

James F. Fell
James C. Paine
Stoel Rives LLP
900 SW Fifth Avenue, Suite 2600
Portland, OR 97204-1268
(503) 294-9246

Idaho Public Utilities Commission
Office of the Secretary
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Boise, Idaho

Attorneys for PacifiCorp

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

APPLICATION

PacifiCorp (or the "Company") files this application with the Idaho Public Utilities Commission (the "Commission") pursuant to the provisions of Idaho Code § 61-501.

PacifiCorp has entered into an agreement to sell the Skookumchuck hydroelectric plant (the "Skookumchuck Project") to 2677588 Washington LLC ("Washington LLC"), a limited liability company formed by TransAlta USA Inc. ("TransAlta"). The Skookumchuck Project is a small, 1 MW hydroelectric facility located in the vicinity of Centralia, Washington on property adjacent to the Centralia Power Plant, a large coal-fired generating facility. Washington LLC intends to operate the Skookumchuck Project as an exempt wholesale generator ("EWG") within the meaning of section 32 of the Public Utility Holding Company Act of 1935 ("PUHCA").

PacifiCorp seeks a Commission Order making certain public interest findings required in order for the Skookumchuck Project to qualify as an exempt facility and for Washington LLC to qualify as an EWG under section 32 of PUHCA.¹

¹ Because the Skookumchuck Project is located in the State of Washington, Idaho's property transfer statute, Idaho Code § 61-328, is not applicable to the contemplated sale.

I. INTRODUCTION

A. Name and Address of Applicant

The full and correct name and business address of Applicant is:

PacifiCorp
825 NE Multnomah Boulevard
Portland, OR 97232

PacifiCorp requests that all notices, correspondence and pleadings with respect to this Application be sent to:

For PacifiCorp:

Robert Lively
Manager, Regulation
PacifiCorp
201 South Main Street, Suite 2300
Salt Lake City, UT 84111
Telephone: (801) 220-4052
Facsimile: (801) 220-3116
E-mail: bob.lively@pacificorp.com

With a copy to :

James F. Fell
James C. Paine
Stoel Rives LLP
900 SW Fifth Avenue, Suite 2600
Portland, OR 87204
Telephone: (503) 294-9343
Facsimile: (503) 220-2480
E-mail: jffell@stoel.com

Please also send electronic copies of data requests to datarequest@pacificorp.com.

B. Corporate Information

PacifiCorp was incorporated in the State of Oregon on August 11, 1987. PacifiCorp is authorized to transact business in the States of Idaho, Washington, Oregon, California, Utah and Wyoming.

C. Description of Business

PacifiCorp is a public utility providing retail electric service to customers in the six western states of Idaho, Washington, Oregon, California, Utah and Wyoming and wholesale electric service throughout the Western United States.

D. Current Owners of Skookumchuck Dam and Hydroelectric Facility

The current owners of the Skookumchuck Project are: PacifiCorp; Public Utility District No. 1 of Snohomish County, Washington; Puget Sound Energy, Inc.; City of Tacoma,

Washington; Avista Corporation; City of Seattle, Washington; and Public Utility District No. 1 of Grays Harbor County, Washington (collectively, the “Owners”).

E. Purchaser of the Dam and Hydroelectric Facility

Washington LLC is a Washington limited liability company and a direct wholly-owned subsidiary of TransAlta. TransAlta is the indirect owner of the Centralia Power Plant and the Centralia Coal Mine. In 2000, the Owners sold the Centralia Power Plant to a direct wholly-owned subsidiary of TransAlta, TECWA Power Inc., and PacifiCorp sold the Centralia Coal Mine to another direct wholly-owned subsidiary of TransAlta, TECWA Fuel Inc. TransAlta Centralia Generation LLC, a direct wholly-owned subsidiary of TECWA Power Inc., owns and operates the Centralia Power Plant as an EWG.

F. Skookumchuck Dam and Hydroelectric Facility

The Skookumchuck Project is an earth-fill dam and hydroelectric generating plant located in the vicinity of Centralia, Washington on property adjacent to the Centralia Power Plant. The Skookumchuck dam was constructed in 1973 as a water storage facility for the Centralia Power Plant. In 1991, a generating plant with a capacity of approximately one megawatt was constructed at the dam. The Project was granted an exemption from licensing as a hydropower facility by the Federal Energy Regulatory Commission (“FERC”) pursuant to 16 U.S.C. §2705(d), which allows exemptions for facilities less than 5 MW. The Project is, however, subject to dam safety regulation by the FERC.

II. SALE OF THE PROJECT

PacifiCorp proposes to sell and transfer to Washington LLC the dam, powerhouse, water rights, land, easements and other assets of the Project, including certain fixtures, contracts and other rights. The sale and transfer of the Project is governed by the Skookumchuck Facilities Purchase and Sale Agreement between the Owners and Washington LLC, dated November 25, 2003 (the “Sale Agreement”), which is attached as Exhibit No. 1 to the prefiled direct testimony of Randy A. Landolt.

The aggregate sale price of the transaction is approximately \$7.57 million, adjusted for changes in PacifiCorp's Net Book Value of the Facilities from September 30, 2003 to the Closing Date. See Section 2.3(a) of the Sale Agreement. PacifiCorp's share of this amount is 47.5 percent. The sale price is determined in such a manner that PacifiCorp will receive its net book value of the assets being transferred, with no appreciable gain or loss. Payment will be made by wire transfer at closing.

PacifiCorp is informed that Washington LLC will continue operation of the Project to provide cooling water supply to the Centralia Power Plant and that it will produce power from the Project either as an EWG or as a qualifying facility under the Public Utility Regulatory Policies Act of 1978. None of the electrical output of the Project will be used to serve PacifiCorp's retail customers, except perhaps indirectly through the wholesale power markets.

III. JURISDICTION AND AUTHORITY

To qualify as an EWG, Washington LLC must be engaged exclusively in the business of owning or operating an "eligible facility" and selling electric energy at wholesale. If the costs of a generation facility were included in the rates of a regulated utility on October 24, 1992 (the date of enactment of section 32 of PUHCA), then in order for the facility to be considered an "eligible facility," every state commission having jurisdiction over such rates must specifically determine that allowing the facility to become an eligible facility (1) will benefit consumers, (2) is in the public interest, and (3) does not violate State law. 15 U.S.C. § 79z-5a(c). Thus, the Commission and each of PacifiCorp's other state regulatory commissions must make these determinations regarding PacifiCorp's transfer of the Skookumchuck Project.

A. Compliance with State Law

Because the Project assets are located in the State of Washington, Idaho's property transfer statute, Idaho Code § 61-328, is not applicable to the contemplated sale. Accordingly, the sale of the Project to Washington LLC and allowing the generating facilities to become an eligible facility will not violate Idaho State law.

B. Benefits to Consumers

PacifiCorp proposes to transfer the Project to Washington LLC because a sale is a lower cost option than continuing to invest in and operate and maintain the Project.

The Skookumchuck Project has an electrical capacity of 1 MW, but because the Project is operated for purposes of supplying cooling water to the Centralia Power Plant, it has relatively low energy output. Over the last eight years, the average annual production has been 3,000 megawatt-hours. The Project's bus bar cost in fiscal year 2003 (twelve months ending March 31, 2003) was approximately \$250 per MWh. The facility is interconnected with the distribution system of Puget Sound Energy, Inc. ("PSE") and historically all of the power from the Project has been sold to PSE.

As one of the Owners of the Project, PacifiCorp must pay its proportionate share of the costs of the Project. The Company's analysis demonstrates that its customers will not be harmed by the proposed transaction and will in fact benefit from it. To measure the impact on power costs, the Company compared the forecast of future power costs to the cost of power generated by the Project. While forecasts of the market price for power cannot predict the future with certainty, the forecasts provide a reasonable framework to measure potential outcomes. Here, the forecasts predict that ratepayers will see lower costs if the Project is sold because the projected cost of power from the Project substantially exceeds the projected cost of market power. Moreover, the expected impact of the sale is to 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 Idaho revenue requirement is approximately \$700,000.

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. PacifiCorp's share of this investment is estimated to be \$4 million. The benefits from the proposed sale outweigh the risks of rising costs of continuing to own and operate the Project.

As shown by the Company's analysis, continued operation of the Project as a hydroelectric project would be uneconomic, and such operation would not be in the public interest. An alternative to the proposed sale would be discontinuing operation of the Project and draining the reservoir created by the Skookumchuck dam, which would subject the Centralia Power Plant to run-of-the-river operations. This alternative is likewise not in the public interest, as it would adversely impact the ability of the Centralia Power Plant, with over 1,300 MW of generation capacity, to produce power.

Moreover, the sale will not harm the public interest because competitive markets will be unaffected by the sale. It cannot reasonably be suggested that a 1 MW plant, with only 3,000 MWhs of annual production, could have a measurable impact on western electricity supply or any impact on wholesale electricity prices.

The financial analysis and impact on customers of the sale are discussed in greater detail in the prefiled testimony of Mr. Landolt and Mr. Johnson.

C. Public Interest Standard

The transfer of the Skookumchuck Project to Washington LLC is in the public interest because it will benefit PacifiCorp's customers by lowering the Company's costs of providing electrical service, for the reasons stated above. In addition, the transfer will give TransAlta greater control of the water flows in the Skookumchuck River for providing cooling water to the Centralia Power Plant, thus increasing the electrical output of the Centralia Power Plant for the benefit of all electricity consumers.

IV. OTHER MATTERS

A. Timing of Approval

Washington LLC cannot process its EWG application with the FERC until all of the Company's regulatory commissions have made the three determinations required by section 32 of PUHCA. Accordingly, PacifiCorp respectfully requests that the Commission process this matter and issue its Order as expeditiously as possible.

B. Request for Modified Procedure

PacifiCorp respectfully suggests that the three determinations requested of the Commission do not require a hearing to consider the issues presented by this application and therefore requests that this application be processed under modified procedure pursuant to the Commission's Rule 201, IDAPA 31.01.01.201.

C. Exhibits to Application

The exhibits that accompany this Application are:

1. Application Exhibit No. 1: Original cost, accumulated depreciation and net book value of assets to be transferred as well as the proposed journal entries to record the transfer.
2. The prefiled direct testimony of Randy A. Landolt, PacifiCorp's Managing Director of Hydro Resources, which describes the proposed sale, including how the sale is in the public interest. The Sale Agreement, which is the instrument governing the contemplated sale is included as Exhibit No. 1 to the prefiled testimony of Randy A. Landolt.
3. The prefiled direct testimony of Craig P. Johnson, PacifiCorp's Regulatory Consultant, describing the ratemaking impacts of the proposed sale.

V. RELIEF REQUESTED

PacifiCorp respectfully requests a Commission order:

- (a) Determining that the proposed transfer of the Skookumchuck Project to Washington LLC and allowing the Project to become an "eligible facility" within the meaning of section 32 of PUHCA (1) will benefit consumers, (2) is in the public interest, and (3) does not violate Idaho State law; and

(b) Granting such other relief as the Commission deems necessary and proper.

DATED: February 10, 2004.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James C. Paine", is written over a horizontal line.

James F. Fell
James C. Paine
Stoel Rives LLP
900 SW Fifth Avenue, Suite 2600
Portland, OR 97204
Telephone: (503) 294-9246
Facsimile: (503) 220-2480

Of Attorneys for PacifiCorp

**Proposed Entries to Record the Sale of Skookumchuck
 Estimated Values as of December 5, 2003**

Record receipt of proceeds from the sale of facilities to TransAlta

Account	Description	Debit	Credit
131	Cash	\$ 3,557,661	
108	Accumulated Provision for Depreciation of Utility Plant		\$ 3,557,661

Record sales expense

Account	Description	Debit	Credit
185	Temporary facilities	\$ 110,000	
131	Cash		\$ 110,000

Retire facilities from Electric Plant in Service

Account	Description	Debit	Credit
108	Accumulated Provision for Depreciation of Utility Plant	\$ 8,668,529	
101	Electric Plant in Service		\$ 8,668,529

Record the loss on sale and reflect the related tax expense

Account	Description	Debit	Credit
108	Accumulated Provision for Depreciation of Utility Plant	\$ -	\$ -
282	Accumulated Deferred Taxes	537,387	
409-411	Income Tax Expense	0	0
421.2	Loss on disposition of property	\$ 68,613	
185	Temporary facilities		110,000
236	Taxes Accrued		537,387