

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UP 230

| | | |
|--|---|-------|
| In the Matter of |) | |
| |) | |
| PACIFICORP, dba PACIFIC POWER & LIGHT COMPANY |) | ORDER |
| |) | |
| Application for Authorization to Sell its Centralia Transmission Line Interest. |) | |

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On January 4, 2006, PacifiCorp, dba Pacific Power and Light Company (PacifiCorp), filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.480 and OAR 860-027-0025, requesting authority to sell its interest in the Centralia transmission line and related facilities (Property). The Property consists of approximately three miles of 230 kV transmission line, a switching station and associated easements and rights-of-way providing transmission service to the Centralia generation plant located in Thurston County, Washington.

OPINION

Under ORS 757.480, a public utility doing business in Oregon shall first obtain Commission approval for any transaction to sell, lease, assign or otherwise dispose of property. Based on 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 May 23, 2006, the Commission adopted Staff’s recommendation to approve the property sale. Staff’s recommendation is attached as Appendix A and is incorporated by reference.

ORDER

IT IS ORDERED that the requested sale of the Centralia transmission line interest is approved, subject to 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 sale of the property. All records surrounding the property and the transaction shall be maintained, for the remaining period of time the Skookumchuck Dam transaction records are required to be maintained (UP 211). The records shall be maintained at PacifiCorp’s office in Portland, to facilitate future audit.

2. A complete accounting shall be provided to Staff within 45 days after the consummation of the transaction. Such accounting will include full details on all transaction costs.
3. The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or earnings review under an alternative form of regulation.
4. PacifiCorp shall notify the Commission in advance of any substantive changes to the transaction. Any material change shall be submitted for approval in an application for a supplemental order in this docket.
5. PacifiCorp shall hold customers harmless from all losses, including any tax-related accounting losses associated with this sale of property.
6. If any after-tax gain is recognized on the sale, PacifiCorp shall record the after-tax net gain of the sale in a balancing account established by Commission Order No. 01-787 (UE 116) for later refund or recovery to customers in a supplemental tariff. PacifiCorp has agreed with Staff that it will not pass any tax-related losses to customers as a result of this transaction.
7. PacifiCorp agrees to hold Oregon customers harmless from any adverse revenue requirement impacts that may occur as a result of this transaction.

Made, entered, and effective MAY 25 2006 .

BY THE COMMISSION:



 Becky L. Beier
Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. CA6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 23, 2006

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: May 16, 2006

TO: Public Utility Commission

FROM: Thomas D. Morgan *DM*

THROUGH: Lee Sparling, Marc Hellman and Bryan Conway *in* *BAC*

SUBJECT: PACIFICORP: (Docket No. UP 230) Application for authorization to sell its Centralia Transmission Line interest.

The Commission should approve the property sale by PacifiCorp subject to the following conditions:¹

1. PacifiCorp shall provide the Commission access to all books of account, as well as documents, data, and records that pertain to the sale of the property. All records surrounding the property and the transaction shall be maintained, for the remaining period of time the Skookumchuck Dam transaction records are required to be maintained (UP 211).² The records shall be maintained at PacifiCorp's office in Portland, to facilitate any future audit.
2. A complete accounting shall be provided to Staff within 45 days after the consummation of the transaction. Such accounting will include full details on all transaction costs.
3. The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or alternative form of regulation.
4. PacifiCorp shall notify the Commission in advance of any material changes to the transaction. Any material change shall be submitted in an application for a supplemental order in this docket.
5. PacifiCorp shall hold customers harmless from all losses, including any tax-related accounting losses associated with this sale of property.

¹ The conditions are consistent with Condition No. 1 in Order No. 04-438.

² Order No. 04-438; August 6, 2004

Page 2

6. If any after-tax gain is recognized on the sale, PacifiCorp shall record the after-tax net gain of the sale in a balancing account established by Commission Order No. 01-787 (UE 116) for later refund or recovery to customers in a supplemental tariff. The Company has agreed with Staff that it will not pass any tax-related losses to customers as a result of this transaction.
7. PacifiCorp agrees to hold Oregon customers harmless from any adverse revenue requirement impacts that may occur as a result of this transaction.

DISCUSSION:

PacifiCorp filed an application on January 4, 2006, pursuant to ORS 757.480 and OAR 860-027-0025. The Company requests authority to sell its interest in the Centralia transmission line and related facilities (Property).

Background

The Property consists of approximately three miles of 230 kV transmission line, a switching station and associated easements and rights-of way providing transmission service to the Centralia generation plant located in Thurston County, Washington.

In 2000, subsidiaries of TransAlta USA, Inc. (TransAlta) acquired the Centralia coal-fired generating facilities (acquired by TECWA Fuel, Inc) and coal mine (acquired by TransAlta Centralia Generation LLC). The 2000 transaction was authorized by Commission Order 00-112.

In 2004, a TransAlta subsidiary acquired the Skookumchuck dam and hydroelectric generating facilities located in the vicinity of Centralia, Washington, on property adjacent to the Centralia Power Plant. The 2004 transaction was authorized by Commission Order 04-438.

PacifiCorp represents that the property in this application was not sold to TransAlta when it acquired the nearby Centralia Generation Plant in 2000. TransAlta did not desire to enter into an ownership position at that time, since it would require obtaining approval by the Federal Energy Regulatory Commission (FERC) for TransAlta to own the facilities as an exempt wholesale generator (EWG).

PacifiCorp currently transmits power over the Property to serve its retail customer, the Centralia Coal Mine, and to provide retail station service to the Centralia Power Plant.

Page 3

The effect of this transaction would be to provide TransAlta the option to obtain these services from a retail utility other than PacifiCorp. TransAlta has indicated that it intends to find an alternative retail provider for the Centralia Power Plant, and also intends to continue taking retail service from PacifiCorp at the Centralia Coal Mine.

Sale Details

PacifiCorp proposes to sell and transfer the Project to TransAlta Centralia Generation, LLC (TransAlta Generation). TransAlta Generation is a limited liability company formed in Washington State, and is a wholly-owned subsidiary of TECWA Power, Inc., which is owned by TransAlta. TransAlta is indirect owner of the Centralia Power Plant and the Centralia coal mine.

Through TransAlta Centralia Mining, LLC, TransAlta was provided an option to purchase the Property in May 2000 for \$120,000. The option was extended twice while TransAlta sought clarifications from FERC regarding the impact the transaction would have on its EWG status. The option was transferred to TransAlta Generation on October 18, 2004. The option was exercised on May 5, 2005, and a Sale and Purchase Agreement was executed on October 25, 2005, after TransAlta Generation received guidance that its acquisition of the Property would not jeopardize its EWG status.

The aggregate sales price will be \$120,000, and the property has an estimated net book value of \$126,714, as of the date of application. The difference reflects a nominal loss of \$6,714 on the transaction.

Property Economics

The Company represents that the sale of the property would decrease Oregon customers' long-term costs. The transaction would eliminate the need for PacifiCorp to operate the line and to incur operation and maintenance costs for the three-mile stretch of transmission line that is isolated from the rest of PacifiCorp's operations.

Based on the Company's representations, the ongoing costs and risks of continued ownership appear to outweigh the potential value of the property.

PacifiCorp believes this sale of the Centralia Transmission Line to TransAlta is consistent with the public interest and, as such, it agrees to hold Oregon customers harmless from revenue requirement impacts that may occur as a direct result of this particular transaction. The state allocations effect is small and reflects countervailing effects. With the reduction in Washington loads, all of the other state jurisdictional allocations are increased slightly. However, Oregon benefits from the reductions in

Page 4

Washington loads due to increases in the allocation of the hydro endowment. Due to the Company's projections regarding avoided power costs, avoided wheeling costs and the adjustment to Oregon allocation factors, PacifiCorp represents that Oregon customers would benefit from reduced revenue requirements from \$80,000 to \$248,000 annually.

Because the costs to continue the investment would be non-economic, and because PacifiCorp proposes to absorb the minimal loss anticipated on the sale, divestiture would benefit customers and would not be contrary to the public interest.

PacifiCorp agrees with the seven Conditions proposed by Staff.

PROPOSED COMMISSION MOTION:

The requested property sale of the Centralia transmission line by PacifiCorp be approved with Staff's proposed conditions.

UP 230 - PacifiCorp Sale of interest in Centralia transmission line