetics. In order for the Spokane area to effectively withstand an event c the order of magnitude of Ice Storm '96 without significant outage time, it would be necessary to underground virtually all of the system impacted by the storms, including high voltage transmissi and distribution lines. WWP has more than 1600 miles of line in the Spokane area.

On the down side, underground equipment and materials have approximately one-third the useful life of the overhead counterpart and are subject to more frequent and longer duration outages. Facilities underground are more likely to incur construction damage like dig-ins and both the installation and repair of underground facilities has much more impact to neighborhood yards anc streets.

All of these factors, of course lead to higher costs to the consumer. A very cursory estimate of converting the Spokane and Couer d'Alene areas would have an initial cost on the order of $1.5 billion and the operations and maintenance costs could as much as double as a result. If it was concluded that all new construction be installed underground, the result would be all of the down side with insignificant improvement in reduced storm outages system wide.

When Spokane customers were asked if the current price that customers would pay would be double (assuming a $1 billion cost for the Spokane area), 75% believed that WWP should not bu its existing lines.

4.5 Did WWP apply the appropriate level of effort to restoration?

Washington Water Power supplemented its normal complement of line crews from 17 to 88 crew Washington Water Power was concerned about not increasing the crew count to a level which wc place employees and customers in unsafe conditions. System operators who re-energized lines ha to be assured that no customers were in the vicinity of downed lines and assured of the location of crews and the status of repairs prior to feeding 13,000 volts through neighborhood lines.

WWP hired 10 Canadian contract crews. At a particularly hectic time of WWP's restoration response, publicity was generated by WWP's decisions not to hire three Canadian crews due to contractual issues. At this time, other crews were available that had comparable response times.

At the point in which the Company reached the limit of additional crews which could be safely coordinated, Washington Water Power no longer accepted offers from crews.

4.6 Did malls receive undue priority for service restoration?

Northtown Mall was re-energized early in the Ice Storm period. Northtown is situated adjacent to : main distribution feeder, which serves Holy Family Hospital, in close proximity to a distribution substation. Service restoration places priority on major medical facilities as well as for facilities which provide safe and warm congregation areas. Minimal effort was required to restore power to the Northtown Mall given restoration efforts related to the hospital.

4.7 What field restoration techniques yielded the best results?

The service area locations that had the most rapid and efficient restoration were generally those working in teams assigned to one feeder. These teams included one line crew, two fielders, one tre crew, one escort, and one two-man service crew. This enabled all jobs encountered to be handled immediately and efficiently.

4.8 How well did cell phones and portable radios perform?

Cell phones and portable radios were critical to WWP's restoration effort and were in high demanc Problems occurred with out-of-area cell phones brought in by outside crews. Problems were also experienced on the first day and certain hours due to heavy area cell phone traffic.

4.9 Was WWP able to fully utilize the internal response from employees?

The company mobilized a tremendous response from all departments and job classifications imme diately when the call went out for emergency help. Many of the employees worked long hours without relief in a dangerous environment. The task of utilizing the correct people for the correct jobs was daunting. In a future wide-scale outage, pre-assigned duties would better match skills wi jobs.

4.9 Were the Emergency Operation Plan's restoration priorities adequate?

The company moved quickly to restore critical loads identified in the Emergency Operating Plan and those identified by the City/County Emergency Operations Center. However, with the extent c this storm's damage, response was slowed when choices within those priorities had to be made. A clear prioritization in greater detail of what specific loads to restore first and why may need to be established by feeder, lateral, etc. for use in such wide-scale outage conditions (a "prioritization within the prioritization").

4.10 Does the Company anticipate changes in system design and operations?
The storm debriefing illustrated many common concerns and recommendations for system and equipment improvements. An upgrade of the supervisory control and data acquisition ("SCADA") system, an existing automated outage reporting system, was already in the planning stages during the event. A new operating system and a segregation between non-electric system data and other areas are among the enhancements desired after the storm experience. Redundancy should be adde to the uninterruptible power supply ("UPS") and other items that are critical to the UPS backup should be studied.

4.11 The Company lost one of its own to this storm. Will safety issues be addressed?
Given the extent of the damage to the WWP system, numerous dangerous conditions were confronted by emergency workers and other infrastructure workers. Washington Water Power will continue to emphasize safety and training. Regular and detailed safety training will continue to be provided for all parties in contact with our system (e.g., Cable TV, Telephone, and emergency personnel including ambulance, fire department, etc..). Employees in non-electric operations job classifications will be encouraged to attend a basic electrical safety class. Regardless of current jot duties and responsibilities, all employees became ambassadors to the public on many Ice Storm issues.

5.0 Next Steps

Washington Water Power believes that its response to Ice Storm '96 was reasonable, safe and expeditious considering the widespread damage. This is confirmed by the results of a recent surve In the Spokane area, 78% of those surveyed said that Washington Water Power's response to Ice Storm '96 was good or excellent. Only 3% stated that WWP had a poor response. Including survey results from the Coeur d'Alene area, customers overall indicate that 81% believed WWP had a goc or excellent response and 2% felt the company's response was poor. [1]

However, WWP wishes to improve on its performance when confronted with future adversity. WWP will continue to seek input and draw more information from numerous stakeholders. The WUTC Public Meeting scheduled for February 13 will provide additional input from customers. Washington Water Power is in the process of debriefing key participants in Ice Storm '96, such as the City and County of Spokane. Additionally, WWP is continuing to seek feedback through other venues including targeted public meetings.

(1) These results are consistent with letters received by customers. Of 509 letters or notes received, on 23 (or 5%) were negative or critical. The remaining 95% were positive or "thank-you's". An addition 473 letters, cards, and drawings (many particularly touching) were received from school children.

Ex. 332

Centralia Plant Replacement Power

		Market Rate Projections			Centralia vs Market
PV	$262	$289	$332		
Levelized	$26.99	$29.67	$34.16	2001 - 2010	**$5,917,332**
			11/1/1999	200~~2~~1 - 2020	**($25,440,689)**
	Low Market	Med Market	Forecast		
1999	$23.07	$23.07	$22.50		$3,044,963
2000	$23.08	$22.99	$26.74		-$354,338
2001	$23.42	$23.99	$27.28		$2,010,735
2002	$23.77	$24.59	$27.53		$3,420,464
2003	$24.12	$25.20	$27.78		$3,437,946
2004	$25.53	$26.87	$29.08		$2,188,023
2005	$25.93	$27.54	$29.36		$2,177,019
2006	$26.33	$28.23	$29.65		$2,175,550
2007	$26.73	$28.93	$31.68		$47,404
2008	$27.15	$29.65	$33.71		-$2,070,830
2009	$27.57	$30.40	$35.75		-$4,179,032
2010	$28.00	$31.16	$37.79		-$6,276,983
2011	$28.43	$31.93	$38.73		-$7,033,850
2012	$28.88	$32.73	$39.67		-$7,767,879
2013	$29.33	$33.55	$40.71		-$8,613,197
2014	$29.78	$34.39	$41.75		-$9,447,507
2015	$30.25	$35.25	$42.79		-$10,270,579
2016	$30.72	$36.14	$43.84		-$11,082,292
2017	$31.20	$37.04	$44.88		-$11,882,429
2018	$31.69	$37.97	$46.03		-$12,792,773
2019	$32.18	$38.92	$47.18		-$13,788,752
2020	$32.68	$39.89	$48.43		-$15,778,282

WUTC DOCKET NO. UE-991255
EXHIBIT NO. 332
ADMIT ☑ W/D ☐ REJECT ☐

1/7/2000
WGJ

Centralia Sale: Market Power Prices

	Capacity Value $/kW/mo	Capacity Value $/kW/yr (3.0%)	Capacity Value $/MWh	Low Energy $/MWh (1.50%)	Medium Energy $/MWh (2.50%)	11/1/1999 Forecast $/MWh	Low Shaped Energy $/MWh	Medium Shaped Energy $/MWh	11/1/1999 Forecast $/MWh	Low Market w/Capacity $/MWh	Med Market w/Capacity $/MWh (69.3% 6070.68)	11/1/1999 Forecast $/MWh
1999	$0.50	$2.00	$0.33	$22.50	$22.50	$21.93	$22.74	$22.74	$22.17	$23.07	$23.07	$22.50
2000	$1.00	$4.00	$0.00	$22.84	$22.75	$26.50	$23.08	$22.99	$26.74	$23.08	$22.99	$26.74
2001	$1.00	$4.00	$0.00	$23.18	$23.75	$27.04	$23.42	$23.99	$27.28	$23.42	$23.99	$27.28
2002	$1.50	$6.00	$0.00	$23.53	$24.34	$27.29	$23.77	$24.59	$27.53	$23.77	$24.59	$27.53
2003		$6.18	$0.00	$23.88	$24.95	$27.54	$24.12	$25.20	$27.78	$24.12	$25.20	$27.78
2004		$6.37	$1.05	$24.24	$25.58	$27.79	$24.48	$25.82	$28.03	$25.53	$26.87	$29.08
2005		$6.56	$1.08	$24.60	$26.22	$28.04	$24.85	$26.46	$28.28	$25.93	$27.54	$29.36
2006		$6.75	$1.11	$24.97	$26.87	$28.29	$25.21	$27.11	$28.53	$26.33	$28.23	$29.65
2007		$6.96	$1.15	$25.35	$27.54	$30.29	$25.59	$27.79	$30.53	$26.73	$28.93	$31.68
2008		$7.16	$1.18	$25.73	$28.23	$32.29	$25.97	$28.47	$32.53	$27.15	$29.65	$33.71
2009		$7.38	$1.22	$26.11	$28.94	$34.29	$26.36	$29.18	$34.53	$27.57	$30.40	$35.75
2010		$7.60	$1.25	$26.50	$29.66	$36.29	$26.75	$29.90	$36.53	$28.00	$31.16	$37.79
2011		$7.83	$1.29	$26.90	$30.40	$37.20	$27.14	$30.65	$37.44	$28.43	$31.93	$38.73
2012		$8.06	$1.33	$27.30	$31.16	$38.10	$27.55	$31.41	$38.34	$28.88	$32.73	$39.67
2013		$8.31	$1.37	$27.71	$31.94	$39.10	$27.96	$32.18	$39.34	$29.33	$33.55	$40.71
2014		$8.55	$1.41	$28.13	$32.74	$40.10	$28.37	$32.98	$40.34	$29.78	$34.39	$41.75
2015		$8.81	$1.45	$28.55	$33.56	$41.10	$28.80	$33.80	$41.34	$30.25	$35.25	$42.79
2016		$9.08	$1.49	$28.98	$34.40	$42.10	$29.22	$34.64	$42.34	$30.72	$36.14	$43.84
2017		$9.35	$1.54	$29.42	$35.26	$43.10	$29.66	$35.50	$43.34	$31.20	$37.04	$44.88
2018		$9.63	$1.59	$29.86	$36.14	$44.20	$30.10	$36.38	$44.44	$31.69	$37.97	$46.03
2019		$9.92	$1.63	$30.30	$37.04	$45.30	$30.55	$37.28	$45.54	$32.18	$38.92	$47.18
2020		$10.21	$1.68	$30.76	$37.97	$46.50	$31.00	$38.21	$46.74	$32.68	$39.89	$48.43

Centralia Sale: Market Power Prices

		Rate Case Shape	
Jan-00	28.86	120,400	3430196
Feb-00	23.65	82,400	1994904
Mar-00	23.06	104,900	2264791
Apr-00	17.28	71,300	1100159
May-00	15.91	65,700	1022292
Jun-00	16.25	68,600	987840
Jul-00	28.14	94,600	2325268
Aug-00	36.15	130,500	4375665
Sep-00	34.07	123,000	4432920
Oct-00	30.01	127,400	3550638
Nov-00	30.88	126,600	3827118
Dec-00	33.78	107,600	3399084
	$26.50	1,223,000	32,710,875
			26.746423
			$0.24