

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of)	DOCKET NO. UE-040202
)	
PACIFICORP d/b/a)	ORDER NO. 01
Pacific Power & Light Company,)	
)	
for an Order Approving the Sale of)	
its Interest in the Skookumchuck)	
Hydroelectric Plant and for EWG)	ORDER GRANTING
Determinations)	APPLICATION
.....)	

BACKGROUND

- 1 On February 11, 2004, PacifiCorp d/b/a Pacific Power & Light Company (“PacifiCorp” or “Company”), filed with the Commission an application pursuant to the provisions of Chapter 80.12 RCW and Chapter 480-143 WAC, for authority to sell and transfer the Company’s interest in the Skookumchuck dam, hydroelectric facility, and related assets (“Skookumchuck Project” or “Project”). The Company also requested the Commission make the necessary determinations to qualify the Project as exempt wholesale generator (EWG) under Section 32 of the Public Utility Holding Company Act of 1935 (PUHCA).
- 2 PacifiCorp is co-owner of the Project with Public Utility District No. 1 of Snohomish County, Puget Sound Energy, Inc., City of Tacoma, Avista Corporation, City of Seattle, and Public Utility District No. 1 of Grays Harbor County (“Owners”).
- 3 The Owners propose to sell and transfer to Washington LLC, a limited liability company formed by TransAlta USA Inc. (“TransAlta”), the Skookumchuck dam, the land underlying and adjacent to the reservoir created by the dam, the powerhouse, water rights, land, easements, and other assets of the Project, including certain fixture, contracts and other rights. The terms and conditions of the transaction are set forth in the Skookumchuck Facilities Purchase and Sale Agreement (the “Sale Agreement”) between the Owners and Washington LLC,

dated November 25, 2003.¹ All the facilities included in the Sale Agreement are located in Thurston County, Washington, twelve miles northeast of Centralia.

- 4 The dam was constructed in 1973 as a water storage facility for the Centralia Steam Plant and includes a generating plant with a capacity of one megawatt added in 1991. Because the Project has been operated for purposes of supplying cooling water to the Centralia Steam Plant, the average annual production over the last few years has been 3,000 megawatt-hours. In accordance with 16 U.S.C. §2705(d), which allows exemptions for facilities less than 5MW, the Federal Energy Regulatory Commission ("FERC") has exempted the Project from licensing as a hydroelectric facility. Historically, all the power from the Project has been sold to PSE, which owns and operates the adjacent electrical transmission and distribution system. The wholesale purchase agreement with PSE expired several years ago and sales since then have been made without a contract.
- 5 Washington LLC will continue operation of the Project to provide cooling water supply to the Centralia Power Plant and to produce power from the Project either as an EWG or as a qualifying facility under the Public Utility Regulatory Policies Act of 1978 (PURPA).
- 6 Washington LLC cannot process its EWG application with the FERC until the jurisdictional regulatory commissions have made certain determinations required by section 32 of PUHCA. The three determinations necessary for Washington LLC to become an EWG, are that allowing the facility to become an eligible facility: (1) will benefit consumers, (2) is in the public interest, and (3) does not violate Washington State law.

¹ The Owners have advised the Commission that as of the date of the application, all of the Owners except the city of Seattle had executed the Sale Agreement. It is anticipated that the city of Seattle will execute the Sale Agreement by March 31, 2004.

- 7 The aggregate sales price is \$7,570, 373.16, to be adjusted for changes in PacifiCorp's net book value from September 30, 2003, to the Closing Date of the transaction. Actual figures will not be known until the transaction closes. PacifiCorp's share of this amount is 47.5 percent and the Company expects no appreciable gain or loss.
- 8 PacifiCorp proposes to credit its Washington customers with 100 percent of Washington's allocated share of the actual net gain or loss. The Company initially proposed to add any net gain to or to subtract any net loss from the Company's Centralia Steam Plant and Mine sale credit, reflected in PacifiCorp's tariff Schedule 97.
- 9 After discussion with Commission Staff, the Company agreed to defer any gain or loss, recognizing that the appropriate allocation of Washington's share shall be determined in the Company's General Rate Case in Docket No. UE-032065. PacifiCorp has agreed to file supplemental testimony in that docket immediately upon completion of this transaction, incorporating the final sales amount and the proposed ratemaking treatment of any gain or loss from the sale.
- 10 PacifiCorp's forecast predicts that the ratepayers will see lower costs if the Project is sold because the projected cost of power from the Project exceeds the projected cost of market power. The Company expects that the sale will lower the Company's future revenue requirement by removing the Project from the Company's rate base and revenue requirement. The expected present value of the future reduction in Washington revenue requirement is approximately \$1 million. The proposed transaction eliminates the risk that PacifiCorp will be required to fund its share of expenditures for ensuring the structural integrity of the Skookumchuck dam estimated to be \$4 million.
- 11 The Company states that the sale of 1 MW plant with only 3,000 MWhs of annual output will not affect competitive markets and consequently it will not harm the public interest.

12 PacifiCorp requests that the Commission enter its Order on an expedited basis, so that Washington LLC can process its EWG application with the FERC and the transfer can be completed.

FINDINGS AND CONCLUSIONS

- 13 (1) The Washington Utilities and Transportation Commission has jurisdiction over PacifiCorp and the sale and assets associated with the Skookumchuck Project, the subject matter of this proceeding. *Chapter 80.12 RCW and Chapter 480-143 WAC.*
- 14 (2) PacifiCorp is engaged in the business of furnishing electricity service within the state of Washington as a public service company subject to the jurisdiction of the Commission.
- 15 (3) The terms and conditions of the transaction are set forth in the Skookumchuck Facilities Purchase and Sale Agreement between the Owners and Washington LLC, dated November 25, 2003.
- 16 (4) The request for approval authorizing the sale of facilities in accordance with Chapter 480-143 WAC is reasonable and consistent with the public interest and the Commission should grant PacifiCorp's request.
- 17 (5) Allowing Washington LLC to purchase and operate the Skookumchuck Project as an EWG will benefit consumers and is in the public interest. Under these conditions, allowing the purchaser to operate the Skookumchuck Project as an EWG would not violate state law.
- 18 (6) This matter was brought before the Commission at its regularly scheduled open meeting on March 12, 2004.

- 19 (7) It is consistent with the public interest that the Commission grant PacifiCorp's request for authorization to sell the assets associated with the Skookumchuck Project.

ORDER

THE COMMISSION ORDERS

- 20 (1) The petition of Pacific Power & Light Company d/b/a PacifiCorp for authorization to sell and transfer the Company's interest in the Shookumchuck dam, hydroelectric facility, and related assets substantially in accordance with the Sale Agreement is granted.
- 21 (2) The Commission determines that allowing the Skookumchuck Project to become an eligible facility under Section 32(c) of the Public Utility Holding Company Act of 1935 (PUHCA) (1) will benefit consumers, (2) is in the public interest and (3) does not violate Washington State law.
- 22 (3) The allocation of any gain or loss from the sale shall be determined in the Company's General Rate Case in Docket No. UE-032065. The Company shall file supplemental testimony in that docket incorporating the final sales price and proposed ratemaking treatment immediately upon the close of the transaction.
- 23 (4) This Order shall in no way affect the authority of the Commission over rates, services, accounts, evaluations, estimates, or determination of costs on any matters whatsoever that may come before it, nor shall anything herein be construed as acquiescence in any estimate or determination of costs claimed or asserted.
- 24 (5) The Commission retains jurisdiction over the subject matter and PacifiCorp to effectuate the provisions of this Order.

The Commissioners, having determined this Order to be consistent with the public interest, directed the Secretary to enter this Order.

DATED at Olympia, Washington, and effective this 12th day of March, 2004.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

CAROLE J. WASHBURN, Secretary