

Owners and Washington LLC, dated November 25, 2003¹. All the facilities included in the Sale Agreement are located in Thurston County, Washington, twelve miles northeast of Centralia.

- 4 The dam was constructed in 1973 as a water storage facility for the Centralia Steam Plant and includes a generating plant with a capacity of one megawatt added in 1991. Because the Project has been operated for purposes of supplying cooling water to the Centralia Steam Plant, the average annual production over the last few years has been 3,000 megawatt-hours. In accordance with 16 U.S.C. §2705(d), which allows exemptions for facilities less than 5 MW, the Federal Energy Regulatory Commission ("FERC) has exempted the Project from licensing as a hydroelectric facility. Historically, all the power from the Project has been sold to PSE, which owns and operates the adjacent electrical transmission and distribution system. The wholesale purchase agreement with PSE expired several years ago and sales since then have been made without a contract.
- 5 Washington LLC will continue operation of the Project to provide cooling water supply to the Centralia Power Plant and to produce power from the Project either as an EWG or as a qualifying facility under the Public Utility Regulatory Policies Act of 1978 (PURPA).
- 6 Washington LLC cannot process its EWG application with the FERC until the jurisdictional regulatory commissions have made certain determinations required by Section 32 of PUHCA. The three determinations necessary for Washington LLC to become an EWG are that allowing the facility to become an eligible facility: (1) will benefit consumers, (2) is in the public interest, and (3) does not violate Washington State law.

¹ The Owners have advised the Commission that as of the date of the application, all of the Owners except the city of Seattle had executed the Sale Agreement. It is anticipated that the city of Seattle will execute the Sale Agreement by March 31, 2004.

- 7 The aggregate sales price of the Skookumchuck Project is \$7,570, 373.16, to be adjusted for changes in PacifiCorp's net book value from September 30, 2003, to the Closing Date of the transaction. PSE's share of this amount is 7.0 percent, or approximately \$527,000 prior to closing costs. PSE is not seeking the Commission's approval of the sale because the property is not necessary or useful. If the amount of its interest in the project does not exceed "the greater of 0.1% of the public service company's rate base (for the applicable utility service) last established by Commission order or \$20,000," PSE is not required to file an application for Commission determination that the property is necessary or useful, prior to disposing of such property pursuant to WAC 480-143-180. PSE's net book value for the plant is approximately \$338,258, which is less than 0.1% of its rate base last established by Commission order.
- 8 PSE requests an Accounting Order authorizing the treatment of the net gain from the sale. The Company proposes to allocate the after-tax gain, estimated at approximately \$183,954, between ratepayers and shareholders in the same manner as PSE's after-tax gain on the sale of the Centralia Power Plant in Docket No. UE-991409. Applying the methodology for allocating proceeds set forth in the order approving the sale of the Centralia Power Plant would yield an allocation to ratepayers at 100%.
- 9 PSE proposes that the estimated portion of the Skookumchuck Project sale gain be applied against the electric conservation tariff rider balance. This proposal is consistent with the methodology of handling the residual balance associated with the pass-through of the gain on the sale of the Centralia Power Plant approved in the Fifth Supplemental Order Granting Puget Sound Energy, Inc. Petition for Centralia Transaction Credit in Docket No. UE-991409 dated August 23, 2000.
- 10 The projected cost of power from the Project exceeds PSE's projected market price of power, thus the Company's forecast predicts that the ratepayers will see lower costs if the Project is sold. In addition, the proposed transaction eliminates

the risk that PSE will be required to fund its share of expenditures for ensuring the structural integrity of the Skookumchuck dam. The benefits from the proposed sale therefore outweigh the risks and costs of continuing to own and operate the project.

- 11 The Company states that the sale of 1 MW plant with only 3,000 MWhs of annual output will not affect competitive markets and consequently it will not harm the public interest.
- 12 PSE requests that the Commission enter its Order on an expedited basis, so that Washington LLC can process its EWG application with the FERC and the transfer can be completed.

FINDINGS AND CONCLUSIONS

- 13 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, accounts, securities, and transfers of public service companies, including energy companies. *RCW 80.01.040; Chapter 80.04; Chapter 80.12 RCW; and Chapter 480-143 WAC.*
- 14 (2) PSE is engaged in the business of furnishing electricity and gas service within the state of Washington as a public service company subject to the jurisdiction of the Commission.
- 15 (3) The terms and conditions of the transaction are set forth in the Skookumchuck Facilities Purchase and Sale Agreement between the Owners and Washington LLC, dated November 25, 2003.
- 16 (4) Allowing Washington LLC to purchase and operate the Skookumchuck Project as an EWG will benefit consumers and is in the public interest. Under these conditions, allowing the purchaser to operate the Skookumchuck Project as an EWG would not violate state law.

- 17 (5) PSE's application for an accounting order authorizing the proposed treatment of the net gain from the Skookumchuck Project is reasonable and should be granted.
- 18 (6) This matter was brought before the Commission at its regularly scheduled open meeting on March 12, 2004.

O R D E R

- 19 (1) The Commission determines that allowing the Skookumchuck Project to become an eligible facility under Section 32(c) of the Public Utility Holding Company Act of 1935 (PUHCA) (1) will benefit consumers, (2) is in the public interest and (3) does not violate Washington State law.
- 20 (2) PSE shall allocate any gain result of the transaction between ratepayers and shareholders in the same manner as the Company's after-tax gain of the sale of the Centralia Power Plant in Docket No. UE-991409. This method yields an allocation to ratepayers at 100 %. The estimated gain of the Skookumchuck Project sale shall be applied against the electric conservation rider.
- 21 (3) This Order shall in no way affect the authority of the Commission over rates, services, accounts, evaluations, estimates, or determination of costs on any matters whatsoever that may come before it, nor shall anything herein be construed as acquiescence in any estimate or determination of costs claimed or asserted.
- 22 (4) The Commission retains jurisdiction over the subject matter and PSE to effectuate the provisions of this Order.

The Commissioners, having determined this order to be consistent with the public interest, directed the Secretary to enter this order.

DOCKET NO. UE-040371
ORDER NO. 01

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DATED at Olympia, Washington, and effective this 12th day of March, 2004.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

CAROLE J. WASHBURN, Secretary