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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UP 197

In the Matter of)	
)	ORDER
PACIFIC CORP)	
)	
Application for Approval of the)	
Transfer of Electric Properties)	

DISPOSITION APPLICATION APPROVED, WITH CONDITIONS

On August 29, 2002, the Public Utility Commission of Oregon (Commission) received an application from Pacific Power & Light (Pacifi Corp), requesting approval for the transfer of Pacifi Corp's water rights and assets associated with the Naches hydroelectric facility (Naches Project) to the United States Bureau of Reclamation (Reclamation). The sale will be accomplished pursuant to a Water Rights Purchase Agreement (Agreement) between Pacifi Corp and Reclamation, dated August 21, 2002. The sale price of the Naches Project is \$7,480,000, plus the fair market value of real estate that will be determined by a mutually acceptable appraiser at a later date, not to extend beyond September 30, 2003. Reclamation will take possession of the Naches Project within 10 days after all necessary regulatory approvals have been obtained.

Based upon a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its public meeting on November 5, 2002, the Commission adopted Staff's recommendation to approve the application, with conditions. Staff's recommendation is attached as Appendix A and is incorporated by reference.

ORDER

IT IS ORDERED that:

1. Pacifi Corp's application for authority to transfer electric properties is approved.
2. Pacifi Corp shall provide the Commission access to all books of account, as well as documents, data, and records that pertain to the transfer of electric properties.

3. PacifiCorp shall submit to the Commission copies of all appraisals performed on the property. For the purposes of determining fair market value of the land, the Commission reserves the right to review the appraisal and make determinations as to the reasonableness of the final price.
4. PacifiCorp shall notify the Commission in advance of any substantive changes to the transfer of electric properties, including any material change in price. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.
4. PacifiCorp shall provide the Commission the final Gain Calculation with all supporting documentation concerning the final figures.
5. For accounting purposes, the customers' portion of the gain shall be placed in a balancing account as established by Commission Order 01-787 (UE 116).
6. PacifiCorp shall notify the Commission when Phase II of the Closing/Transfer of the Naches Property sale occurs and provide to the Commission supporting documentation concerning the sale of land.
7. PacifiCorp shall hold customers harmless from any negative effects of the transfer. If the final Oregon allocated Revenue Requirement is contrary to those projected in the analysis provided in the application, PacifiCorp will offset any difference in the balancing account.
8. The Commission reserves the right to review all financial aspects of this transaction in any rate proceeding or alternative form of regulation.
9. The property shall be retired from electric generation service.

Made, entered, and effective _____.

BY THE COMMISSION

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to
ORS 756.561. A party may appeal this order to a court pursuant to
ORS 756.580.

NO 02-796

ITEM NO. CA5

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 5, 2002**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____

DATE: October 29, 2002

TO: John Savage through Marc Hellman, Bryan Conway and Rebecca Hathhorn

FROM: Thomas Morgan and Michael Dougherty

SUBJECT: PACIFIC POWER & LIGHT: (Docket No. UP 197) Application for approval of the transfer of electric properties.

STAFF RECOMMENDATION:

The Commission should approve Pacific Power & Light's (PacifiCorp) application for the requested transfer of electric properties with the following conditions:

1. PacifiCorp shall provide the Commission access to all books of account, as well as documents, data, and records that pertain to the transfer of electric properties.
2. PacifiCorp shall submit to the Commission copies of all appraisals performed on the property. For the purposes of determining fair market value of the land, the Commission reserves the right to review the appraisal and make determinations as to the reasonableness of the final price.
3. PacifiCorp shall notify the Commission in advance of any substantive changes to the transfer of the property including any material change in price. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.
4. PacifiCorp shall provide the Commission the final Gain Calculation with all supporting documentation concerning the final figures.
5. For accounting purposes, the customers' portion of the gain shall be placed in a balancing account as established by Commission Order 01-787 (UE 116).
6. PacifiCorp shall notify the Commission when Phase II of the Closing / Transfer of the Naches Property sale occurs and provide to the Commission supporting documentation concerning the sale of land.

NO 02-796

7. PacifiCorp shall hold customers harmless from any negative effects of the transfer. If the final Oregon allocated Revenue Requirement is contrary to those projected in the analysis provided in the application, PacifiCorp will offset any difference in the balancing account.
8. The Commission reserves the right to review all financial aspects of this transaction in any rate proceeding or alternative form of regulation.
9. The property shall be retired from electric generation service.

DISCUSSION:

Background

PacifiCorp filed this application on August 29, 2002, pursuant to ORS 757.480 and OAR 860-027-0025. The company seeks a Commission order authorizing the transfer of PacifiCorp's water rights and assets associated with the Naches hydroelectric facility (Naches Project) to the United States Bureau of Reclamation (Reclamation).

The sale will be accomplished pursuant to a Water Rights Purchase Agreement (Agreement) between PacifiCorp and Reclamation, dated August 21, 2002. The sale price of the Naches Project is \$7,480,000 plus the fair market value of real estate that will be determined by a mutually acceptable appraiser at a later date, not to extend beyond September 30, 2003. Reclamation will take possession of the Naches Project within 10 days after all necessary regulatory approvals have been obtained.

Reclamation is a water management agency and the second largest producer of hydroelectric power in the western United States. Reclamation's purpose for buying the Naches Project is to increase water flows in this section of the Naches River in order to improve stream and other wildlife habitat for the benefit of steelhead and salmon. Reclamation will not generate electricity at these facilities, or sell the generating facilities to third parties for power production at these sites.

Naches Operation

The Naches Project was constructed from 1909 to 1914 and consists of a concrete diversion dam and intake structure, the concrete-lined Wapatox canal (8.2 miles long) and two run-of-the-river¹ hydroelectric plants, the Naches Drop Plant and Naches Plant.

APPENDIX A

¹ Run-of-the-River refers to a hydroelectric project that does not have the ability to store water in a reservoir in order to time the generation to peak load periods.

The Naches Project includes 100 acres of real property and associated easements and water rights.

To operate the plants, water is diverted from the Naches Rivers at the diversion dam and flows into the intake structure and the Wapatox canal. Flows travel approximately 4.8 miles before entering the Naches Drop Plant, which has a 1.4 MW turbine generator. Flows continue through the remaining 3.4 miles of the Wapatox canal to the Naches Plant, which has two turbine generators rated at 3.0 MW and 3.37 MW. Flows exiting the Naches Plant are returned to the Naches River approximately 7.4 miles downstream from the diversion dam.

Although the total nameplate rating of the turbine generators is 7.8 MW, the Naches Project is "run-of-river" meaning that the energy produced depends on downstream flows, over which PacifiCorp has no control or storage rights. As a result, the Naches Project provides no peaking value. Historically, the Naches Project has generated about 3.5 average megawatts (MWa) of energy, which is less than 0.7% of the total amount of hydro-based generation in the PacifiCorp system.

The amount of energy the Naches Project is expected to generate in the future is expected to decline because existing limiting agreements and the increases in flows for downstream fish reduce the amount of water that can be diverted into the Wapatox canal that can be used for power generation.

Transfer Purpose

PacifiCorp proposes to transfer the water rights and assets related to the Naches Project to Reclamation because the Company believes it would be a lower cost option to purchase energy at market than to continue to invest in, operate and maintain the Naches Project. The anticipated increasing costs associated with maintaining the Naches Project results from the possibility of a lengthy and expensive Federal Energy Regulatory Commission (FERC) re-licensing, decreasing flows and the corresponding declining generation levels.

As part of the Agreement, not all of the property of the Naches Project will be transferred to Reclamation. PacifiCorp will maintain the Naches Plant Substation, transmission / distribution line located on the right of way between the Naches Plant and Naches Drop Plant, company cottages and a small area of land in the Town of Naches. PacifiCorp has proposed to donate the small area of land to the Town of Naches.

Issues

Staff investigated the following issues:

1. Scope and Terms of the Water Purchase Agreement
2. Public Interest Compliance
3. Allocation of Gain
4. Records Availability, Audit Provisions and Reporting Requirements

Scope and Terms of Agreements – Based upon Staff's analysis of the Agreement for Sale and Purchase of Real Estate, there appears to be no unusual or restrictive terms that will harm customers. Although the value of the land has yet to be appraised, PacifiCorp estimates a sale price of \$130,000, which is higher than the current book value of \$110,323. The recommended conditions will allow Staff to examine relevant information regarding the sale of land.

Public Interest Compliance – Staff's analysis of the proposal supports PacifiCorp's representation that customers will not be harmed by the proposed transaction, and may actually benefit from the sale.

PacifiCorp performed three different sensitivity cases for levelized costs of energy of operating the Naches Property as compared to purchasing energy from the market. The forecasts indicate that the projected cost of power from the Naches Project is higher than the projected cost of market power. Staff performed a thorough review of PacifiCorp's forecast of future power costs and concurs with PacifiCorp's analysis.

PacifiCorp's base case assumptions result in a total company benefit of approximately \$5.9 million in present value terms. Oregon's allocated share of the benefits is approximately \$1,700,000, providing support that the transaction is in the best interest of ratepayers.

Additionally, the sale of the Naches Project would result in the following benefits to customers:

1. Eliminates the risk that PacifiCorp would be required to go through a costly (approximately \$1.07 million) hydroelectric relicensing process at FERC.
2. Eliminates the future liability and costs of having to maintain the Wapatox canal.

Additionally, competitive markets will be unaffected by the sale. According to the terms of the Agreement, Reclamation will purchase and operate the Naches Project, but will

not generate or sell power. As a result, the balance of market power that currently exists would not change by virtue of the Naches Project sale.

Allocation of Gain – Staff reviewed and concurs with PacifiCorp's Estimated Proforma Gain Calculation on the Sale of the Naches Property sale, which results in an after tax gain of an estimated \$75,000. PacifiCorp will record the after tax net gain of sale in the balancing account established by Commission Order No. 01-787 (UE 116), with interest calculated at the company's authorized rate of return from the date of the sale until the gain is fully refunded to customers. A recommended Condition will provide the Commission the final calculations of the gain on sale.

Records Availability, Audit Provisions and Reporting Requirements - Recommended Conditions provide the Commission with access to necessary records and information.

After review of the filing, Staff concludes that the application is fair and reasonable and not contrary to the public interest.

PROPOSED COMMISSION MOTION:

PacifiCorp's UP 197 application for authority to transfer electric properties be approved, subject to Staff's Conditions.