

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 RANDY A. LANDOLT

1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp.**

3 A. My name is Randy A. Landolt and my business address is Suite 1500, Lloyd
4 Center Tower, 825 NE Multnomah Street, Portland, Oregon. My present position
5 at PacifiCorp is Managing Director, Hydro Resources.

6 **Qualifications**

7 **Q. Briefly describe your educational and professional background.**

8 A. I graduated in 1973 from Oregon State University with a Bachelor of Science
9 Degree in Civil Engineering. Following graduation, I briefly performed land
10 development work before joining PacifiCorp as an Assistant Design Engineer of
11 generation, transmission and distribution infrastructure. Most of my career has
12 been associated with the engineering and Federal Energy Regulatory Commission
13 (“FERC”) regulation of hydroelectric facilities.

14 **Q. What are your responsibilities as Managing Director, Hydro Facilities?**

15 A. I am currently responsible for the operations and maintenance, engineering,
16 construction, and regulatory/environmental compliance for PacifiCorp’s portfolio
17 of 51 hydroelectric projects.

18 **Purpose of Testimony**

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

20 A. I describe the contemplated sale of the Skookumchuck Dam and related assets
21 (the “Skookumchuck Project” or “Project”) and the reasons for the proposed sale.
22 The testimony supports PacifiCorp’s request that the Commission find that
23 allowing the Project to become an “eligible facility” under section 32 of the

1 Public Utility Holding Company Act of 1935 (“PUHCA”) will benefit consumers,
2 is in the public interest and does not violate State law. These findings are
3 necessary for FERC to authorize the purchaser to operate the Project as an exempt
4 wholesale generator.

5 **Description of the Transaction**

6 **Q. Please describe the assets proposed for sale.**

7 A. The primary asset is the Skookumchuck Dam which is an earthfill structure
8 190 feet high and 1340 feet in length. Other assets included in the sale are
9 1,653 acres of land beneath and adjacent to the four-mile long reservoir created by
10 the dam, the powerhouse at the base of the dam housing a 1 MW hydroelectric
11 generating unit, and miscellaneous small buildings and operations and
12 maintenance equipment. All assets included in the sale are specifically identified
13 in the Skookumchuck Facilities Purchase and Sale Agreement dated
14 November 25, 2003 (the “Sale Agreement”). The Sale Agreement is identified as
15 PacifiCorp Exhibit No. 1. *See* Sale Agreement, Schedules 2.1(a) through 2.1(e).
16 All of the facilities included in the Sale Agreement are located in Thurston
17 County, Washington, twelve miles northeast of Centralia, Washington.

18 **Q. Who currently owns the sale assets?**

19 A. The Skookumchuck Project is owned as tenants in common by PacifiCorp and six
20 other public and private owners: Puget Sound Energy, Inc. (“Puget”); Public
21 Utility District No. 1 of Snohomish County, Washington; City of Tacoma,
22 Washington; Avista Corporation; City of Seattle, Washington; and Public Utility
23 District No. 1 of Grays Harbor County, Washington (collectively, the “Owners”).

1 These same entities owned the 1,340 MW coal-fired Centralia Steam Plant until
2 that plant was sold in May 2000. PacifiCorp has a 47.5 percent ownership share
3 in the Skookumchuck Project, the same ownership share the Company had in the
4 Centralia Steam Plant.

5 **Q. Please describe the purchaser.**

6 A. The purchaser is 2677588 Washington LLC (“Washington LLC” or the “Buyer”),
7 a limited liability company formed under Washington law by TransAlta USA Inc.
8 (“TransAlta”). TransAlta is a Delaware corporation with headquarters in
9 Centralia, Washington. TransAlta is the indirect owner of both the Centralia
10 Steam Plant and the Centralia Coal Mine.

11 **Q. When and why was the Skookumchuck Dam constructed?**

12 A. The construction of the dam was completed in 1973. The sole purpose of the dam
13 was to store portions of the natural flow of the Skookumchuck River for release in
14 a controlled manner to meet the cooling water requirements of the Centralia
15 Steam Plant. Water from the reservoir is released into the natural channel of the
16 river and then diverted at the Centralia Steam Plant Pumping Station located
17 approximately 2 miles downstream of the dam.

18 **Q. Please explain the development of hydropower generation at the
19 Skookumchuck Dam.**

20 A. The Owners considered construction of a hydroelectric facility during the late
21 1980s. The Skookumchuck Dam had the potential to develop upwards of 10 MW
22 of hydroelectric capacity if the management of the stored water in the
23 Skookumchuck Reservoir were oriented toward power production. However, the

1 needs of the Centralia Steam Plant have had priority over maximum hydroelectric
2 development at the dam. The Owners therefore chose to develop a smaller
3 hydroelectric project. The hydroelectric facilities were constructed in 1991 and
4 were sized at 1 MW in order not to conflict with the water cooling needs of the
5 Centralia Steam Plant.

6 **Q. What arrangements are in place for disposition of the energy produced by**
7 **the hydroelectric facility?**

8 A. The Project output is and always has been sold to Puget, which owns and operates
9 the adjacent electrical transmission and distribution system. The wholesale
10 purchase agreement with Puget expired several years ago and sales since then
11 have been made without a contract. Decisions regarding future Project sales will
12 be made by Washington LLC.

13 **Q. Please describe governmental regulation of the Project.**

14 A. The addition of the hydroelectric facilities to the Project required the Owners to
15 file an Application for Exemption from licensing with the FERC. An exemption
16 from licensing was available under 16 U.S.C. §2705(d) because the Project was
17 under 5 MW in capacity. The Skookumchuck Project is exempt from routine
18 annual inspections by the FERC, but is under the FERC's jurisdiction relative to
19 dam safety issues.

20 **Q. What are the basic terms of the sale to Washington LLC?**

21 A. The base sale price is \$7,570,373.16, which was calculated by multiplying
22 PacifiCorp's net book value for the Project as of September 30, 2003 by 2.105.
23 The multiplier grosses up PacifiCorp's net book value to incorporate the other

1 Owners' 52.5 percent interest in the Project. The base sale price will be adjusted
2 for changes in net book value from September 30, 2003 to the Closing Date of the
3 transaction.

4 The Owners are selling to Washington LLC all of their interests in the
5 Skookumchuck Dam, 1,653 acres of real property underlying and adjacent to the
6 reservoir, all relevant easements, rights of way, licenses, franchises, and water
7 rights appurtenant to the real property or associated with operation of the
8 hydroelectric facility. Washington LLC will also acquire the powerhouse
9 structure, equipment utilized to operate the Skookumchuck Dam and
10 hydroelectric generating facilities, outbuildings, and specifically identified
11 vehicles. *See* Sale Agreement, Schedules 1.1(a), (b), and (c).

12 Washington LLC will continue operating under current fish and wildlife
13 agreements and licenses. Assigned contracts and licenses are listed in the Sale
14 Agreement, Schedules 2.1(d) and (e), respectively.

15 Washington LLC will assume all liabilities associated with the Skookumchuck
16 Project including the obligation to maintain the flow regimes below the Project
17 and provide the required services associated with the Centralia Steam Electric
18 Generating Project Fish and Wildlife Agreement dated May 29, 1998. *See* Sale
19 Agreement, Section 2.6.

20 Washington LLC will also assume the Owners' rights and obligations under the
21 Project Safety Program. The Safety Program, described in detail in Exhibit A of
22 the Sale Agreement, is a dam safety/stability program addressing the
23 identification of the appropriate Maximum Credible Earthquake (MCE) to be used

1 for stability analysis, the liquefaction potential of foundation materials beneath
2 the downstream shell of the dam and an examination of the current Probable
3 Maximum Flood (PMF) inflow curve calculations with regard to the most recent
4 storm of record that occurred in February 1996.

5 Puget will retain its 12 kV electric distribution line that crosses the real property
6 that is subject to the sale. *See* Sale Agreement, Schedule 2.2(b).

7 Additional details of the transaction are specifically described in the Sale
8 Agreement, Exhibit No. 1.

9 **Q. Please identify the costs associated with operating the Skookumchuck**
10 **Project.**

11 A. The average annual operating cost from 2000 through 2003 has been
12 approximately \$320,000. These costs include labor costs for the single part-time
13 Project operator, security and periodic maintenance support and approximately
14 \$134,000 associated with the adjacent Washington State Department of Fisheries
15 steelhead rearing facility that is physically and contractually associated with the
16 Skookumchuck Project. The balance of the expenses are for engineering and
17 regulatory activity support.

18 Costs have risen in recent years due to increased Safety Program expenses and the
19 need for increased security in compliance with the Project's "Level 1 Security
20 Risk" classification, as established by the FERC. Project costs are more
21 specifically addressed in the testimony of PacifiCorp witness Craig Johnson.

22 **Q Please identify Exhibit No. 2, the Skookumchuck Dam Management**
23 **Agreement.**

1 A. The Skookumchuck Dam Management Agreement is an agreement entered into
2 between the Owners and TransAlta Centralia Generation LLC governing how the
3 Skookumchuck Dam will be managed and how the parties will bear the costs of
4 management. Under this Agreement, TransAlta (through its indirect wholly-
5 owned subsidiary, TransAlta Centralia Generation LLC) agreed to pay up to
6 \$300,000 of the annual Project costs for the first two years after acquiring the
7 Centralia Steam Plant. Since May 2002, there has been no cap on Project costs
8 and TransAlta has deposited payments into an escrow account for the eventual
9 offset of Project costs. These Project costs will be paid to the Owners in addition
10 to the sale price.

11 **Q. What has been the generation output experience from the Project?**

12 A. Over the last eight years, PacifiCorp's share of the Project output has averaged
13 3,013 MWh/year. The last four years' experience has been particularly low,
14 averaging approximately 1,000 MWh per year. This change in generation level is
15 due primarily to changes to the operating schedule for the unit. The
16 Skookumchuck Project experienced the failure of a circuit board in the control
17 and communications module about the same time as the Centralia Steam Plant
18 was sold to TransAlta. The failure of this component resulted in the shutdown of
19 the generating unit, and resolution of the problem was delayed due to limited staff
20 availability. The ability to operate the generating unit with this component out of
21 service was subsequently confirmed by PacifiCorp engineering staff. The
22 Skookumchuck plant operator is currently operating the generating unit in a
23 manual mode during the hours he is present on site each day.

1 **Q. What are the key incentives for the Owners to sell the Skookumchuck**
2 **Project at this time?**

3 A. The key factors are as follows:

- 4 • The facilities represented “core business” assets to each of the Owners
5 only as long as they had an ownership interest in the Centralia Steam
6 Plant.
- 7 • The energy generated by the hydroelectric facilities has negligible value
8 compared to the \$7.57 million net book value.
- 9 • It is likely that FERC will mandate dam modifications to meet stability
10 criteria. The cost of these modifications is estimated to be \$5 million to
11 \$7 million.
- 12 • Unless TransAlta is willing to continue its commitment to shoulder Project
13 expenses under the current Skookumchuck Dam Management Agreement,
14 there is no ongoing assurance that TransAlta will compensate the Owners
15 for ongoing operation and maintenance costs or for other operational
16 liabilities.
- 17 • TransAlta is currently motivated to own the Skookumchuck Project and
18 control stream flows to meet Centralia Steam Plant cooling water
19 requirements.

20 **Q. Does the proposed sale benefit PacifiCorp’s customers?**

21 A. Yes, positive benefits for customers will be realized if the sale takes place.

22 Absent the ownership of the Centralia Steam Plant, the continued ownership of
23 the Skookumchuck Project does not provide positive benefits to the Company’s

1 customers or shareholders. In addition, the following facts support selling the
2 Project:

- 3 • The Project is clearly uneconomic as a stand-alone hydroelectric facility
4 and the energy output is insignificant in the Company's generation
5 portfolio.
- 6 • The Project is not a source of power for PacifiCorp customers as the
7 Project output is sold to Puget.
- 8 • The facilities are over one hour travel time from PacifiCorp's nearest
9 operation center at the Lewis River, 10 miles east of Woodland,
10 Washington, making it difficult to effectively manage the Project.
- 11 • The Project diverts critical operating and capital funds and management
12 attention away from the core generating assets of the Company.
- 13 • But for the sale, PacifiCorp would retain economic responsibility for its
14 share of routine expense, capital costs and any capital modifications to the
15 dam that may be required to meet federal seismic criteria for stability.
- 16 • A Flood Control Committee formed by Lewis and Grays Harbor Counties,
17 Washington and the cities of Centralia, Chehalis and Aberdeen,
18 Washington (the "Committee") to develop a flood control plan has
19 indicated that if they decide to pursue acquiring the Project for flood
20 control purposes, they will not be in a position to offer net book value.

21 Given the positive aspects of selling the Skookumchuck Project and the net book
22 value price, the proposed sale would be beneficial to both PacifiCorp's customers
23 and its shareholders.

1 **Q. When the Centralia Steam Plant was sold in 2000, why was the**
2 **Skookumchuck Project retained by the Owners?**

3 A. In July 1998, the Centralia Steam Plant Owners received an inquiry from the
4 Committee expressing an interest in acquiring the Skookumchuck Dam and
5 reservoir. The Committee had been working with the U.S. Army Corps of
6 Engineers to develop a comprehensive flood control plan for the basin. In June
7 1999, a Memorandum of Understanding (“MOU”) between the Owners and the
8 Committee was signed reflecting the Committee’s intent to purchase the facilities.
9 This MOU expired in December 1999, but the Owners understood that the
10 Committee’s intent to acquire the facilities had not changed. This desire by the
11 Committee to purchase the facilities and the Committee’s stated intent to operate
12 the facilities in a manner that would not be in conflict with the continued
13 operation of the Centralia Steam Plant caused the Owners to withhold the
14 Skookumchuck Project from the sale of the Centralia Steam Plant.

15 **Q. How did the new owners of the Centralia Steam Plant address operation of**
16 **the Skookumchuck Project?**

17 A. The Centralia Steam Plant sale was completed on May 4, 2000 and the parties
18 then entered into the Skookumchuck Dam Management Agreement. As I
19 explained above, under this Agreement, TransAlta (through its indirect wholly-
20 owned subsidiary, TransAlta Centralia Generation LLC) agreed to reimburse the
21 Skookumchuck Project Owners for all expenses related to the Project up to a cap
22 of \$300,000 per calendar year for a period of two years. The Owners and
23 TransAlta Centralia Generation LLC also executed a Water Flow Agreement

1 reflecting the need to coordinate the operation of the Project with the cooling
2 water requirements of TransAlta's Centralia Steam Plant. See Sale Agreement,
3 Section 2.7. The Skookumchuck Dam Management Agreement also provided
4 TransAlta with an option to purchase the Skookumchuck Project at PacifiCorp's
5 net book value multiplied by 2.105 between May 5, 2002 and May 5, 2003 if a
6 sale to the local governmental consortium had not taken place. The 2.105
7 multiplier was explained on page 4 of my testimony.

8 **Q. Why was the sale to the Committee not completed?**

9 A. There were several reasons. Following the expiration of the Committee-Owners
10 MOU, the consortium continued to work with the Corps of Engineers to conduct
11 stability/safety drilling tests and studies on the dam and to evaluate the ability to
12 modify the dam, which would be a requirement of the flood control project.
13 Concurrently, the Skookumchuck Dam was also due for stability/safety studies
14 required by the FERC, and the FERC agreed to use the Corps' field results instead
15 of requiring the Owners to conduct duplicate drilling tests and studies. Once the
16 Corps' studies were complete, it was unclear whether the structure met safety and
17 stability criteria. The FERC commissioned an independent consultant to analyze
18 the drilling test data and studies.

19 In March 2003, PacifiCorp received notification from FERC to conduct additional
20 seismic drilling, at an estimated cost of \$130,000, to determine the liquefaction
21 potential of the dam under critical seismic load conditions. This additional field
22 work was completed in January 2004 and the ensuing analysis is scheduled to be
23 submitted to the FERC by March 31, 2004.

1 In addition, the Committee has been unable to secure governmental
2 appropriations for the flood control project. Even if such a funding source
3 materialized, the Committee has indicated that it would not pay for any
4 remediation costs to bring the Project up to current seismic standards, and would
5 only be willing to pay approximately 1/3 of the net book value of the Project, an
6 offer that the Owners are not willing to accept.

7 **Q. Why was TransAlta the only purchaser considered?**

8 A. The dam was originally constructed to provide an assured water cooling source
9 for the Centralia Steam Plant. This original purpose still has value to TransAlta,
10 the owner and operator of the Centralia Steam Plant, but does not afford the same
11 value to anyone else. For this reason, TransAlta included in the Skookumchuck
12 Dam Management Agreement a right of first refusal for the purchase of the
13 facilities at a price of net book value. In addition, TransAlta has expressed a
14 willingness to meet the stability/safety requirements that may be imposed on the
15 Skookumchuck Dam. *See* Sale Agreement, Sections 1.1(o), 2.6 and 5.3(a)(iv).

16 **Q. Does TransAlta intend to operate the Project as an exempt wholesale
17 generator (“EWG”) under PUHCA?**

18 A. Yes, that is the stated intention of TransAlta. In order to secure EWG status, we
19 must ask the Commission to find that allowing the Project to be an “eligible
20 facility” under PUHCA: (a) will benefit customers, (b) is in the public interest
21 and (c) does not violate Idaho law. Section III of PacifiCorp’s Application
22 describes the specific approvals requested of the Commission. We ask the
23 Commission to consider the EWG issues on an expedited basis. The Owners and

1 TransAlta could move up the Closing Date if EWG findings are secured early
2 from each state in which the Project was included in rate base, thus allowing
3 TransAlta to accelerate its EWG filing with FERC.

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

5 **A. Yes.**