

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of the Application of
PACIFICORP for Exempt Wholesale
Generator Determinations Relating to the
Skookumchuck Hydroelectric Plant.

Case No. PAC-E-04-01

PACIFICORP

DIRECT TESTIMONY OF CRAIG P. JOHNSON

1 **Q. Please state your name and business address.**

2 A. My name is Craig P. Johnson. My business address is 201 South Main, Suite
3 2300, Salt Lake City, Utah.

4 **Q. Briefly describe your educational background, professional training and**
5 **experience.**

6 A. I graduated from Brigham Young University in 1981 with a Bachelor of Science
7 Degree in Accounting. After working at General Telephone, I joined PacifiCorp
8 in 1984. My assignments at the Company have included working in the
9 Regulation, Financial Planning, and Financial Analysis departments. At present I
10 am a Regulatory Consultant. My primary responsibilities include preparing rate
11 cases and analyzing regulatory issues facing the utility.

12 **Q. What is the purpose of your testimony?**

13 A. My testimony explains the revenue requirement impact of the sale of the
14 Skookumchuck Dam, hydroelectric generating station and related assets (the
15 "Skookumchuck Project" or the "Project") and describes the anticipated benefits
16 to customers from the sale of the Skookumchuck Project.

17 **Q. What is the current and future cost of generating power from the**
18 **Skookumchuck Project?**

19 A. The average cost of energy generated is approximately \$250 per megawatt hour
20 ("MWh"), according to the Company bus bar report. Looking forward, the cost of
21 generating energy at the Project is not expected to decline, and it is expected to
22 exceed projected market prices. Low energy production volume combined with
23 high investment costs have translated into a high cost per MWh for several years.

1 Historically, the generator produced about 3,000 MWh annually. However, over
2 the last four years output has been limited to about 1,000 MWh/year. The
3 Skookumchuck Dam was not built as a generating resource. In fact the reservoir
4 was primarily constructed to ensure a water supply at the nearby Centralia Steam
5 Plant.

6 **Q. Are there benefits to PacifiCorp customers if the Project is retained?**

7 A. Based on the Company analysis, the answer is no. Although the Skookumchuck
8 Project generated benefits for customers for many years as a reliable water source
9 for the Centralia Steam Plant, today the situation is different. PacifiCorp no
10 longer owns the Centralia Steam Plant. The Project is a small 1 MW
11 hydroelectric generation asset. It is not equivalent to large projects like those on
12 the Lewis and Umpqua Rivers, which provide valuable peaking power and
13 generate relatively large amounts of energy compared to the fixed cost of
14 operations. The reservoir was constructed in 1973 to ensure a water supply at the
15 Centralia power station during drought years. An electric generator was added in
16 1991 to mitigate the cost of operating the reservoir. After the sale of Centralia
17 Steam Plant the new owner, TransAlta, (through its direct wholly-owned
18 subsidiary, TransAlta Centralia Generation LLC), paid the operating costs of the
19 Project. Recently, TransAlta (through its direct wholly-owned subsidiary,
20 Washington LLC) agreed to purchase the Project, i.e., the Skookumchuck
21 reservoir and hydroelectric facilities, as the reservoir has more value to the
22 Centralia Steam Plant owner than it does to PacifiCorp and the other current
23 owners. The future unit cost of generation is not cost competitive. Continued

1 ownership of the Project results in future customers of PacifiCorp paying prices
2 for energy that will exceed the market value. A sale of the Skookumchuck
3 Project is expected to benefit customers by lowering future revenue requirements
4 below what it otherwise would be if the Project were not sold.

5 **Q. What is the revenue requirement impact of selling the Skookumchuck**
6 **Project?**

7 A. Selling the reservoir, powerhouse, water rights and associated assets of the
8 Skookumchuck Project is expected to lower total future revenue requirement
9 \$12 million on a present value basis. The operating costs of the Project are high
10 and they may increase. As Mr. Landolt explains, the future cost of operating the
11 Skookumchuck Project, particularly the cost exposure to mitigate potential
12 seismic risks, are likely to diminish the economics of generating power from the
13 Project. The base case assumptions contrasted with future power prices show that
14 selling the Skookumchuck Project will lower the present value of the total
15 Company revenue requirement. In other words, it is now and will continue to be
16 less expensive to purchase energy at market prices than operate the
17 Skookumchuck Project, which produces power at a cost of \$250 per MWh.

18 **Q. What is the revenue requirement benefit in Idaho?**

19 A. As indicated above, the base case assumptions indicate a total company benefit of
20 \$12 million in present value terms. Idaho's allocated share of that benefit is
21 approximately \$700,000.

22 **Q. Will the sale of the Project produce a gain?**

1 A. No. PacifiCorp's share of the sale price is equal to PacifiCorp's net book value.
2 As a result, PacifiCorp estimates a slight loss of \$68,613. Exhibit No. 3 shows
3 the calculation of the estimated book and tax gain/loss. These preliminary figures
4 may change depending upon when the sale actually occurs. In the event there is
5 any gain realized on the sale, PacifiCorp proposes to credit its Idaho customers
6 with 100 percent of Idaho's allocated share of the actual net gain.

7 **Q. Does this conclude your direct testimony?**

8 A. Yes, it does.