

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of  PUGET SOUND ENERGY, INC.  For an Order Approving a Corporate Reorganization to Create a Holding Company, Puget Energy, Inc.	Docket No. UE-991779  ORDER ACCEPTING STIPULATION AND APPROVING CORPORATE REORGANIZATION TO CREATE A HOLDING COMPANY, WITH CONDITIONS
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**I. MEMORANDUM**

- 1 On November 16, 1999, Puget Sound Energy, Inc. (“PSE” or “Company”) filed an application requesting authority, pursuant to Chapter 80.12 RCW, to create a holding company, Puget Energy, Inc. (“Puget Energy”) through a corporate reorganization. The stated purpose of the holding company structure is to allow PSE to implement a corporate structure that will facilitate the separation of its regulated utility business from certain other nonregulated businesses. In addition, PSE states that the holding company structure will permit greater financing flexibility in order to respond to the changing electric utility industry environment.
- 2 The proposed reorganization involves the formation of a holding company structure for PSE and its subsidiaries. PSE will become a subsidiary of Puget Energy, which will own all the common stock of PSE. The current owners of PSE common stock will own Puget Energy stock, which will be publicly traded on the New York Stock Exchange. This proposal received approval of at least 2/3 of PSE’s shareholders at its annual meeting on June 23, 1999.
- 3 Puget Energy will be incorporated in the state of Washington and will issue common stock in the same number of shares as the number of shares of PSE common stock issued and outstanding immediately prior to the effective time of the share exchange. Subject to the terms of a Plan of Exchange, each share of PSE common stock will be exchanged for one share of common stock in Puget Energy, except to the extent that any holders of PSE common stock are entitled to dissent to the proposed transaction and receive payment of their shares pursuant to such dissenters’ rights. The

acquisition will become effective immediately following the close of business on the date of filing with the Secretary of State of the State of Washington of articles of exchange pursuant to RCW 23B.11.050.

4 PSE’s application states that Puget Energy will be a “public utility holding company” under the Public Utility Holding Company Act of 1935, or PUHCA. Puget Energy will file an application with the Securities and Exchange Commission seeking an exemption under Section 3(a)(1) of PUHCA on the grounds that:

- 5 1. Both Puget Energy and PSE are organized and will carry on their businesses substantially in the state of Washington; and
- 6 2. Neither Puget Energy nor PSE will derive any material part of its income from a public utility company subsidiary either organized or carrying on its business predominantly outside the state of Washington.

7 Under the proposed reorganization PSE will continue to own, operate, and manage all of its facilities used in the generation, transmission, and sale of electricity. The reorganization will not affect the Commission’s ability to regulate PSE, under Title 80 RCW.

8 Subsequent to the filing, representatives from PSE, Commission Staff, the Office of Public Counsel, and Industrial Customers of Northwest Utilities (“ICNU”) (collectively, “the Parties”) met to discuss the application and to attempt to develop appropriate conditions to incorporate into a Commission order approving the application. As a result of these meetings, the Parties reached agreement and entered into a Stipulation identifying conditions they recommend the Commission adopt in an order approving the application. A copy of the Stipulation is attached to this order as Attachment A and is incorporated herein by reference.

9 The Stipulation resolves a number of issues, as follows:

- No transaction costs associated with the corporate reorganization will be included in rate-making proposals.
- PSE will provide Staff and Public Counsel access to books and records required to verify or examine transactions affecting the regulated utility. PSE will maintain the necessary books and records to provide an audit trail for all corporate, affiliate, or subsidiary transactions that impact the regulated utility operations.
- PSE’s regulated customers will be held harmless from the liabilities of any non-regulated activity of PSE or Puget Energy. The Parties agree that the fair rate of return for the regulated utility will be determined without regard to any adverse consequences attributable to the corporate reorganization.
- PSE will notify the Commission within thirty days of any subsidiary of PSE

becoming a subsidiary of Puget Energy and will submit a written document setting forth PSE's proposed corporate and affiliate cost allocation methodologies. Puget Energy will also notify the Commission of any acquisition of a regulated or non-regulated business representing five percent or more of the market capitalization of Puget Energy.

- Property transfers, affiliate transactions, and securities transactions continue to be governed by existing statutes, rules, and Commission practices.
- PSE bears the burden to prove that any corporate and affiliate cost allocation methodology it proposes is reasonable for retail rate-making purposes. PSE and Puget Energy recognize the Commission's authority to disallow, for retail rate-making purposes, unsupported, unreasonable, or misallocated costs from non-regulated or affiliate businesses to PSE's regulated utility operations, or vice versa.
- The Commission retains jurisdiction over any transactions that result in the change of control of PSE and neither PSE nor Puget Energy will assert otherwise in any future proceedings.

10 The Parties presented the Stipulation to the Commission for approval on August 7, 2000.

## II. FINDINGS

- 11 1) Puget Sound Energy, Inc. is engaged in the business of furnishing electric and gas service within the state of Washington as a public service company, and is subject to the jurisdiction of this Commission.
- 12 2) On November 16, 1999, Puget Sound Energy, Inc. filed an application requesting authority, pursuant to Chapter 80.12 RCW, to create a holding company, Puget Energy, Inc. through a corporate reorganization.
- 13 3) As to form, the application meets the requirements of chapter 80.12 RCW and the rules and regulations of the Commission pursuant thereto.
- 14 4) Representatives of Puget Sound Energy, Inc., Commission Staff, the Office of Public Counsel, and Industrial Customers of Northwest Utilities entered a Stipulation containing appropriate conditions to be imposed on the proposed corporate reorganization to create a holding company, Puget Energy. The Stipulation was presented to the Commission on August 7, 2000.
- 15 5) Subject to the conditions of the Stipulation, the proposed corporate reorganization to create a holding company, Puget Energy, is consistent with the public interest and should be approved.

**III. ORDER**

- 16        1) The Commission accepts the Stipulation entered by Puget Sound Energy, Inc.,  
            Commission Staff, Public Counsel, and the Industrial Customers of  
            Northwest Utilities.
- 17        2) The Commission approves the application herein, subject to the conditions  
            contained in the Stipulation, which is attached to this order as Attachment  
            A and is incorporated herein by this reference.
- 18        3) This order shall in no way affect the authority of this Commission over rates,  
            services, accounts, evaluations, estimates, or determination of cost or any  
            matters whatsoever that may come before it, nor shall anything herein be  
            construed as an acquiescence in any estimate or determination of cost or  
            any valuation of property claimed or asserted.
- 19        4) The Commission retains jurisdiction over the parties, the subject matter, and  
            Puget Sound Energy, Inc. to effectuate the provisions of this order.

DATED at Olympia, Washington, and effective this    th day of August, 2000.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

WILLIAM R. GILLIS, Commissioner

**NOTICE TO PARTIES: This is a final Order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this Order pursuant to RCW 34.05.470 and WAC 480-09-810, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-09-820(1).**