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STATE AND PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

APPLICATION OF AVISTA CORPORATION)
FOR AN ORDER APPROVING THE SALE)
OF ITS INTEREST IN THE SKOOKUMCHUCK)
HYDROELECTRIC PLANT AND FOR)
EWG DETERMINATIONS)
_____)

CASE NO. AVU-E-04-02

APPLICATION OF AVISTA CORPORATION

1 Avista Corporation (“Avista”) hereby requests that the Idaho Public Utilities
2 Commission (“IPUC”) authorize Avista to sell its minority ownership interest in the
3 Skookumchuck Hydroelectric Plant (“Skookumchuck”), should the Commission decide to
4 exercise its authority over the property sale. Idaho Code Section 61-328 requires
5 Commission approval only for the sale of property located in the state of Idaho. The
6 Skookumchuck project is locate in the state of Washington. Avista does not believe that
7 approval of the sale of non-situs property is required under Idaho Code Section 61-328.
8 Should the Commission, however, decide to exercise authority over the proposed sale, then
9 Avista requests that the Commission approve the sale.

10 Avista also requests that the IPUC issue determinations required for the purchaser to
11 qualify as an Exempt Wholesale Generator (“EWG”) under Section 32 of the Public Utility
12 Holding Company Act of 1935 (“PUHCA”). The purchaser is 2677588 Washington LLC¹
13 (“Washington LLC”), a limited liability company formed by TransAlta USA Inc.
14 (“TransAlta”).

15 I. INTRODUCTION

16 A. The Parties

17 1. The Applicant: Avista

18 Avista is an investor owned utility engaged in the generation, transmission, and
19 distribution of electricity in certain portions of Northern Idaho and in Eastern Washington.
20 Avista is further engaged in the distribution of natural gas in certain portions of Northern
21 Idaho, Eastern and Central Washington, in Northern California, and in Western and Central

¹ 2677588 Washington LLC is an interim corporate name used by TransAlta USA Inc.

1 Oregon. Avista is subject to the jurisdiction of this Commission with regard to its rates,
2 charges, services and practices. At December 31, 2003 Avista provided service to
3 approximately 326,000 electric customers and 298,000 natural gas customers throughout its
4 service area. Approximately 110,000 electric customers were served in the state of Idaho.

5 Communications in reference to this Application should be addressed to:

6 Kelly O. Norwood	David J. Meyer
7 Vice President, State and Federal Reg.	Senior Vice President and General Counsel
8 Avista Corporation	Avista Corporation
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14 2. The Owners

15 Skookumchuck is jointly owned by seven public and private owners (collectively, the
16 "Owners"): PacifiCorp; Avista; Public Utility District No. 1 of Snohomish County,
17 Washington; Puget Sound Energy, Inc.; City of Tacoma, Washington; City of Seattle,
18 Washington; and Public Utility District No. 1 of Grays Harbor County, Washington.
19 PacifiCorp is the majority owner with a 47.5% ownership share. Avista is a minority owner
20 with a 17.5% ownership share.

21 3. The Purchaser

22 Washington LLC is a Washington limited liability company and a direct, wholly-
23 owned subsidiary of TransAlta. TransAlta is the indirect owner of the Centralia Power Plant,
24 a coal-fired generating plant, and the Centralia Coal Mine. In 2000, the Owners sold the
25 Centralia Power Plant to a direct wholly-owned subsidiary of TransAlta, TECWA Power
26 Inc., and PacifiCorp sold the Centralia Coal Mine to another direct wholly-owned subsidiary

1 of TransAlta, TECWA Fuel Inc. TECWA Power, Inc. owns and operates the Centralia
2 Power Plant as an EWG.

3 **B. The Skookumchuck Plant to be Sold**

4 Skookumchuck is a small earth-fill dam and hydroelectric generating plant located in
5 the vicinity of Centralia, Washington on property adjacent to the Centralia Power Plant. The
6 Skookumchuck dam was constructed in 1973 as a water storage facility for the Centralia
7 Power Plant. In 1991, a hydroelectric unit with a capacity of approximately one megawatt
8 was installed at the dam. The Skookumchuck plant being sold includes real property and
9 associated easements and water rights, as well as various equipment. Skookumchuck was
10 granted an exemption from licensing as a hydropower facility by the Federal Energy
11 Regulatory Commission ("FERC") pursuant to 16 U.S.C. §2705(d), which allows
12 exemptions for facilities less than five megawatts. Skookumchuck is, however, subject to
13 dam safety regulation by the FERC.

14 **II. PROPOSED TRANSACTION**

15 The Owners propose to sell and transfer to Washington LLC the Skookumchuck dam,
16 powerhouse, water rights, land, easements and other related assets, including certain fixtures,
17 contracts and other rights. The sale and transfer is governed by the Skookumchuck Facilities
18 Purchase and Sale Agreement between the Owners and Washington LLC, dated November
19 25, 2003 (the "Sale Agreement"). A copy of the Sale Agreement is included in Appendix 1.
20 A copy of the Skookumchuck Dam Management Agreement is attached as Appendix 2.

21 The aggregate sale price of the transaction is \$7.57 million, adjusted for changes in
22 PacifiCorp's Net Book Value of the Facilities from September 30, 2003 to the Closing Date.

1 See Section 2.3(a) of the Sale Agreement. Avista's share of the sales price is 17.5%, or
2 approximately \$1.32 million on a system basis prior to closing costs.

3 Washington LLC has indicated that their intention is to continue operation of
4 Skookumchuck to provide cooling water supply to the Centralia Power Plant, and that it will
5 produce power from Skookumchuck either as an EWG or as a qualifying facility under the
6 Public Utility Regulatory Policies Act of 1978. None of the electrical output of
7 Skookumchuck has been or will be used to serve Avista's retail customers, except perhaps
8 indirectly through the wholesale power markets.

9 At the time the Centralia coal-fired Generating Plant was sold to TransAlta (TECWA
10 Power Inc.), a Flood Control Committee formed by Lewis and Grays Harbor Counties,
11 Washington and the cities of Centralia, Chehalis and Aberdeen, Washington (the
12 "Committee") had expressed an interest in acquiring the Skookumchuck Dam and reservoir.
13 The Committee had been working with the U.S. Army Corps of Engineers to develop a
14 comprehensive flood control plan for the basin. In June 1999, a Memorandum of
15 Understanding ("MOU") between the Owners and the Committee was signed reflecting the
16 Committee's intent to purchase the facilities. This MOU expired in December 1999, but the
17 Owners understood that the Committee's intent to acquire the facilities had not changed.
18 This desire by the Committee to purchase the facilities and the Committee's stated intent to
19 operate the facilities in a manner that would not be in conflict with the continued operation of
20 the Centralia Steam Plant caused the Owners to withhold the Skookumchuck Project from the
21 sale of the Centralia Steam Plant.

1 **III. EWG DETERMINATIONS**

2 To qualify as an EWG, Washington LLC must be engaged exclusively in the business
3 of owning or operating an “eligible facility” and selling electric energy at wholesale. If the
4 costs of a generation facility were included in the rates of a regulated utility on October 24,
5 1992 (the date of enactment of section 32 of PUHCA), then in order for the facility to be
6 considered an “eligible facility,” every state commission having jurisdiction over such rates
7 must specifically determine that allowing the facility to become an eligible facility (1) will
8 benefit consumers, (2) is in the public interest, and (3) does not violate State law. 15 U.S.C.
9 § 79z-5a(c). Thus, the IPUC and each of PacifiCorp’s other state regulatory commissions,
10 which include Avista’s other state regulatory commission, the Washington Utilities and
11 Transportation Commission, would be required to make these determinations regarding the
12 sale and transfer of the Skookumchuck facilities.

13 **IV. BENEFITS OF TRANSACTION**

14 Skookumchuck has an electrical capacity of 1 MW, but because the facility is
15 operated for purposes of supplying cooling water to the Centralia Power Plant, it has
16 relatively low energy output. Over the last eight years, the average annual production has
17 been 3,013 megawatt-hours. Skookumchuck’s bus bar cost in PacifiCorp’s fiscal year 2003
18 (twelve months ending March 31, 2003) was approximately \$250 per MWh. With regard to
19 this cost per MWh, it is important to remember that the dam was originally built to provide
20 water supply for the coal plant, and therefore the energy produced by the hydroelectric
21 generator does not reflect the total value of the project. Skookumchuck is interconnected
22 with the transmission system of Puget Sound Energy, Inc. (“PSE”) and historically all of the

1 power from Skookumchuck has been sold to PSE.

2 As one of the Owners of Skookumchuck, Avista must pay its proportionate share of
3 the costs of the facilities. Net plant related to Avista's share of its investment in
4 Skookumchuck is included in the Company's rate base. Customers will not be harmed by the
5 proposed transaction and will in fact benefit from it. The forecast of the market price of
6 power is substantially below the cost of power generated from Skookumchuck. Hence, the
7 Company's revenue requirement will be lower as a result of the sale of Skookumchuck.

8 In addition, the proposed transaction eliminates the risk that the Owners will be
9 required to fund future expenditures for ensuring the structural integrity of the
10 Skookumchuck dam. The benefits from the proposed sale outweigh the risks and costs of
11 continuing to own and operate Skookumchuck.

12 Moreover, the sale will not harm the public interest because competitive markets will
13 be unaffected by the sale. A 1 MW plant with only 3,000 MWhs of annual production would
14 not have a measurable impact on western electricity supply or any impact on wholesale
15 electricity prices.

16 Hence, the transfer of Skookumchuck to Washington LLC is in the public interest
17 because it will benefit Avista's customers by lowering the Company's costs of providing
18 electrical service. In addition, the transfer will give TransAlta greater control of the water
19 flows in the Skookumchuck River for providing cooling water to the Centralia Power Plant,
20 thus supporting the electrical output of the Centralia Power Plant for the benefit of all
21 electricity consumers.

22

1 **V. OTHER MATTERS**

2 **A. Proposed Ratemaking Treatment**

3 Avista projects that the sale of Skookumchuck will result in a small after-tax gain.
4 The Idaho jurisdictional share (33.01%) of the after-tax gain is projected to be approximately
5 \$216,000. Actual figures will not be known until the transaction closes. Avista proposes to
6 allocate the after-tax Skookumchuck gain between jurisdictions and between ratepayers and
7 shareholders in the same manner that Avista's after-tax gain on the sale of the Centralia
8 Power Plant was allocated in Case No. AVU-E-99-6. Applying the depreciation reserve
9 method (the ratio of accumulated depreciation to gross plant) of 69.70% for allocating
10 proceeds to ratepayers set forth in the order approving the sale of the Centralia Power Plant to
11 the estimated Idaho share of the Skookumchuck after-tax gain of approximately \$216,000
12 yields an allocation to ratepayers of approximately \$151,000 and an allocation to
13 shareholders of approximately \$65,000. The calculation and allocation of the estimated gain
14 is attached as Exhibit No. 1 to the testimony of Ronald R. Peterson.

15 Avista is proposing that the estimated portion of the Skookumchuck after-tax gain
16 allocated to ratepayers of approximately \$151,000 be deferred and added to the deferred gain
17 on the Centralia Power Plant which is currently being passed on to ratepayers through a rate
18 credit on Schedule 65 – Temporary Rate Adjustment. The Centralia gain rate credit was
19 originally put into effect on August 1, 2000 and will expire when the deferred gain has been
20 passed on to customers.

21 A portion of the Skookumchuck facilities was treated as thermal property since it
22 provided a cooling water source to the Centralia Power Plant and was retired as part of the

1 Centralia Power Plant when that plant was sold. Hence, the gain recognized on the sale of
2 the Centralia Power Plant was slightly lower than it would have been if none of the
3 Skookumchuck facilities had been retired at that time. The gain on the sale of the
4 Skookumchuck facilities is now slightly higher due to the earlier, partial retirement.

5 In the IPUC's order approving the sale of the Centralia Power Plant it adopted a
6 methodology to allocate the gain between ratepayers and shareholders based on the ratio of
7 accumulated depreciation to gross plant. This methodology resulted in an allocation of
8 69.7% of the gain to ratepayers and 30.3% to shareholders.

9 The ratio of accumulated depreciation to gross plant of the Skookumchuck plant
10 currently being retired is approximately 39%. Applying 39% to the after-tax gain on the
11 proposed sale of Skookumchuck would result in a lesser amount of gain being allocated to
12 ratepayers than the allocated gain that results from using the 69.70% Centralia allocation.
13 The Company is proposing to use the higher 69.70% Centralia allocation to ratepayers in the
14 interest of minimizing the issues in this case regarding the allocation of the gain.

15 **B. Timing of Approval**

16 Washington LLC cannot process its EWG application with the FERC until all of the
17 state regulatory commissions have ruled on the EWG status request. Accordingly, Avista
18 respectfully requests that the Commission process this matter and issue its Order as
19 expeditiously as possible.

20 **C. Appendices to Application**

21 The prefiled testimony of Ronald R. Peterson describes the proposed sale and the
22 reasons for the sale. Mr. Peterson's Exhibit No. 1 shows plant balances being retired and the

1 calculation and allocation of the estimated gain.

2 **VI. REQUEST**

3 Avista requests a Commission order:

4 (a) Approving the proposed sale of Avista's interests in the Skookumchuck
5 facilities in accordance with the Sale Agreement, should the Commission decide to exercise
6 authority over the proposed sale;

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

11 (c) Approving the proposed accounting treatment of the gain on the sale; and

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

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1 Avista respectfully requests that this application be processed under modified
2 procedure pursuant to the Commission's Rule 201, IDAPA 31.01.01.201. Avista does not
3 believe that a hearing is required to process the Company's Application.

4 Dated at Spokane, Washington this 20th day of February 2004.

5
6 AVISTA CORPORATION

7
8
9 BY Kelly O. Norwood
10 Kelly O. Norwood
11 Vice President, State and Federal Regulation
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VERIFICATION

STATE OF WASHINGTON)

County of Spokane)

Kelly O. Norwood, being first duly sworn on oath, deposes and says: That he is the Vice President, State and Federal Regulation of Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized; That he has read the foregoing filing, knows the contents thereof, and believes the same to be true.

Kelly O. Norwood
Kelly O. Norwood

SIGNED AND SWORN to before me this 20th day of February 2004.

Diane L. Kaufman
NOTARY PUBLIC in and for the State of
Washington, residing at Spokane.

Commission Expires: 7-3-04

