

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
2 COMMISSION

3 In the Matter of the ) DOCKET NO. UE-991262  
4 Application of PACIFICORP ) Volume 2  
5 For an Order Approving the ) Pages 86 - 314  
6 Sale of Its Interest in )  
7 (1) The Centralia Steam )  
8 Electric Generating Plant, )  
9 (2) The Ratebased Portion of )  
10 the Centralia Coal Mine, and )  
11 (3) Related Facilities, for )  
12 a Determination of the Amount )  
13 of and the Proper Ratemaking )  
14 Treatment of the Gain )  
15 Associated with the sale; and )  
16 for an EWG Determination. )

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10 -----  
11 In the Matter of the ) DOCKET NO. UE-991409  
12 Application of )  
13 PUGET SOUND ENERGY, INC., for )  
14 (1) Approval of the Proposed )  
15 Sale of PSE's Share of the )  
16 Centralia Facilities, and )  
17 (2) Authorization to Amortize )  
18 Gain Over a Five-Year Period. )

15 -----  
16 In the Matter of the ) DOCKET NO. UE-991255  
17 AVISTA CORPORATION for )  
18 Authority to Sell Its )  
19 Interest in the Coal-Fired )  
20 Centralia Power Plant. )  
21 -----

18 A hearing in the above matter was held on  
19 January 7, 2000, at 9:40 a.m., at 1300 South Evergreen  
20 Park Drive Southwest, Olympia, Washington, before  
21 Administrative Law Judge MARJORIE R. SCHAER,  
22 Commissioners WILLIAM R. GILLIS, RICHARD HEMSTAD, and  
23 MARILYN SHOWALTER.  
24

25 Kathryn T. Wilson, CCR  
Court Reporter

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WUTC		
DOCKET NO. <u>UE-991606</u>		
EXHIBIT # <u>431</u>		
ADMIT	W/D	REJECT
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

1 I have marked for identification as Exhibit  
2 328 a document entitled Data Request No. 3, request and  
3 response, and that again is a multiple page document,  
4 and marked for identification as Exhibit 329, a  
5 document headed at the top Data Request No. 7, which  
6 indicates it's a request and response, and again, it's  
7 a multi-page document.

8 MR. ADAMS: Your Honor, to try to move the  
9 admission along, I'm going to ask the witness if he is  
10 familiar with Exhibits 325 through 329.

11 THE WITNESS: Yes, I am.

12 MR. ADAMS: And are they true and correct, to  
13 the best of your knowledge?

14 THE WITNESS: Yes, they are.

15 MR. ADAMS: I'd move the admission of all  
16 these exhibits.

17 JUDGE SCHAER: Any objections?

18 MR. DAHLKE: No objection.

19 JUDGE SCHAER: Those documents are admitted.

20

21 CROSS-EXAMINATION

22 BY MR. ADAMS:

23 Q. Mr. Johnson, your Exhibit 305 presents your  
24 estimate of the cost of power from Centralia compared  
25 to projected market energy prices as of the time when

1 you filed your direct testimony; is that correct?

2 A. That is correct.

3 Q. When was this exhibit prepared, that is 305?

4 A. I don't know the precise date, but it was  
5 sometime in the summer, early summer, mid summer.

6 Q. And when was the forecast prepared upon which  
7 Exhibit 305 relied?

8 A. I'm not positive what the date was, but I  
9 believe it was probably May or June's forecast.

10 Q. So that we all understand, there is a medium  
11 market rate line, and that is based upon the forecast;  
12 correct?

13 A. It's based on my forecast at the time.

14 Q. And the high and low are based on basically  
15 20 percent above and below the forecast baseline; would  
16 that be approximately correct?

17 A. I didn't prepare it as 20 percent below or  
18 above, but subject to check, that might be fairly  
19 accurate.

20 Q. Has that exhibit been updated or amended in  
21 your rebuttal testimony?

22 A. No, it has not.

23 Q. In response to Exhibits 327 and 328, you  
24 provided more recent forecasts prepared by the Company,  
25 did you not?

1 A. Yes, I did.

2 Q. Would you agree that these newer forecasts  
3 pretty uniformly forecast higher market prices than the  
4 forecasts you relied on in preparing Exhibit 305?

5 A. The forecasts I provided are higher than the  
6 forecasts I used for the medium case in Exhibit 305.

7 Q. When you refer to the forecast, you are  
8 referring to Exhibits 327 and 328; correct?

9 A. Yes. They are not directly comparable to  
10 what's in the exhibit and what's in these forecasts  
11 because there are some other factors that are added and  
12 then subtracted out, but the baseline forecast that's  
13 behind Exhibit 305 is different than what's in Exhibits  
14 327 and 328.

15 Q. And 327 and 328 represent higher market  
16 prices; correct?

17 A. They are higher.

18 Q. Each of the estimates contained in Exhibits  
19 327 and 328 are estimates for flat power; is that  
20 correct?

21 A. I believe if you look, there is on-peak and  
22 off-peak and flat prices in those exhibits, forecasts  
23 in those exhibits.

24 Q. Your Exhibit 305 is flat power, is it not?

25 A. No. 305 is power shaped. It's shaped power

1 as if it was a replacement for Centralia.

2 Q. So would an adjustment to Exhibits 327 and  
3 328 be necessary to convert them so they are similar to  
4 your Exhibit 305?

5 A. I would make some adjustment. I wouldn't  
6 necessarily make the exact adjustments I made to the  
7 forecast in Exhibit 305 of my testimony.

8 Q. Would you look at the Exhibit 325 that has  
9 been admitted? Do you have that document?

10 A. Yes, I do.

11 Q. Would you look at the last paragraph in your  
12 response where it makes reference -- where you say, The  
13 Company's analysis includes a capacity value of around  
14 one dollar per megawatt hour and a dispatch value of  
15 1.71 dollars per megawatt hour; do you see that?

16 A. Yes.

17 Q. Is that an adjustment that you would have to  
18 make?

19 A. When I reran our numbers using November  
20 forecast, I added adjustments, but they don't come out  
21 to be the same because the shapes of the power across  
22 months tends to change with the new forecasts, so I do  
23 make adjustments but they are not exactly this amount  
24 anymore with the new forecast. These adjustments were  
25 based on the forecast that was used to produce Exhibit

1 305. They don't say consistent across all new  
2 forecasts.

3 Q. What would the equivalent numbers be for  
4 Exhibits 327 and 328 for those shown in Exhibit 325?

5 A. I haven't rerun the capacity numbers so I  
6 don't know. It's probably still something around a  
7 dollar. The shaping number has been reduced to around  
8 25 cents. The other numbers are numbers related to  
9 Centralia Plant costs, so they wouldn't change with the  
10 forecast.

11 Q. One issue that Pacific and Puget clearly  
12 identified in their analysis was the so-called sulfur  
13 credits; that is, the sale of excess rights to emit  
14 sulfur dioxide, which the Centralia owner will have  
15 once the scrubbers are installed. Are you familiar  
16 with that issue?

17 A. Yes.

18 Q. Did you include the value of the sulfur  
19 credits in your analysis?

20 A. No, I didn't.

21 Q. Do you have any basis to disagree with the  
22 analysis of Pacific, Puget, and Mr. Lazar that there  
23 will be about 30 thousand tons per year of excess  
24 sulfur credits available for sale?

25 A. Subject to check. I guess I don't disagree

1 with what they've done.

2 Q. Do you agree that the current market price  
3 for these is about \$200 per ton?

4 A. I really have no knowledge what the price is  
5 for the sulfur credits.

6 Q. Avista would get 15 percent of the benefit of  
7 any sale of sulfur credits; is that correct?

8 A. I presume it's in ratio to the plant  
9 ownership, but I'm not certain of that.

10 Q. Similar to that response, that would increase  
11 to 17.5 percent if you include the PG and E share; is  
12 that correct?

13 A. If we get it as a ratio of plant ownership.

14 Q. That would amount to about a million dollars  
15 per year in additional benefits over the period 2002 to  
16 the end of the plant life. Would you agree to that  
17 subject to check?

18 A. I haven't done that, so subject to check.

19 JUDGE SCHAEER: Do you have the information  
20 you would need to make that calculation to do the  
21 check, Mr. Johnson?

22 THE WITNESS: I could that do, Your Honor.

23 MR. ADAMS: We would be happy to provide  
24 that computation to he could review that as well. I  
25 can indicate right on the record, it's 15 percent, if

1 we assume that is Avista's share, times 30 thousand  
2 tons times \$200.

3 THE WITNESS: Okay.

4 Q. (By Mr. Adams) Referring you to Exhibit 326,  
5 am I correct that this exhibit is the Company's  
6 provision of a table of monthly average and secondary  
7 market prices since 1986?

8 A. Yes, that's what it is.

9 Q. Would you agree that over the past couple of  
10 years the trend in prices has been up?

11 A. Yes, I would.

12 Q. Your forecast, which is now Exhibit 327, that  
13 also reflects that the trend is continuing, does it  
14 not?

15 A. 327 reflects my estimation of what prices  
16 would be given the market quotes and other information  
17 that's available to me.

18 Q. Right, but does it not also show that  
19 increasing trend in prices?

20 A. It shows an increase in trend.

21 Q. In response to Public Counsel Data Request  
22 No. 7, which is Exhibit 329, the Company provided a  
23 table of historical and projected natural gas prices;  
24 is that correct?

25 A. That's correct.



1 Q. Am I correct that the general trend in gas  
2 prices has been up for the past few years now?

3 A. If you go back from like '95, it's gone up,  
4 but it's kind of drifted down again recently also.

5 Q. Turn to the last page that shows the graph.  
6 The trend has been upwards, has it not, recognizing  
7 their ups and downs along the way?

8 A. I guess you would need to define what time  
9 period you are applying your assumption to.

10 Q. For the time period shown on that page of the  
11 exhibit.

12 A. From the lowest point to the base point in  
13 '99, the trend is up, given that there was some big  
14 spikes in between and then subsequent decreases.

15 Q. Would I be correct that gas prices and power  
16 prices have a pretty good correlation?

17 A. My understanding is that the correlation is  
18 not that significant.

19 Q. I want to turn to your mathematical analysis  
20 presented in Exhibit 304. This analysis looks at the  
21 cost and value of power from Centralia over the period  
22 1999 through 2020; correct?

23 A. That is correct.

24 Q. And looking forward from today, it's about a  
25 21-year period of analysis; is that correct?

1 A. That is correct.

2 Q. Turn to Exhibit 304, which was prepared using  
3 the old lower forecast, by the later years of the  
4 period, would you agree that, and I put in quotations,  
5 "medium market rates," closed quotes, were  
6 significantly higher than the quote, "total delivered  
7 plant cost," closed quote, of Centralia?

8 A. Are you referring to Exhibit 305 now?

9 Q. 304, Page 1.

10 JUDGE SCHAEER: By putting items in quotes,  
11 are you referring to column headings, Mr. Adams?

12 MR. ADAMS: The total delivered cost is the  
13 far right-hand column, Your Honor, on Page 1.

14 JUDGE SCHAEER: So that was the purpose of  
15 your quotes was to reference that column?

16 MR. ADAMS: Yes.

17 JUDGE SCHAEER: What was the other column  
18 heading?

19 MR. ADAMS: The first reference was on Page 2  
20 of 2 where it says, market rate projections, and it's  
21 the middle column of the three, Your Honor.

22 JUDGE SCHAEER: Thank you. Your question  
23 again was....

24 Q. (By Mr. Adams) By the later years of the  
25 period, would you agree that the medium market rates

1 were significantly higher than the total delivered  
2 plant cost of Centralia?

3 A. I would agree that by the year 2020, the  
4 medium rate projection is higher than the delivered  
5 plant cost projection.

6 Q. With a higher forecast, that would even be  
7 truer, would it not?

8 A. If you put that a higher forecast is for the  
9 whole 20 years.

10 Q. I'm just referring to your new update.

11 A. I've never provided an update past 2010, so  
12 you have make assumptions while escalation is past  
13 2010.

14 Q. Are you indicating that you have not made any  
15 kind of update beyond the 10-year period?

16 A. I'm saying that I've never provided any  
17 forecasts beyond 2010, period. I don't prepare  
18 forecasts beyond 2010, period.

19 Q. So you have not prepared such an update?

20 A. I have looked at November forecast, which I  
21 provided in one of the data responses, and I simply  
22 plugged in the two-and-a-half projection, ran it  
23 through, reshaped it, got a new shaping benefit, a new  
24 capacity benefit, and plugged it into my analysis.

25 Q. So looking at Page 1 of 305 and Page 2 of 305

1 or Page 2 of 304, any of those pages, you have not  
2 extended it out beyond 10 years?

3 A. Yes. I just explained that what I did was I  
4 took the November forecast that I provided as a data  
5 request, and I simply escalated it out at the standard  
6 two-and-a-half percent that we've been using and ran a  
7 similar analysis to the analysis that I've done from my  
8 testimony.

9 Q. And you did not provide that in response to  
10 our Data Request No. 30?

11 A. You would have to refresh me what was Data  
12 Request No. 30.

13 Q. Hold on a second. We'll get the specific  
14 request. It's basically asking for an update of your  
15 exhibits. I'll read the request to you:

16 Provide any updated figures or analysis which  
17 would update or modify the following exhibits in light  
18 of the market price forecast provided in response to  
19 Public Counsel Data Request 19 and 23, and it  
20 specifically lists Exhibit T-303, Page 4, Lines 7  
21 through 14; Exhibit 304, Page 2, and Exhibit 305.

22 MR. DAHLKE: I'd interpose an objection at  
23 this point. If the point of this line of cross is to  
24 attempt to draw from the witness answers as to what a  
25 different study would look like based upon the one

1 change in market prices between the time that his  
2 original testimony was prepared and the later study, I  
3 think that's something that counsel should work through  
4 counsel's own expert witness on and present either as a  
5 cross-examination exhibit, but it would be very  
6 difficult to do this on the stand live, if that's what  
7 the effort is going to be.

8 JUDGE SCHAEER: My understanding, Mr. Dahlke,  
9 of the question pending is whether Mr. Johnson provided  
10 certain information in response to Data Request No. 30,  
11 and I think he can answer that yes or no. I think that  
12 you are getting a little bit ahead of yourself at this  
13 point. If the answer is no and the next question is,  
14 Have you produced such a document, there may be a  
15 discussion of why or why not on delivery of the  
16 document, if there has been no document, then I think  
17 that will solve itself as well, so why don't you answer  
18 the question pending, Mr. Johnson. Did you provide any  
19 document to Mr. Adams as a response of his Data  
20 Request No. 30?

21 THE WITNESS: No, I didn't. I guess the  
22 questions I read was provide any updated figures or  
23 analysis and to update or modify the following  
24 exhibits, and I didn't update or modify any of my  
25 exhibits. I ran the analysis for my own benefit.

1 Q. (By Mr. Adams) And you did not provide that  
2 to us in response --

3 A. I did not modify my exhibits because the  
4 analysis was still in the range that I presented in my  
5 Exhibit 304 and 305, so I didn't see a need to update  
6 it since it was within the range I had already  
7 provided.

8 Q. Would you turn to Page 1 of Exhibit 305?

9 JUDGE SCHAER: That reminds me, Mr. Adams, is  
10 there more than one page to Exhibit 305?

11 MR. ADAMS: No, there is not.

12 JUDGE SCHAER: Because you had earlier  
13 referenced Page 2 of Exhibit 305. This is just the one  
14 page; is that correct?

15 MR. ADAMS: Yes.

16 JUDGE SCHAER: Go ahead, sir. Do you have  
17 the page?

18 THE WITNESS: Yes, I have 305.

19 Q. (By Mr. Adams) Looking at the graph, in  
20 looking at the high line, that is, the high market  
21 rates -- do you see that line that's labeled?

22 A. Yes.

23 Q. -- where would your revised numbers or your  
24 newer numbers, where would the new medium numbers show  
25 on this exhibit, if you were to draw it in? Would it

1 be up close to the top line, the high market rates?

2 A. It would be between the medium market rates  
3 and the high market rates.

4 Q. Do you know where it would cross over the  
5 total delivered plant cost line?

6 A. No. I don't know the exact year.

7 Q. But it would move it a number of years  
8 earlier, would it not, than what is depicted on this  
9 page?

10 A. I don't know how you would define "a number  
11 of years." It may be a few years.

12 Q. Currently, using the medium market range, you  
13 would cross over at about 2010; is that correct?

14 A. That's correct in this exhibit.

15 Q. And the effect of the higher market rates  
16 would move it earlier in the time frame, would it not?

17 A. Yes, it would.

18 Q. Are you saying you cannot quantify where it  
19 would cross over?

20 A. I could, but I haven't. I didn't look at  
21 that.

22 Q. I'm a little confused. Is there a document  
23 that you have produced that shows this analysis or  
24 these new numbers, a spreadsheet, anything?

25 A. There is nothing put into print, no.

1 Q. Does that mean it's sitting on your computer?

2 A. It's sitting on my computer.

3 MR. ADAMS: Your Honor, we would like this  
4 provided as requested in Data Request 30 as originally  
5 asked. I don't think we need a new number because I  
6 think it was already asked.

7 JUDGE SCHAEER: Are you then moving that this  
8 be their response be ruled to be insufficient and that  
9 they be ordered to provide this as part of Request No.  
10 30, because I don't have request No. 30 in front of me.

11 MR. ADAMS: That's the essence of my request,  
12 Your Honor, because it appears there is material and  
13 it's on a computer instead of being printed out.

14 MR. DAHLKE: I guess my response is, and this  
15 may be just a problem of interpreting these written  
16 requests that bounce back and forth, but I think the  
17 witness indicated that he was asked whether he had any  
18 figures or analysis to update the exhibits, and he  
19 answered that he did not, but now the question is,  
20 Well, whether you can move numbers around within the  
21 range and based upon some information that's on a  
22 computer, and we have no objection to providing that  
23 information.

24 I do object to the inference that it was  
25 supposed to be provided but not provided. There can be



1 honest differences between these, but we certainly did  
2 not read the request the way that counsel is now  
3 indicating it was intended.

4 JUDGE SCHAER: I'll note that for the record,  
5 Mr. Dahlke, but if you have no objection to providing  
6 the information, could that be done?

7 MR. DAHLKE: You'll have to ask the witness.

8 JUDGE SCHAER: Do you have that computer with  
9 you?

10 THE WITNESS: No, I don't.

11 JUDGE SCHAER: So you need to go back to  
12 Spokane and press the print button, or is there more to  
13 it?

14 THE WITNESS: Are you saying update the  
15 exhibits or print out the analysis?

16 JUDGE SCHAER: I believe what you are being  
17 asked to do is print out the analysis here. I don't  
18 believe you are being asked to create anything that  
19 doesn't exhibit; is that correct, Mr. Adams?

20 MR. ADAMS: That's correct.

21 JUDGE SCHAER: Is that your understanding,  
22 Mr. Dahlke?

23 MR. DAHLKE: Yes.

24 JUDGE SCHAER: How quickly could you get  
25 that, sir?

1 THE WITNESS: I guess we could have it ready  
2 by Monday.

3 JUDGE SCHAER: Would you please provide that  
4 to Mr. Adams first thing Monday morning?

5 THE WITNESS: Okay.

6 MR. ADAMS: If it is prepared Sunday, could  
7 they could e-mail it or fax it to us? We will be  
8 there.

9 JUDGE SCHAER: Do what you can, Mr. Johnson  
10 and Mr. Dahlke, to make this work.

11 MR. DAHLKE: Sure.

12 JUDGE SCHAER: Anything else, Mr. Adams?

13 MR. ADAMS: Yes.

14 Q. (By Mr. Adams) Could you indicate what  
15 capacity factor was assumed in the Centralia part of  
16 the calculation in Exhibit 305?

17 A. I believe it's around a seven percent. I  
18 didn't calculate it from a capacity factor but from a  
19 generation.

20 Q. Could we use 70 percent as an approximate?

21 A. Subject to check, I believe that's around 70  
22 percent.

23 Q. So this reflects some maintenance in the  
24 spring, some unexpected outages throughout the year,  
25 and some economic dispatch; is that correct?



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21 Administrative Law Judge MARJORIE R. SCHAER,  
22 Commissioners WILLIAM R. GILLIS, RICHARD HEMSTAD, and  
23 CHAIRWOMAN MARILYN SHOWALTER.  
24

25 Kathryn T. Wilson, CCR  
Court Reporter

1 of Centralia versus market replacement.

2 Q. The number right under that, the negative  
3 25.4 million, that's the 20-year present value for that  
4 same scenario?

5 A. That's correct.

6 Q. Is the 25.4-million-dollar present value  
7 number, the negative number, the equivalent of the 7.7  
8 million dollars that you cite in your testimony at  
9 Exhibit T-303, Page 4?

10 A. It's computed mathematically equivalent, but  
11 I'm not saying it's the equivalent analysis.

12 Q. But it's the same mathematical analysis?

13 A. That's correct.

14 MR. ADAMS: Thank you. That's all we have,  
15 and I would move the admission of Exhibit 332.

16 JUDGE SCHAER: Any objection?

17 MR. DAHLKE: No objection.

18 JUDGE SCHAER: Anything further for  
19 Mr. Johnson? You may step down.

20 MR. ADAMS: Would you like me now to pick up  
21 the confidential exhibit and then seal it and give it  
22 back to the parties?

23 JUDGE SCHAER: Yes. Let's go off the record  
24 for a moment.

25 (Discussion off the record.)