



825 NE Multnomah, Suite 2000
Portland, Oregon 97232

July 16, 2010

***VIA ELECTRONIC FILING
AND OVERNIGHT DELIVERY***

Oregon Public Utility Commission
550 Capitol Street NE, Suite 215
Salem, OR 97301-2551

Attn: Filing Center

RE: UI ___ - Application Requesting Approval of Affiliated Interest Agreement with Ferron Canal and Reservoir Company

Enclosed for filing by PacifiCorp dba, Pacific Power is an Application Requesting Approval of the Affiliated Interest Agreement with Ferron Canal and Reservoir Company. An original and three (3) copies will be provided via overnight delivery.

PacifiCorp respectfully requests that all data requests regarding this matter be addressed to:

By E-mail (preferred): datarequest@pacificorp.com

By regular mail: Data Request Response Center
PacifiCorp
825 NE Multnomah, Suite 2000
Portland, OR 97232

Please direct informal questions with respect to this filing to Joelle Steward at 503-813-5542.

Very truly yours,

Andrea L. Kelly
Vice President, Regulation

Enclosure

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UI _____

In the Matter of the Application of
PACIFICORP, d.b.a. Pacific Power,
Requesting Approval of an Affiliate Interest
Agreement with Ferron Canal and Reservoir
Company

**APPLICATION OF PACIFICORP AND
WAIVER OF PAPER SERVICE**

1 Pursuant to ORS 757.495(1) and OAR 860-027-0040, PacifiCorp, d.b.a Pacific Power
2 (“PacifiCorp” or “Company”) requests approval from the Public Utility Commission of
3 Oregon (“Commission”) of an Agreement dated November 1, 1974 by and between Ferron
4 Canal and Reservoir Company, the Utah Water Resources Board and Utah Power & Light
5 Company (a predecessor PacifiCorp company). The Agreement includes two amendments
6 dated August 11, 1977 and March 31, 1978. A copy of the Agreement and amendments is
7 included as Attachment A. Additionally, the Company transacts business with Ferron Canal
8 and Reservoir Company (“Ferron Canal”) as a shareholder of Ferron Canal. The Company
9 respectfully requests that the Commission approve the Agreement and additional transactions
10 as affiliated interest transactions and allow PacifiCorp to continue to engage in transactions
11 with Ferron Canal.

12 Additionally, pursuant to OAR 860-013-0070(4) the Company waives paper service
13 for this proceeding.

14 **I. Background**

15 Ferron Canal is a non-profit company that holds water rights in the Ferron Creek
16 drainage, located in Utah. The Company currently owns 7647 shares, or approximately 37
17 percent, of the shares of Ferron Canal. Additionally, Ferron Canal manages access to certain
18 water supplies on behalf of PacifiCorp. “Affiliated interest”, as defined in ORS 757.015(6),

1 includes every corporation or person, five percent or more of which is directly or indirectly
2 owned by a public utility. PacifiCorp's ownership interest in Ferron Canal qualifies as an
3 affiliated interest.

4 The Company uses the water obtained through Ferron as part of the supply to its
5 Hunter Plant located in Emery County, Utah. While the Company has owned a certain
6 percentage of shares in Ferron Canal since 1974, well before PacifiCorp merged with Utah
7 Power & Light Company,¹ a recent review of the Agreement and Ferron Canal ownership
8 structure led to the conclusion that PacifiCorp's relationship with Ferron Canal creates an
9 affiliated interest.

10 Ferron Canal generally manages the Ferron Creek water rights without written
11 agreements. Ownership of shares in Ferron Canal entitles shareholders to a certain amount of
12 water per share. Written agreements may be used if special circumstances arise. PacifiCorp
13 and certain other Ferron Canal shareholders entered into the Agreement for purposes of
14 pooling water rights to essentially guarantee the Company a certain amount of water from the
15 Ferron Creek drainage. Each member of the pool pledged a certain amount of shares so that
16 PacifiCorp will receive a certain amount of water for use at the Hunter Plant. PacifiCorp
17 pledged approximately 1500 shares that it had acquired in the Rock Canyon Extension Canal,
18 which was an original part of Ferron Canal's system.

19 With this Application, the Company requests Commission authorization to continue
20 to engage in business transactions with Ferron Canal.

21 **II. Compliance with OAR 860-027-0040 Filing Requirements**

22 **A. Address**

23 The Company's name and address of its principal business office are:

¹ PacifiCorp merged with Utah Power & Light in 1989.

1 PacifiCorp
2 825 NE Multnomah Street
3 Portland, OR 97232

4 **B. Communications and Notices**

5 All notices and communications with respect to this Application should be addressed
6 to:

7 PacifiCorp Oregon Dockets	Michelle R. Mishoe
8 825 NE Multnomah Street, Suite 2000	Legal Counsel
9 Portland, OR 97232	Pacific Power
10 <u>OregonDockets@pacificorp.com</u>	825 NE Multnomah Street, Suite 1800
11	Portland, OR 97232
12	Tel. (503) 813-5977
13	<u>michelle.mishoe@pacificorp.com</u>

14 In addition, PacifiCorp respectfully requests that all data requests regarding this
15 matter be addressed to:

16 By e-mail (**preferred**) datarequest@pacificorp.com

17 By regular mail Data Request Response Center
18 PacifiCorp
19 825 NE Multnomah, Suite 2000
20 Portland, OR 97232

21 Informal inquires may be directed to Joelle Steward, Regulatory Affairs Manager at
22 (503) 813-5542.

23 **C. Relationship Between PacifiCorp and Affiliated Interest**

24 The Company currently owns approximately 37 percent of the shares of Ferron
25 Canal. Therefore, Ferron Canal is an “affiliated interest” of the Company as set forth in ORS
26 757.015(6).

27 **D. Voting Securities**

28 The Company owns approximately 37 percent of the voting securities in Ferron
29 Canal. Under the Agreement, PacifiCorp has agreed not to vote the 1500 shares included in
30 the pooling arrangement. Additionally, although the Company has the right to vote on

1 matters put before the shareholders, the Company generally does not participate in those
2 votes.

3 **E. Common Officers and Directors**

4 The Company and Ferron Canal do not share any officers or directors.

5 **F. Pecuniary Interest**

6 No officer or director of either the Company or Ferron Canal is a party to or has a
7 pecuniary interest in the contemplated business transactions between the Company and
8 Ferron Canal.

9 **G. Description of Goods and Services Provided; Cost(s) Incurred; Market**
10 **Value; Pricing Methods**

11 The Company uses the water obtained through Ferron Canal as part of the supply to
12 its Hunter Plant located in Emery County, Utah. The Company incurs two sets of costs
13 related to these water rights. The first is an annual operations and maintenance assessment to
14 Ferron Canal for the Company's shares in the water rights. The second is for participation in
15 the pooling arrangement under the Agreement. According to the Agreement, PacifiCorp pays
16 \$210,000 per year for the delivery of 7000 acre feet of water, subject to adjustment according
17 to the wholesale price index for all commodities prepared by the Bureau of Labor Statistics.
18 Additionally, the Company receives 37 percent of the annual payment under the Agreement
19 back. The parties to the Agreement developed the pricing through arms-length negotiations.

20 **H. Estimate of Amount PacifiCorp will Pay Annually for Services**

21 Annual amounts paid to Ferron Canal vary due to inflation factors and certain
22 payments being tied to price indices, which tend to fluctuate. In 2007, the Company paid
23 approximately \$524,000. In 2008, the Company paid approximately \$616,000. In 2009, the
24 Company paid approximately \$789,000.

1 **I. Reasons Relied Upon for Procuring the Proposed Services, and Benefits**
2 **to the Public**

3 PacifiCorp purchased shares in Ferron Canal to ensure a firm, long-term water supply
4 for the Hunter Plant in an area with limited water supply sources. Additionally, the Company
5 entered into the Agreement to guarantee a certain amount of water to use at the Hunter Plant.
6 The Company’s ownership of shares in Ferron Canal is in the public interest because it
7 provides access to water supplies for the Hunter Plant in a resource-constrained area.

8 **J. Description of the Procurement Process**

9 The Company reached agreement with the other parties to the Agreement on the
10 terms and conditions through arms-length negotiations.

11 **K. Relationship of Cost of Provision of Services and Market Value**

12 There are very limited options for water sources for the Company’s operations
13 supported by the Ferron Canal water rights. There is no market for water rights.

14 **L. Contracts Between Affiliated Interest and PacifiCorp**

15 A copy of the Agreement between Ferron Canal and Reservoir Company, the Utah
16 Water Resources Board and Utah Power & Light Company is included as Attachment A.

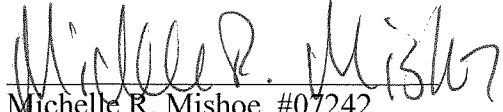
17 **M. Copy of Board Resolutions**

18 The Contracts did not require a resolution from the Company’s board of directors.

19 WHEREFORE, for the reasons set forth above, PacifiCorp respectfully requests that
20 the Commission issue an order authorizing PacifiCorp to continue conducting business with
21 Ferron Canal and Reservoir Company, pursuant to the provisions of ORS 757.495 and OAR
22 860-027-0040.

DATED: July 16, 2010

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Michelle R. Mishoe". The signature is written in a cursive style and is positioned above a horizontal line.

Michelle R. Mishoe, #07242

Legal Counsel

Pacific Power

ATTACHMENT A

Agreement

A G R E E M E N T

This agreement is made and entered into this 1st day of November, 1974 by and between FERRON CANAL AND RESERVOIR COMPANY, a mutual irrigation corporation of the state of Utah, hereinafter called the Canal Company, the UTAH WATER RESOURCES BOARD, hereinafter called the Board, and UTAH POWER & LIGHT COMPANY, a corporation, hereinafter called the Power Company,

WITNESSETH:

WHEREAS, the Canal Company with assistance from the United States Soil Conservation Service and the Utah Water Resources Board has constructed the Millsite Reservoir on Ferron Creek with an active capacity of approximately 18,000 acre feet of water and with full right to operate the same for the benefit of its stockholders; and

WHEREAS, the Canal Company, by reason of its prior use of the waters of Ferron Creek, is the owner of the right to use annually from said Creek 42,000 acre feet of water, when available, for irrigation lands in the vicinity of the town of Ferron, Utah; and

WHEREAS, the Utah Water Resources Board has taken title to the facilities of the Canal Company by reason of its participation in the construction of the Millsite Reservoir and is willing and anxious to participate to the extent necessary to assure a guaranteed supply of water to the Power Company; and

WHEREAS, the Power Company is planning the construction of a steam electric generating station near Ferron, Utah, and will require a guaranteed water supply annually of 7,000 acre feet commencing with the year 1978; and

WHEREAS, the owners of approximately ninety-five percent of the stock of the Canal Company are willing to participate in said project and in pledging their stock to establish a pool for the purpose of guaranteeing the Power Company the right to use 7,000 acre feet of water annually in the operation of said steam electric generating station.

NOW, THEREFORE, in consideration of the premises and the mutual promises of the parties hereto as hereinafter set forth, it is mutually agreed as follows:

1. The Canal Company, subject to the limitations hereafter set forth in paragraph 5 of this agreement, agrees to guarantee the delivery to the Power Company of 7,000 acre feet of water annually with the delivery point designated as the outlet structure on the Millsite Reservoir. It is understood that the Power Company will construct the necessary facilities to transport the water from the delivery point to the point of use, and it is also understood that the Power Company will require a continuous year around flow in varying amounts on demand.

2. The Power Company further agrees, on or before December 31, 1977, to add sufficient height to the Millsite Dam to provide for storage of an additional 1,500 acre feet of water.

3. The Canal Company promises and agrees that it will prudently operate said reservoir and that it will not reduce the storage in the irrigation season below that which will be required by the Power Company until the next year's run off begins, particularly in the fall and winter months.

4. The Canal Company and the Board will make available to the Power Company the necessary easements for the construction of the facilities to transport the water from the delivery point to the place of use where such facilities cross over land standing in the name of the Canal Company and the Board, or both.

5. Commencing with the year 1978, the Power Company will annually on or before the 1st day of November pay to the Canal Company the sum of \$210,000.00, which payment will entitle the Power Company to call for the delivery of 7,000 acre feet of water pursuant to the terms of this contract during each of the ensuing 40 years. It is understood that payment of the above stated sum will be made regardless of the amount of water actually used during the year and it is also understood that the Canal Company's obligation will not exceed in any given year the amount of water actually committed to the said pool, including the water to be acquired by Power Company as set forth in paragraph 7 of this agreement, and then only to the extent available in the source. The waters of any shareholder in Canal Company

which have not been committed to the said pool shall not be affected by this agreement and shall be administered and delivered as though this agreement had not been signed. The annual payment provided for in this paragraph shall be adjusted each year in accord with the wholesale price index for all commodities (1967=100) prepared by the Bureau of Labor Statistics, but in no event shall the payment provided for herein be less than \$105,000.00 per year. A reservation payment of \$25,000.00 for each of the years 1974, 1975, 1976 and 1977 will be made by the Power Company and paid in a lump sum of \$100,000.00 upon the execution of this agreement.

6. Upon notification by Power Company of its desire to continue this agreement for a further term or for an extended term, the Canal Company in good faith agrees to cooperate with Power Company in negotiating a mutually satisfactory stretch-out or renewal of this agreement at such price as then may be reasonable.

7. In connection with the purchase of ground for the site for the construction of the steam electric generating station, the Power Company will acquire approximately 1,500 shares of the Canal Company's stock; and Power Company will acquire all of the water stock that presently utilizes the Rock Canyon Extension Canal for conveyance to the place of use in order that it may be closed. Power Company agrees that the water represented by said shares of stock will become a part of the Canal Company's water supply for use in fulfilling the guarantee provided for herein and for other uses by the stockholders participating herein. It is, however, understood and agreed that Power Company's stock will receive credit for its pro rata share of the payments made by Power Company under this agreement to be applied against its share of the Canal Company's assessments for operating and maintenance. Power Company will pay any deficiency. The full yield of said water stock to be acquired by Power Company shall be first called upon to supply the Power Company's requirements and the additional water necessary to satisfy said annual 7,000 acre feet requirement of Power Company shall be supplied by Canal Company on a proportional share basis from the waters of shareholders who have committed their water to said pool. During the term of this lease Power Company will not vote said stock. If Power Company elects to sell its said stock upon or after the termination of this agreement or if it abandons said project and elects to sell said stock, it shall tender Canal Company the first right to purchase same at

a bona fide price and upon terms which Power Company may then specify.

8. The Board with the approval of the Canal Company agrees that it will file with the Utah State Engineer such applications as may be necessary to provide for industrial year around use of the water guaranteed to the Power Company pursuant to this agreement; and both parties agree that they will make such modifications of this agreement as may lawfully be required by any governmental agency having an interest in the storage and irrigation facilities of the Canal Company.

9. If the United States Government shall exact any additional consideration from Canal Company or its shareholders by reason of the commitment of waters to said industrial use, then Power Company shall save harmless Canal Company and its shareholders on account thereof, including all legal costs and expenses incurred in any determination or court proceeding pertaining thereto. Canal Company and Power Company believe that no such additional consideration may be lawfully exacted or imposed and Canal Company agrees that Power Company shall have the right, authority and responsibility to resolve any such issue when and if the same is raised.

10. Ferron Canal Company is a non-profit corporation. The beneficial or equitable title to the waters above referred to belong to its shareholders and all money to be paid by Power Company under this agreement, less appropriate costs and charges attributable to the negotiation and preparation of this agreement and less reasonable Canal Company annual administration costs in handling said funds, shall belong to and be paid by Canal Company solely to the said participating shareholders; provided, however, Power Company by reason of its stock ownership in Canal Company shall not participate in the distribution of the \$100,000.00 reservation fee to be paid upon the execution of this agreement.

IN WITNESS WHEREOF, the parties have executed these presents the day and year first above written.

FERRON CANAL AND RESERVOIR COMPANY

ATTEST:

By Ellis Wild
Its President

Paul Crawford
Secretary

UTAH WATER RESOURCES BOARD

ATTEST

Paul F. Lawrence
Secretary

By Marion Olsen
Chairman

UTAH POWER & LIGHT COMPANY

ATTEST:

W. W. [Signature]
Assistant Secretary

By John B. Anderson
Vice President

APPROVED AS
[Signature]

AGREEMENT

THIS AGREEMENT is made and entered into this 11th day of August, 1977, by and between the FERRON CANAL AND RESERVOIR COMPANY, a mutual irrigation corporation of the State of Utah, hereinafter referred to as "the Canal Company," UTAH WATER RESOURCES BOARD, hereinafter referred to as "the Board," and UTAH POWER & LIGHT COMPANY, a Utah corporation, hereinafter referred to as "the Power Company."

W I T N E S S E T H:

WHEREAS, the parties hereto entered into an Agreement on the 1st day of November, 1974, a copy of which Agreement is attached hereto as Exhibit "A" and by this reference is made a part hereof; and

WHEREAS, subsequent to the signing of the aforementioned Agreement the parties have agreed that it will be in the best interests of all parties, in terms of most efficient use of the water in issue, to explore and possibly adopt an alternative to the requirement of raising the Millsite Reservoir as provided for in paragraph No. 2 of the subject Contract; and

WHEREAS, the parties now desire to amend paragraph No. 2 of said Contract.

NOW, THEREFORE, for and in consideration of the premises, the parties hereto agree as follows:

1. That the Agreement made and entered into between the parties, and specifically paragraph No. 2 thereof, may be and hereby is amended to read as follows:

2. The Power Company further agrees, on or before December 31, 1977, at its option and expense, to either:

(a) Add sufficient height to the Millsite Dam to provide for storage of an additional 1,500 acre feet of water or,

(b) Construct a substitute reservoir capable of storing at least 1,500 acre feet of water on the Power Company's Emery Plant lands, or

(c) Pay to the Canal Company the sum of 1.4 million dollars which monies would be used for purposes of lining the Canal Company's canals or otherwise upgrading its physical distribution system.

DATED this 11th day of August, 1977.

FERRON CANAL AND RESERVOIR COMPANY

By Ellis Wild
Its President

ATTEST:

Paul Campbell
Secretary

UTAH WATER RESOURCES BOARD

By Philip S. Knight
Vice Chairman

ATTEST:

Paul Lawrence
DIRECTOR / Secretary

UTAH POWER & LIGHT COMPANY

By John S. Anderson
Vice President

ATTEST:

Robert T. Gordon
Secretary

AGREEMENT

THIS AGREEMENT is made and entered into this 31 day of March, 1978, by and between the FERRON CANAL AND RESERVOIR COMPANY, a mutual irrigation corporation of the State of Utah, hereinafter referred to as "the Canal Company," UTAH WATER RESOURCES BOARD, hereinafter referred to as "the Board," and UTAH POWER & LIGHT COMPANY, a Utah corporation, hereinafter referred to as "the Power Company."

W I T N E S S E T H:

WHEREAS, the parties hereto entered into an Agreement on the 1st day of November, 1974, a copy of which Agreement is attached hereto as Exhibit "A" and by this reference is made a part hereof; and

WHEREAS, paragraph No. 2 of said Agreement was subsequently amended by an Agreement entered into by the parties on the 11th day of August, 1977, a copy of which is attached hereto as Exhibit "B," and by this reference made a part hereof; and

WHEREAS, the parties now desire to further amend said original Agreement and the amendatory Agreement thereto.

NOW, THEREFORE, for and in consideration of the premises, the parties hereto agree as follows:

1. That the Millsite Reservoir will not be raised pursuant to the original agreement to provide for storage of an additional 1,500 acre feet of water.
2. That the Power Company agrees in lieu of raising the Millsite Reservoir as provided in the original agreement to construct a substitute reservoir capable of storing at least 1,500 acre feet of water on the Power Company's Emery Plant lands on or before the 1st day of January, 1979.
3. That in order to store annual spring runoff which otherwise could not be stored in the Millsite Reservoir due to unavailable capacity, the Power Company will draw down its aforementioned substitute storage reservoir to the extent necessary to store up to 1,500 acre feet of said annual spring runoff.

4. That in the event the Millsite Reservoir spills in 1978, the number of acre feet spilled up to 1,500 acre feet will be charged against the Power Company's 1978 allocation of water supplied pursuant to the original agreement between the parties.

5. It is understood and agreed by and between the parties hereto that the construction of this substitute reservoir shall constitute full satisfaction of the Power Company's obligation as specified in paragraph numbered 2 of the original Agreement (Exhibit "A") and paragraph numbered 1 of the amended Agreement (Exhibit "B").

6. This Agreement is subject to the Power Company obtaining the appropriate approvals for the construction and operation of the subject reservoir.

DATED this 31 day of March, 1978.

FERRON CANAL AND RESERVOIR COMPANY

By [Signature]
President

ATTEST:

[Signature]
Secretary

UTAH WATER RESOURCES BOARD

By [Signature]
Chairman

ATTEST:

[Signature]
Secretary

UTAH POWER & LIGHT COMPANY

By [Signature]
Vice President

ATTEST:

[Signature]
Assistant Secretary