

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF PACIFICORP FOR EXEMPT WHOLESALE GENERATOR DETERMINATIONS RELATING TO THE SKOOKUMCHUCK HYDRO- ELECTRIC PLANT.) CASE NO. PAC-E-04-1)) NOTICE OF APPLICATION)) NOTICE OF MODIFIED) PROCEDURE)) NOTICE OF COMMENT/) PROTEST DEADLINE
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YOU ARE HEREBY NOTIFIED that on February 12, 2004, PacifiCorp filed an Application with the Idaho Public Utilities Commission (Commission) regarding the proposed sale by PacifiCorp of its ownership interest in the Skookumchuck Hydroelectric Plant, a 1-megawatt (MW) generation facility located in the state of Washington. The facility is co-owned by PacifiCorp, Avista Corporation, Public Utility District No. 1 of Snohomish County, Puget Sound Energy, Inc., City of Tacoma, City of Seattle and Public Utility District No. 1 of Grace Harbor County (collectively the "Owners").

PacifiCorp has entered into a Purchase and Sale Agreement to sell the Skookumchuck Hydroelectric Plant to 2677588 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 this Skookumchuck Project to qualify as an exempt facility and for Washington LLC to qualify as an EWG under Section 32 of PUHCA.

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.

The Skookumchuck Project is an earth-filled 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 1 MW 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 regulations by the FERC.

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 facility's Purchase and Sale Agreement between the Owners and Washington LLC, dated November 25, 2003, ("Sale Agreement"), which is attached to the pre-filed direct testimony of Company witness 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%. 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.

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. 16 U.S.C. § 79(z-5a)(c). Thus, the Commission and each of PacifiCorp’s other state regulatory commission’s 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, PacifiCorp contends that Idaho’s property transfer statute, *Idaho Code* § 61-328, is not applicable to the contemplated sale. Accordingly, the Company contends that 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 Customers

PacifiCorp proposes to transfer the project to Washington LLC because the 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, PacifiCorp states that it has relatively low energy output. Over the last eight years, the average annual production has been 3,000 MWh. The Project’s bus-bar cost in fiscal year 2003 (12 months ending March 31, 2003) was approximately \$255 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 analysis and forecast 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. PacifiCorp contends that the benefits from the proposed sale outweigh the risks of rising costs of continuing to own and operate the Project. Continued operation of the Project as a hydroelectric project, the Company contends, would be uneconomic, and such operation would not be in the public interest.

C. Public Interest Standard

PacifiCorp contends that 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 cost of providing electrical service. 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.

Washington LLC, the Company contends, 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 requests that the Commission process the matter expeditiously and pursuant to Modified Procedure, i.e., by written submission rather than hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204.

Exhibits to the Company's Application include the following: (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 pre-filed testimony of Mr. Landolt.

(3) The prefiled direct testimony of Craig P. Johnson, PacifiCorp's regulatory consultant, describing the ratemaking impacts of the proposed sale.

YOU ARE FURTHER NOTIFIED that the Commission has reviewed the filings of record in Case No. PAC-E-04-1. The Commission has preliminarily found that the public interest in this matter may not require a hearing to consider the issues presented, and that the issues raised by the Company's filing may be processed under **Modified Procedure**, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204.

YOU ARE FURTHER NOTIFIED that **the deadline for filing written comments or protests** with respect to PacifiCorp's Application and the use of Modified Procedure in Case No. PAC-E-04-1 is **Thursday, March 11, 2004**.

YOU ARE FURTHER NOTIFIED that if no written comments or protests are received within the deadline, the Commission may consider the issue on its merits and enter its Order without a formal hearing. If comments or protests are filed within the deadline, the Commission will consider them and in its discretion may set the matter for hearing or may decide the matter and issue its Order based on the written positions before it. Reference IDAPA 31.01.01.204.

YOU ARE FURTHER NOTIFIED that written comments concerning Case No. PAC-E-04-1 should be mailed to the Commission and the Company at the addresses reflected below.

COMMISSION SECRETARY
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074

Street Address for Express Mail:

472 W WASHINGTON ST
BOISE, ID 83702-5983

ROBERT LIVELY,
MANAGER, REGULATION
PACIFICORP
201 S MAIN STREET, STE 2300
SALT LAKE CITY, UT 84111
Bob.lively@PacifiCorp.com

JAMES F. FELL
JAMES C. PAINE
STOEL RIVES LLP
900 SW FIFTH AVE, STE 2600
PORTLAND, OR 87204
jffell@stoel.com

All comments should contain the case caption and case number shown on the first page of this document. Persons desiring to submit comments via e-mail may do so by accessing the Commission's home page located at www.puc.state.id.us. Click the "Comments and Questions"

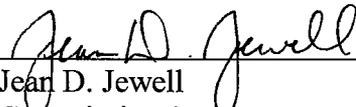
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icon, and complete the comment form, using the case number as it appears on the front of this document. These comments must also be sent to the Applicant at the e-mail addresses listed above.

YOU ARE FURTHER NOTIFIED that if no written comments or protests are received within the time limit set, the Commission will consider this matter on its merits and enter its Order without a formal hearing. If written comments are received within the time limit set, the Commission will consider them and, in its discretion, may set the same for formal hearing

YOU ARE FURTHER NOTIFIED that the Application in Case No. PAC-E-04-1 can be viewed at www.puc.state.id.us by clicking on "File Room" and "Electric Cases," or can be viewed during regular business hours at the Idaho Public Utilities Commission, 472 W Washington Street, Boise, Idaho and at the Idaho offices of PacifiCorp.

DATED at Boise, Idaho this 20th day of February 2004.



Jean D. Jewell
Commission Secretary

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