

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )**  
**AVISTA CORPORATION FOR AN ORDER )** **CASE NO. AVU-E-04-2**  
**APPROVING THE SALE OF ITS INTEREST IN )**  
**THE SKOOKUMCHUCK HYDROELECTRIC )** **NOTICE OF APPLICATION**  
**PLANT AND FOR EWG DETERMINATIONS. )**  
**)** **NOTICE OF MODIFIED**  
**)** **PROCEDURE**  
**)**  
**)** **NOTICE OF COMMENT/**  
**)** **PROTEST DEADLINE**

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YOU ARE HEREBY NOTIFIED that on February 23, 2004, Avista Corporation (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) regarding the proposed sale by Avista of its ownership interest in the Skookumchuck dam, hydroelectric plant and related facilities (Skookumchuck). Skookumchuck is a 1-megawatt (MW) generation facility located in the vicinity of Centralia, Washington on property adjacent to the Centralia Power Plant, a large coal-fired generating facility. Skookumchuck is co-owned by Avista Corporation, PacifiCorp, Public Utility District No. 1 of Snohomish County, Puget Sound Energy, Inc., City of Tacoma, City of Seattle, and Public Utility District No. of Grays Harbor County (collectively the "Owners").

Avista requests Commission approval of the Company's sale of its minority ownership interest in Skookumchuck, seeks a Commission Order making certain public interest findings required in order for Skookumchuck to qualify as an exempt facility and for the new owner/operator to qualify as an Exempt Wholesale Generator (EWG) under Section 32 of PUHCA, and seeks approval of proposed accounting treatment of the gain on the sale.

**Purchase and Sale Agreement**

Avista has entered into a Purchase and Sale Agreement to sell its interest in the Skookumchuck hydroelectric plant to 2677588 Washington, LLC, a Limited Liability Company formed by TransAlta USA, Inc. (TransAlta). Washington LLC intends to operate Skookumchuck as an Exempt Wholesale Generator (EWG) within the meaning of Section 32 of the Public Utility Holding Company Act of 1935 (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.

Skookumchuck is a small 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 installed 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.

Avista proposes to sell and transfer to Washington LLC the dam, powerhouse, water rights, land, easements and other assets of Skookumchuck, including certain fixtures, contracts and other rights. The sale and transfer of Skookumchuck is governed by the Skookumchuck Facilities Purchase and Sale Agreement between the Owners and Washington LLC, dated November 25, 2003, ("Sale Agreement"), which is included in Appendix 1 to the Application.

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. Avista's share of this amount is 17.5%, or approximately \$1.32 million on a system basis prior to closing costs.

Avista is informed that the new owner/operator will continue operation of the Project to provide cooling water supply to the Centralia Power Plant and to produce power from Skookumchuck either as an EWG or as a Qualifying Facility under the Public Utility Regulatory Policies Act of 1978. None of the electrical output of Skookumchuck will be used to serve Avista's retail customers, except perhaps indirectly through the wholesale power markets.

## **EWG Determinations**

To qualify as an EWG, the owner/operator 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 Avista’s other state regulatory commissions, must make these determinations regarding Avista’s sale and transfer of Skookumchuck.

## **Benefits of Transaction**

Avista proposes to transfer its interest in Skookumchuck to Washington LLC because the sale is a lower cost option than continuing to invest in and operate and maintain Skookumchuck.

Skookumchuck has an electrical capacity of 1 MW, but because it is operated for purposes of supplying cooling water to the Centralia Power Plant, Avista states that it has relatively low energy output. The Company contends that the sale will not harm the public interest because competitive markets will be unaffected by the sale. Over the last eight years, the average annual production of Skookumchuck has been 3,013 MWh. Skookumchuck’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 Skookumchuck has been sold to PSE.

As one of the owners of Skookumchuck, Avista must pay its proportionate share of the costs. Net plant related to Avista’s share of its investment in Skookumchuck is included in the Company’s rate base. The Company contends that customers will not be harmed if the project is sold because the cost of power generated from Skookumchuck substantially exceeds the projected cost of market power. Hence, the Company’s revenue requirement will be lower as a result of the sale of Skookumchuck.

The proposed transaction eliminates the risk that Avista will be required to fund its share of future expenditures for ensuring the structural integrity of the Skookumchuck Dam.

Avista contends that the benefits from the proposed sale outweigh the risks of rising costs of continuing to own and operate Skookumchuck. Continued operation of Skookumchuck as a hydroelectric project, the Company contends, would be uneconomic, and such operation would not be in the public interest.

Avista contends that the transfer of Skookumchuck to Washington LLC is in the public interest because it will benefit Avista'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.

Because Skookumchuck assets are located in the State of Washington, Avista contends that Idaho's property transfer statute, *Idaho Code* § 61-328, is not applicable to the contemplated sale. Should the Commission, however, decide to exercise its authority over the proposed sale, Avista requests that the Commission approve the sale.

#### **Proposed Ratemaking Treatment**

Avista projects that the sale of Skookumchuck will result in a small after-tax gain. The Idaho jurisdictional share (33.01%) of the after-tax gain is projected to be approximately \$216,000. Avista proposes to allocate the after-tax Skookumchuck gain between jurisdictions and between ratepayers and shareholders in the same manner that Avista's after-tax gain on the sale of the Centralia Power Plant was allocated in Case No. AVU-E-99-6. Applying the depreciation reserve method (the ratio of accumulated depreciation to gross plant) of 69.70% for allocating proceeds to ratepayers set forth in the Order approving the sale of the Centralia Power Plant to the estimated Idaho share of the Skookumchuck after-tax gain of approximately \$216,000 yields an allocation to ratepayers of approximately \$151,000 and an allocation to shareholders of approximately \$65,000. The calculation and allocation of the estimated gain is attached as Exhibit No. 1 to the testimony of Ronald R. Peterson.

Avista is proposing that the estimated portion of the Skookumchuck after-tax gain allocated to ratepayers of approximately \$151,000 be deferred and added to the deferred gain on the Centralia Power Plant which is currently being passed on to ratepayers through a rate credit on Schedule 65 – Temporary Rate Adjustment.

## Timing of Approval

The new owner/operator of Skookumchuck, 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, Avista requests that the Commission process its Application expeditiously.

## Appendices to Application

Attached to the Company's Application are the following Appendices:

- (1) The Skookumchuck Facilities Purchase and Sale Agreement;
- (2) The Skookumchuck Dam Management Agreement; and

(3) The prefiled direct testimony of Ronald R. Peterson, Avista Vice President of Energy Resources and Optimization describing the proposed sale and the reasons for the sale; the request for Commission EWG determinations; the proposed ratemaking treatment of the sale including the allocation of the gain between ratepayers and shareholders; and the Company's proposal that the ratepayers' share of the after-tax gain be added to the balance of the deferred gain on the Centralia Power Plant, which is currently being passed on to ratepayers.

YOU ARE FURTHER NOTIFIED that the Commission has reviewed the filings of record in Case No. AVU-E-04-2. The Commission has preliminarily found that the public interest in this matter may not require a hearing to consider the issues presented, and that 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 Avista's Application and the use of Modified Procedure in **Case No. AVU-E-04-2 is Thursday, April 1, 2004**. Persons desiring a hearing must specifically request a hearing in their written protests or comments.

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. AVU-E-04-2 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  
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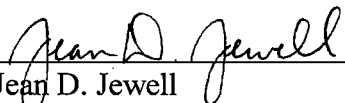
All comments should contain the case caption and case number shown on the first page of this document. Persons desiring to submit comments via e-mail may do so by accessing the Commission's home page located at [www.puc.state.id.us](http://www.puc.state.id.us). Click the "Comments and Questions" icon, 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. AVU-E-04-2 can be viewed at [www.puc.state.id.us](http://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 West Washington Street, Boise, Idaho and at the Idaho offices of Avista.

DATED at Boise, Idaho this 10<sup>th</sup> day of March 2004.

  
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Jean D. Jewell  
Commission Secretary

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