

**PSE GENERAL RATE CASE
DOCKET NOS. UE-011570 and UG-011571**

**AGREEMENT REGARDING RESOLUTION OF PCA MECHANISM
OPEN ISSUES; VERIFICATION OF EXHIBIT A AND EXHIBIT B TO
THE PCA SETTLEMENT AGREEMENT**

A. Executing Parties

1. The following parties executed the Settlement Terms for the Power Cost Adjustment Mechanism ("PCA Settlement") which was approved by the Commission as Exhibit A of the Settlement Stipulation for Electric and Common Issues ("Settlement Stipulation") in the Commission's Third Supplemental Order in Docket Nos. UE-011570 and UG-011571, and have reached consensus on verification of and adjustments to numbers set forth in Exhibits A and B to the PCA Settlement: Puget Sound Energy, Inc. ("PSE" or the "Company"); the Staff of the Washington Utilities and Transportation Commission; the Public Counsel Section of the Attorney General's Office; Intervenor the Kroger Co.; Intervenor AT&T Wireless Services, Inc.; Intervenor NW Energy Coalition and Natural Resources Defense Council; Federal Executive Agencies; and Intervenor Cogeneration Coalition of Washington (hereinafter referred to collectively as "Executing Parties").

B. Resolution of PCA Open Issues

2. Section D, paragraph 12 of the PCA Settlement provides: "The remaining Executing Parties agree to PSE's presentation shown in Exhibit A and will verify in due course the accuracy of the specific numbers in that exhibit." Similarly, Section D, paragraph 13 of the PCA Settlement provides that Exhibit B of the PCA Settlement "is subject to verification by the remaining Executing Parties."

3. The verification described in Section D, paragraphs 12 and 13 of the PCA Settlement has now been completed, and the Executing Parties agree that certain correcting adjustments need to be made to Exhibits A and B of the PCA Agreement, and that such adjustments should be carried through to Exhibits D and F of the PCA Agreement. Such adjustments are reflected in the Exhibits attached hereto and are described below. As a result of these adjustments, the power cost rate has changed from \$44.463 per MWh to \$43.953. The executing parties agree that such adjustments provide for a more accurate PCA Benchmark calculation.

- Ex. A-2 to the PCA settlement was incorrect in that transmission property accumulated depreciation is shown at an end of period proforma level. This correction increases transmission rate base as shown on line 6 of the revised Exhibit A-1.

- PSE calculation of production property did not include the rate base adjustment for Snoqualmie included in the miscellaneous adjustment, Adjustment 2.09 in Exhibit 563.
- In PSE's original calculation all fixed property return requirement was combined, this resulted in an error when the company calculated the rate year level of required return for fixed assets. The error was the result of applying the production factor to all fixed when the rate case did not apply the production factor to transmission. The production factor was not applied to the Snoqualmie adjustment either and thus when moving to the rate year transmission and Snoqualmie are combined.
- The Company's calculation of purchased power in the original calculation excluded the adjustment to purchased power in the production adjustment 2.21, this omission is corrected in the revision.
- The original calculation excluded certain other power supply costs as shown in Exhibit 563, the production Adjustment, 2.21. These items include payroll overheads, property insurance, energy tax, and payroll taxes.
- The depreciation in the original calculation included both production and transmission depreciation after applying the production factor. As the rate case never applied the production factor to transmission depreciation, production and transmission depreciation are separated applying the production factor to only the production costs.
- The original calculation included a separate line for amortization of regulatory assets, Tenaska fuel, Cabot fuel, and the Bonneville Exchange Power. The amortization of these regulatory assets was already included in the proforma levels of fuel expense and purchased power expense as shown in Ex. 563 adjustment 2.02, Power Cost Adjustment.
- A revision to the property tax levels is made to be consistent with the actual proforma level of property taxes as shown in Ex. 563 adjustment 2.11, property taxes and 2.23, Production adjustment.
- Exhibit A-3 was revised to include the AMA plant and accumulated depreciation balances for Colstrip. Exhibit F and B were adjusted as a result.

F. Miscellaneous Provisions

4. **Binding on Parties:** The Executing Parties agree to support the terms and conditions of this Agreement, as described above. The Executing Parties understand that this Agreement is subject to Commission approval.

5. **Integrated Terms of Settlement:** The Executing Parties have negotiated this Agreement as an integrated document. Accordingly, the Executing Parties agree to recommend that the Commission adopt this Agreement in its entirety.

6. **Negotiated Agreement:** This Agreement represents a fully negotiated agreement. Each Executing Party has been afforded the opportunity, which it has exercised, to review the terms of the Agreement. Each Party has been afforded the opportunity, which it has exercised, to consult with legal counsel of its choice concerning such terms and their implications. The Agreement shall not be construed for or against any Executing Party based on the principle that ambiguities are construed against the drafter.

7. **Execution:** This Agreement may be executed by the Executing Parties in several counterparts, through original and/or facsimile signature, and as executed shall constitute one agreement.

DATED this 22nd day of April, 2003.

PUGET SOUND ENERGY, INC.

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
STAFF**

By Kimberly Harris
Kimberly Harris
Vice President of Regulatory Affairs

By _____
Robert Cedarbaum
Shannon Smith
Assistant Attorneys General

**PUBLIC COUNSEL SECTION, OFFICE
OF THE ATTORNEY GENERAL OF
THE STATE OF WASHINGTON**

AT&T WIRELESS SERVICES, INC.

By _____
Simon fitch
Assistant Attorney General
Public Counsel Section Chief

By _____
Its _____

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DATED this 07 day of March, 2003.

PUGET SOUND ENERGY, INC.

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TRANSPORTATION COMMISSION
STAFF**

By _____
Kimberly Harris
Vice President of Regulatory Affairs

By  _____
Robert Cedarbaum
Shannon Smith
Assistant Attorneys General

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DATED this 24th day of March, 2003.

PUGET SOUND ENERGY, INC.

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TRANSPORTATION COMMISSION
STAFF**

By _____
Kimberly Harris
Vice President of Regulatory Affairs

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Robert Cedarbaum
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DATED this ___ day of March, 2003.

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Vice President of Regulatory Affairs

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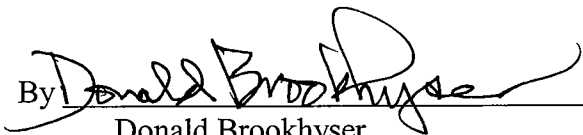
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By Thomas A. Novatt
Its PROCUREMENT MANAGER

**COGENERATION COALITION OF
WASHINGTON**

By 
Donald Brookhyser
Attorney for Cogeneration
Coalition of Washington

KROGER CO.

By _____
Michael L. Kurtz
Attorney for Kroger Co.

**NW ENERGY COALITION and
NATURAL RESOURCES DEFENSE
COUNCIL**

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Danielle Dixon
Policy Associate, NW Energy Coalition

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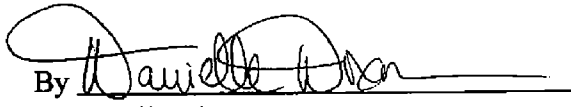
By 
Danielle Dixon
Policy Associate, NW Energy Coalition

Exhibit A-1 Power Cost Rate

| Row | | Test Year | | |
|-----|--|-----------|------------------------------------|-----------------------------------|
| 3 | Regulatory Assets (Variable) | \$ | 284,728,294 | |
| 4 | Transmission Rate Base (Fixed) | | 124,643,364 | |
| 5 | Production Rate Base (Fixed) | | 493,777,165 | |
| 6 | | \$ | 903,148,823 | |
| 7 | Net of tax rate of return | | 7.30% | |
| 8 | | | | |
| 9 | | | Test Yr | Rate Year |
| | | | \$/MWh | |
| 10 | Regulatory Asset Recovery | \$ | 31,977,178 | \$ 1.677 (c) |
| 11 | Fixed Asset Recovery-Prod Factored | | 54,142,951 | \$ 2.840 (a) 55,725,557 |
| 12 | Fixed Asset Recovery Other | | 15,310,432 | \$ 0.803 (a) 15,310,432 |
| 13 | 501-Steam Fuel | | 32,511,186 | \$ 1.705 (c) |
| 14 | 555-Purchased power | | 526,980,333 | \$ 27.643 (c) |
| 15 | 557-Other Power Exp | | 11,499,089 | \$ 0.603 (a) 11,835,209 |
| 16 | 547-Fuel | | 61,173,325 | \$ 3.209 (c) |
| 17 | 565-Wheeling | | 41,435,360 | \$ 2.174 (c) |
| 18 | Variable Transmission Income | | (6,510,985) | \$ (0.342) (c) |
| 19 | Hydro and Other Pwr. | | 51,597,583 | \$ 2.707 (a) 53,105,787 |
| 20 | 447-Sales to Others | | (37,525,193) | \$ (1.968) (c) |
| | 456-Subaccounts 00012 & | | | |
| 21 | 00018 and 00035 & 00036 | | 1,077,379 | \$ 0.057 (c) |
| 22 | Transmission Exp - 500KV | | 342,495 | \$ 0.018 (a) 352,506 |
| 23 | Depreciation-Production | | 36,265,740 | \$ 1.902 (a) 37,325,792 |
| 24 | Depreciation-Transmission | | 4,851,654 | \$ 0.254 (a) 4,851,654 |
| 25 | Property Taxes-Production | | 8,343,174 | \$ 0.438 (a) 8,600,747 |
| 26 | Property Taxes-Transmission | | 4,441,860 | \$ 0.233 (a) 4,441,860 |
| 27 | Subtotal & Baseline Rate | \$ | 837,913,560 | \$ 43.953 (b) 191,549,544 |
| 28 | Revenue Sensitive Items | | 0.9552337 | |
| 29 | | \$ | 877,181,741 | 8,343,174 |
| 30 | Test Year Load (MWH's) | | 19,063,867 | <-- includes Firm Wholesale |
| 31 | | | <u>Before Rev. Sensitive Items</u> | <u>After Rev. Sensitive Items</u> |
| | Power Cost in Rates with | | | |
| | Revenue Sensitive Items (the | | | |
| | adjusted baseline | | | 46.013 |
| 32 | sum of (a) = Fixed Rate Component | | 9.798 | 10.257 |
| 33 | (b) = Power Cost Rate | | 43.953 | 46.013 |
| 34 | sum of (c) = Variable Power Rate | | 34.155 | 35.756 |
| 35 | Component | | | |
| 36 | | | | |
| 37 | | | | |
| 38 | * Regulatory Assets are Tenaska, Encogen Fuel Buyout and BEP | | | |
| 39 | | | | |
| 40 | | | | |
| 41 | | | | |
| 42 | | | | |
| 43 | | | | |

Exhibit A-2 Transmission Costs

| Row | | Date | DR (CR) Accumulated Deferred Income Income Tax Balance | | |
|------------|---|--------------------------------|--|-------------------|-----------|
| 8 | Colstrip Related Transmission Assets | | | | |
| 9 | | | | | |
| 10 | Balance at: | 06/30/2001 | (15,759,774) | | |
| 11 | No deferred income taxes associated with the 3rd AC Intertie, | | | | |
| 12 | Northern Intertie and BPA Transmission Assets. | | | | |
| 13 | | | | | |
| 14 | Test Period Property Taxes on transmission Related Assets: | | | | |
| 15 | | <u>Amount</u> | | | |
| 16 | Oregon-3rd AC Intertie | \$864,624 | | | |
| 17 | Montana-Transmission Assets | 1,622,875 | | | |
| 18 | Montana-Beneficial Use Property Taxes on BPA | | | | |
| 19 | Transmission Assets | 1,826,626 | | | |
| 20 | Washington-Northern Intertie | 127,735 | | | |
| 21 | Total Property Taxes | \$4,441,860 | | | |
| 22 | | | | | |
| 23 | Wheeling Expense | 41,435,360 | | | |
| 24 | | | | | |
| 25 | Transmission Plant | | | | |
| 26 | | | | | |
| 27 | | Plant | | | |
| 28 | | AMA 6/30/01 | Accum. Dep. | Depreciation Exp. | |
| 28 | E351 | TRANS - COLSTRIP 1 & 2 | 685,927 | 264,280 | 17,011 |
| 28 | E353 | Easements | 1,231,131 | 682,186 | 34,964 |
| 29 | E353 | Station Equipment | 14,474,343 | 5,917,036 | 374,885 |
| 30 | E354 | Towers & Fixtures | 49,007 | 39,834 | 774 |
| 31 | E355 | Poles & Fixtures | 13,158,153 | 5,749,080 | 369,744 |
| 32 | E356 | OH Conductors & devices | 113,968 | 43,839 | 2,872 |
| 33 | E359 | Roads & Trails | 29,712,529 | 12,696,255 | 800,250 |
| 34 | COLSTRIP 1&2 TRANSMISSION | | | | |
| 35 | | | | | |
| 36 | | | | | |
| 37 | | TRANS - COLSTRIP 3 & 4 | | | |
| 37 | E351 | Easements | 1,071,124 | 396,585 | 27,314 |
| 38 | E352 | Structures & Improvements | 478,326 | 188,636 | 11,719 |
| 39 | E353 | Station Equipment | 17,687,015 | 6,706,154 | 578,365 |
| 40 | E354 | Towers & Fixtures | 20,422,516 | 8,020,387 | 541,197 |
| 41 | E355 | Poles & Fixtures | 122,619 | 58,220 | 3,298 |
| 42 | E356 | OH Conductors & Devices | 20,015,734 | 8,474,189 | 572,450 |
| 43 | E359 | Roads & Trails | 341,015 | 127,820 | 8,730 |
| 44 | COLSTRIP 3&4 TRANSMISSION | | | | |
| 45 | | | | | |
| 46 | | | | | |
| 47 | | TRANS - 3RD NW-SW INTERTIE | | | |
| 47 | E352 | Structures & Improvements | 1,276,264 | 183,547 | 22,845 |
| 48 | E353 | Station Equipment | 31,157,075 | 5,529,150 | 716,613 |
| 49 | E354 | Towers & Fixtures | 22,781,417 | 3,276,322 | 430,569 |
| 50 | E355 | Poles & Fixtures | 204,200 | 19,787 | 5,268 |
| 51 | E356 | OH Conductors & devices | 23,458,461 | 4,528,227 | 609,920 |
| 52 | E359 | Roads & Trails | 59,215 | 4,141 | 628 |
| 53 | TOTAL 3RD NW-SW INTERTIE | | | | |
| 54 | | | 78,936,632 | 13,541,174 | 1,785,843 |
| 55 | | | | | |
| 56 | | TRANS - NORTHERN INTERTIE | | | |
| 56 | E351 | Easements - Whatcom | - | - | - |
| 57 | E354 | Towers & Fixtures-Whatcom | 5,744,097 | 533,604 | 106,840 |
| 58 | E355 | Poles & Fixtures-Whatcom | 11,219 | 1,702 | 289 |
| 59 | E356 | OH Conductors & Devices-Whatc | 7,460,099 | 904,353 | 193,963 |
| 60 | E355 | Poles & Fixtures-Skagit | 3,398,685 | 416,680 | 87,686 |
| 61 | E356 | OH Conductors & Devices-Skagit | 5,142,699 | 501,239 | 133,710 |
| 62 | TOTAL NORTHERN INTERTIE | | | | |
| 63 | | | 21,756,799 | 2,357,577 | 522,488 |
| 64 | Total Transmission | 190,544,309 | 52,566,998 | 4,851,654 | |
| 65 | Less | | | | |
| 66 | Accumulated Depreciation | 52,566,998 | | | |
| 67 | Deferred Taxes | 15,759,774 | | | |
| 68 | Transmission Ratebase | 122,217,537 | | | |
| revised_A2 | revised accumulated depreciation | 50,141,171 | | | |
| | | 124,643,364 | | | |

Exhibit A-3 Colstrip Fixed Costs

Row

A-3 Page 1

| | | | |
|----|----------------------------------|--------------------|----------------------------------|
| 4 | Revenue Requirement for Colstrip | | |
| 5 | Plant | 650,197,157 | |
| 6 | Accumulated Depreciation | (320,264,159) | |
| 7 | Deferred Taxes | (93,634,221) | |
| 8 | Net Plant | <u>236,298,777</u> | |
| 9 | Rate of Return (net of Tax) | 7.30% | |
| 10 | Revenue Requirement after tax | 17,249,811 | |
| 11 | Plant Revenue Requirement | 26,538,170 | (Adjusted for Federal Tax) |
| 12 | Expenses | <u>52,329,884</u> | |
| 13 | Total Revenue Requirement | 78,868,054 | (before revenue sensitive items) |

Support for Revenue Requirement - Ratebase

| FERC | DESCRIPTION | 30-Jun-00 | 30-Jun-01 | 13 MONTH AMA | ANNUITY RATE | ANNUALIZED DEPRECIATION | ACUMM. DEPR. 06/30/2001 |
|------|------------------------------|-------------|-------------|--------------|--------------|-------------------------|-------------------------|
| | COLSTRIP #1 | | | | | | |
| E311 | Structures & Improvements | 6,931,939 | 7,097,390 | 7,021,558 | 3.03% | 212,753 | 4,519,382 |
| E312 | Boiler Plant Equipment | 46,965,650 | 48,224,007 | 47,159,778 | 3.12% | 1,471,385 | 30,962,573 |
| E314 | Turbo Generating Units | 12,437,937 | 12,437,937 | 12,437,937 | 3.29% | 409,208 | 8,005,683 |
| E315 | Accessory Electric Equip. | 7,042,053 | 7,043,604 | 7,042,893 | 2.71% | 190,862 | 4,440,864 |
| E316 | Misc. Power Plant Equip. | 365,117 | 426,565 | 398,402 | 3.87% | 15,418 | 215,987 |
| | TOTAL | 73,742,696 | 75,229,503 | 74,060,568 | 3.11% | 2,299,626 | 48,144,488 |
| | COLSTRIP #2 | | | | | | |
| E311 | Structures & Improvements | 5,317,757 | 5,573,640 | 5,456,360 | 3.06% | 166,965 | 3,343,898 |
| E312 | Boiler Plant Equipment | 39,821,935 | 40,460,296 | 40,167,714 | 3.05% | 1,225,115 | 26,457,593 |
| E314 | Turbo Generating Units | 12,178,755 | 12,519,462 | 12,363,305 | 3.26% | 403,044 | 7,691,610 |
| E315 | Accessory Electric Equip. | 4,536,518 | 4,592,474 | 4,566,828 | 2.69% | 122,848 | 2,797,275 |
| E316 | Misc. Power Plant Equip. | 365,931 | 427,379 | 399,215 | 3.61% | 14,412 | 217,888 |
| | TOTAL | 62,220,895 | 63,573,251 | 62,953,422 | 3.07% | 1,932,384 | 40,508,264 |
| | COLSTRIP 1 & 2 COMMON | | | | | | |
| E311 | Structures & Improvements | 30,345,256 | 31,983,349 | 31,232,556 | 3.16% | 986,949 | 18,788,553 |
| E312 | Boiler Plant Equipment | 8,623,422 | 8,679,337 | 8,653,709 | 3.18% | 275,188 | 5,533,214 |
| E314 | Turbo Generating Units | 3,918,858 | 3,918,858 | 3,918,858 | 3.31% | 129,714 | 2,382,313 |
| E315 | Accessory Electric Equip. | 2,377,984 | 2,420,179 | 2,400,840 | 3.07% | 73,706 | 1,334,875 |
| E316 | Misc. Power Plant Equip. | 6,235,545 | 6,561,728 | 6,412,227 | 3.82% | 244,947 | 3,136,065 |
| | TOTAL | 51,501,064 | 53,563,451 | 52,618,190 | 3.25% | 1,710,504 | 31,175,020 |
| | COLSTRIP 3 | | | | | | |
| E311 | Structures & Improvements | 28,829,642 | 28,882,948 | 28,858,516 | 2.45% | 707,034 | 14,566,340 |
| E312 | Boiler Plant Equipment | 113,898,277 | 115,756,485 | 113,618,072 | 2.68% | 3,044,964 | 57,262,237 |
| E314 | Turbo Generating Units | 32,936,825 | 33,180,681 | 33,068,914 | 2.97% | 982,147 | 14,166,239 |
| E315 | Accessory Electric Equip. | 6,401,615 | 6,401,615 | 6,401,615 | 2.47% | 158,120 | 2,874,151 |
| E316 | Misc. Power Plant Equip. | 454,762 | 480,140 | 468,508 | 2.86% | 13,399 | 210,034 |
| | TOTAL | 182,521,121 | 184,701,869 | 182,415,625 | 2.69% | 4,905,664 | 89,079,001 |
| | COLSTRIP 4 | | | | | | |
| E311 | Structures & Improvements | 26,542,394 | 26,595,701 | 26,571,269 | 2.54% | 674,910 | 11,552,369 |
| E312 | Boiler Plant Equipment | 99,709,843 | 100,508,440 | 100,142,416 | 2.75% | 2,753,916 | 43,898,286 |
| E314 | Turbo Generating Units | 27,895,777 | 28,602,598 | 28,278,638 | 2.94% | 831,392 | 10,813,318 |
| E315 | Accessory Electric Equip. | 5,589,362 | 5,596,707 | 5,593,341 | 2.52% | 140,952 | 2,163,849 |
| E316 | Misc. Power Plant Equip. | 650,784 | 676,163 | 664,531 | 2.79% | 18,540 | 277,867 |
| | TOTAL | 160,388,160 | 161,979,609 | 161,250,195 | 2.74% | 4,419,710 | 68,705,690 |
| | COLSTRIP 3 & 4 COMMON | | | | | | |
| E311 | Structures & Improvements | 71,951,771 | 72,034,845 | 71,996,769 | 2.33% | 1,677,525 | 35,209,226 |
| E312 | Boiler Plant Equipment | 20,855,440 | 20,915,298 | 20,887,863 | 2.48% | 518,019 | 10,585,040 |
| E314 | Turbo Generating Units | 274,553 | 274,553 | 274,553 | 2.62% | 7,193 | 125,852 |
| E315 | Accessory Electric Equip. | 7,706,935 | 7,748,971 | 7,729,705 | 2.31% | 178,556 | 3,422,068 |
| E316 | Misc. Power Plant Equip. | 4,861,282 | 5,098,460 | 4,989,753 | 2.79% | 139,214 | 2,083,870 |
| | TOTAL | 105,649,981 | 106,072,127 | 105,878,643 | 2.38% | 2,520,507 | 51,426,057 |
| | COLSTRIP 1-4 COMMON | | | | | | |
| E316 | Misc. Power Plant Equip. | 253,865 | 253,865 | 253,865 | 2.46% | 6,245 | 123,888 |
| | TOTAL | 253,865 | 253,865 | 253,865 | 2.46% | 6,245 | 123,888 |
| | COLSTRIP COMMON FERC ADJ. | 8,316,981 | | 8,316,981 | | | |
| | COLSTRIP DEF DEPR FERC ADJ. | 2,449,668 | | 2,449,668 | | | |
| | Total Plant and Acc. Deprec. | 647,044,432 | | 650,197,157 | | 17,794,640 | 329,162,409 |

AMA Adj. (8,898,250)
AMA Acum Depr 320,264,159

| | | | |
|----|--|------------------------|---------------------|
| 70 | Support for Revenue Requirement - Expenses | | |
| 71 | | | Amount before |
| 72 | Order | Description | Prod. Adj. |
| 73 | 50004011 | 1&2 Sup & Eng | 76,685 |
| 74 | 50005011 | 3&4 Sup & Eng | 108,581 |
| 75 | 50204001 | 1&2 Steam Exp | 1,217,034 |
| 76 | 50205001 | 3&4 Steam Exp | 624,831 |
| 77 | 50504001 | 1&2 Elec Exp | (208,933) |
| 78 | 50505001 | 3&4 Elec Exp | (223,913) |
| 79 | 50604001 | 1&2 Misc Exp | 3,320,269 |
| 80 | 50605001 | 3&4 Misc Exp | 2,515,968 |
| 81 | 50605002 | 3&4 Steam | (2,399) |
| 82 | 50704001 | 1&2 Rents | 95,991 |
| 83 | 50705001 | 3&4 Rents | 131,692 |
| 84 | 51004001 | 1&2 Maint Supv | 669,151 |
| 85 | 51005001 | 3&4 Maint Supv | 539,405 |
| 86 | 51104001 | 1&2 Maint of Struct | 405,072 |
| 87 | 51105001 | 3&4 Maint of Struct | 373,938 |
| 88 | 51204001 | 1&2 Maint of Boiler | 4,902,128 |
| 89 | 51205001 | 3&4 Maint of Boiler | 5,967,278 |
| 90 | 51304001 | 1&2 Maint of E Plant | (178,069) |
| 91 | 51305001 | 3&4 Maint of E Plant | 705,533 |
| 92 | 51404001 | 1&2 Maint of Misc | 4,578,888 |
| 93 | 51405001 | 3&4 Maint of Misc | 1,159,196 |
| 94 | | Property Taxes-Montana | 6,027,509 |
| 95 | | Electric Energy Tax | 1,729,406 |
| 96 | 403xxxxx | Depreciation | 17,794,640 |
| 97 | | | <u>\$52,329,884</u> |

Exhibit A-4 Production Adjustment UE-011570

PAGE 2.21

**PUGET SOUND ENERGY-ELECTRIC
PRODUCTION ADJUSTMENT
FOR THE TWELVE MONTHS ENDED JUNE 30, 2001
GENERAL RATE INCREASE**

| LINE NO. | DESCRIPTION | PRO FORMA PRODUCTION AMOUNT | 2.84% | FIT 35% |
|----------|----------------------------------|-----------------------------|-----------------|-------------|
| 1 | PRODUCTION WAGE INCREASE | | | |
| 2 | PURCHASED POWER | 0 | 0 | 0 |
| 3 | OTHER POWER SUPPLY | 0 | 0 | 0 |
| 4 | TOTAL PRODUCTION WAGE INCREASE | 0 | 0 | 0 |
| 5 | | | | |
| 6 | PAYROLL OVERHEADS | 783,939 | (22,264) | 7,792 |
| 7 | PROPERTY INSURANCE | 1,026,555 | (29,154) | 10,204 |
| 8 | TOTAL A&G | 1,810,494 | (51,418) | 17,996 |
| 9 | | | | |
| 10 | DEPRECIATION PRODUCTION PROPERTY | | | |
| 11 | DEPRECIATION / AMORTIZATION | 37,325,792 | (1,060,052) | 263,024 |
| 12 | PURCHASED POWER | 3,526,620 | (100,156) | 35,055 |
| 13 | FUEL | 0 | 0 | 0 |
| 14 | TOTAL | 40,852,412 | (1,160,209) | 298,079 |
| 15 | | | | |
| 16 | TAXES OTHER-PRODUCTION PROPERTY | | | |
| 17 | PROPERTY TAXES - WASHINGTON | 3,041,963 | (86,392) | 30,237 |
| 18 | PROPERTY TAXES - MONTANA | 6,027,509 | (171,181) | 59,913 |
| 19 | ELECTRIC ENERGY TAX | 1,729,406 | (49,115) | 17,190 |
| 20 | PAYROLL TAXES | 630,032 | (17,893) | 6,263 |
| 21 | TOTAL TAXES OTHER | 11,428,910 | (324,581) | 113,603 |
| 22 | | | | |
| 23 | INCREASE(DECREASE) INCOME | | 1,536,208 | |
| 24 | INCREASE(DECREASE) FIT | | | 429,678 |
| 25 | INCREASE(DECREASE) NOI | | | 1,106,530 |
| 26 | | | | |
| 27 | RATE BASE: | | | |
| 28 | PRODUCTION PROPERTY | 1,065,115,283 | | |
| 29 | COLSTRIP COMMON FERC ADJ. | 8,316,981 | | |
| 30 | COLSTRIP DEF DEPR FERC ADJ. | 2,449,668 | | |
| 31 | ENCOGEN ACQUISITION ADJ. | 60,574,557 | | |
| 32 | BPA POWER EXCHANGE INVESTMENT | 51,135,941 | sum of L32 thru | 293,050,941 |
| 33 | TENASKA REGULATORY ASSET | 229,424,000 | L34 | 284,728,294 |
| 34 | CABOT OIL REGULATORY ASSET | 12,491,000 | | |
| 35 | LESS ACCUM. DEPRECIATION | (519,770,787) | | |
| 36 | LESS ACCUM. AMORTIZATION | (3,186,245) | | |
| 37 | NET PRODUCTION PROPERTY | 906,550,398 | | |
| 38 | | | | |
| 39 | DEDUCT: | | | |
| 40 | LIBR. DEPREC. PRE 1981 (EOP) | (5,250,238) | | |
| 41 | LIBR. DEPREC. POST 1980 (EOP) | (94,132,216) | | |
| 42 | OTHER DEF. TAXES (EOP) | (17,930,541) | | |
| 43 | ADJUSTMENT TO RATE BASE | 789,237,403 | (22,414,342) | 766,823,061 |
| | Plus Snoqualmie CWIP | | | 482,094,767 |
| | | | | 11,682,398 |
| | | | | 493,777,165 |

Exhibit B: Power Costs Subject to PCA Sharing

Example

Jul 02 - Jun 03

| Row | Explanation or source | | |
|-----|---|--------------------|--------------|
| 4 | | | |
| 5 | Return on Fixed RB | \$ | 71,035,988 |
| 6 | Other Fixed Costs | | 120,513,555 |
| 7 | Subtotal Fixed Costs | \$ | 191,549,544 |
| 8 | Total Variable Component Actual | | |
| 9 | Steam Oper. Fuel 501 | illustrative est. | 33,461,494 |
| 10 | Other Pwr Gen Fuel 547 | illustrative est. | 55,009,484 |
| 11 | Other Elec Revenues 45600012, 18 | illustrative est. | (165,000) |
| 12 | Purchase Power 555 | illustrative est. | 538,456,725 |
| 13 | Sales to Other Util 447 | illustrative est. | (35,448,055) |
| 14 | Wheeling 565 | illustrative est. | 43,496,800 |
| 15 | Transmission Revenue 45600017 | illustrative est. | (5,000,000) |
| 16 | Regulatory Assets | illustrative est. | 32,911,879 |
| 17 | | | |
| 18 | SUBTOTAL before Adjustments | 642,456.32 \$ | 854,272,871 |
| 19 | | | |
| 20 | Adjustments: | | |
| 21 | Prudence from UE-921262 | illustrative est. | (2,260,152) |
| 22 | Contract price adjustment | illustrative est. | (1,094,429) |
| 23 | Colstrip availability adjustment | illustrative est. | (5,812,478) |
| 24 | New resource pricing adjustment | illustrative est. | (388,500) |
| 25 | | | |
| 26 | Subtotal Adjustments | \$ | (9,555,559) |
| 27 | | | |
| 28 | Total allowable cost | \$ | 844,717,312 |
| 29 | | | |
| 30 | PCA period delivered load | est. actual | 19,110,518 |
| 31 | Baseline Power Cost | \$ | 839,984,611 |
| 32 | | | |
| 33 | Imbalance for Sharing | \$ | 4,752,701 |
| 34 | positive is potential customer surcharge, negative is potential customer credit | | |
| 35 | | | |
| 36 | Company's Share | band limit +/- | |
| 37 | First band - deadband | \$ 20,000,000 100% | 4,752,701 |
| 38 | 2nd Band - next | \$ 20,000,000 50% | - |
| 39 | 3rd Band - next | \$ 80,000,000 10% | - |
| 40 | 4th Band greater than | \$ 120,000,000 5% | - |
| 41 | Subtotal Company Share before Cap | 4,752,701 | 4,752,701 |
| 42 | | | |
| 43 | Customer Share (deferral account) | \$ | - |

Exhibit D: Regulatory Assets

| Row | Company | 2000 \$ | 2001 \$ | 2002 \$ | 2003 \$ | 2004 \$ | 2005 \$ | 2006 \$ | Interest | Amort | Balance | PCA (Jul-Jun) | | Return 7.30% | 35% Pre Tax Return |
|-----|--------------|---------|-------------|---------|---------|---------|---------|-----------|--------------|-------------|-------------|---------------|----------------|-----------------|--------------------------|
| | | | | | | | | | | | | Amortization | Ratebase (AMA) | | |
| 4 | Cabot Buyout | | | | | | | | | | | | | | |
| 5 | | 2000 \$ | 12,588,000 | | | | | | 709,000 | (312,000) | 12,985,000 | | | | |
| 6 | | 2001 \$ | - | | | | | 720,000 | (741,000) | 12,964,000 | | | | | |
| 7 | | 2002 \$ | - | | | | | 731,000 | (1,070,000) | 12,625,000 | | | | | |
| 8 | | 2003 \$ | - | | | | | - | (1,409,000) | 11,216,000 | | | | | |
| 9 | | 2004 \$ | - | | | | | - | (1,768,000) | 9,448,000 | | | | | |
| 10 | | 2005 \$ | - | | | | | - | (2,163,000) | 7,285,000 | | | | | |
| 11 | | 2006 \$ | - | | | | | - | (2,614,000) | 4,671,000 | | | | | |
| 12 | | | | | | | | | | | | | | | |
| 13 | | | | | | | | | | | | | | | |
| 14 | Tenaska | | | | | | | | | | | | | | |
| 15 | | 1998 \$ | 215,000,000 | | | | | | 8,754,000 | (1,952,000) | 221,802,000 | | | | |
| 16 | | 1999 \$ | - | | | | | 8,795,000 | (3,863,000) | 226,734,000 | | | | | |
| 17 | | 2000 \$ | - | | | | | 8,849,000 | (5,463,000) | 230,120,000 | | | | | |
| 18 | | 2001 \$ | - | | | | | 8,838,000 | (7,382,000) | 231,576,000 | | | | | |
| 19 | | 2002 \$ | - | | | | | 8,749,000 | (9,494,000) | 230,831,000 | | | | | |
| 20 | | 2003 \$ | - | | | | | - | (11,924,000) | 218,907,000 | | | | | |
| 21 | | 2004 \$ | - | | | | | - | (14,744,000) | 204,163,000 | | | | | |
| 22 | | 2005 \$ | - | | | | | - | (17,908,000) | 186,255,000 | | | | | |
| 23 | | 2006 \$ | - | | | | | - | (20,615,000) | 165,640,000 | | | | | |
| 24 | | | | | | | | | | | | | | | |
| 25 | BEP | | | | | | | | | | | | | | |
| 26 | | 2001 | | | | | | | | | 54,662,518 | | | | |
| 27 | | 2002 | | | | | | | (3,526,620) | 51,135,898 | | | | | |
| 28 | | 2003 | | | | | | | (3,526,620) | 47,609,278 | | | | | |
| 29 | | 2004 | | | | | | | (3,526,620) | 44,082,658 | | | | | |
| 30 | | 2005 | | | | | | | (3,526,620) | 40,556,038 | | | | | |
| 31 | | 2006 | | | | | | | (3,526,620) | 37,029,418 | | | | | |
| 32 | | | | | | | | | | | | | | | |
| 33 | | | | | | | | | | | | | | | |
| 34 | | | | | | | | | | | | | | | |
| 35 | | | | | | | | | | | | | | | |
| 36 | | | | | | | | | | | | | | | |
| 37 | | | | | | | | | | | | | | | |
| 38 | | | | | | | | | | | | | | | |
| 39 | | | | | | | | | | | | | | | |

| From | To | PCA#1 | PCA#2 | PCA#3 | PCA#4 | Amortization | AMA Ratebase | Return | Return Pre-tax |
|--------|--------|-------|-------|-------|-------|-----------------|----------------|---------------|----------------|
| Jul-02 | Jun-03 | | | | | \$ (14,090,620) | \$ 293,050,974 | \$ 21,392,721 | \$ 32,911,879 |
| Jul-03 | Jun-04 | | | | | \$ (18,449,120) | \$ 277,332,698 | \$ 20,245,287 | \$ 31,146,595 |
| Jul-04 | Jun-05 | | | | | \$ (21,818,120) | \$ 257,246,578 | \$ 18,779,000 | \$ 28,890,770 |
| Jul-05 | Jun-06 | | | | | \$ (25,176,620) | \$ 233,699,083 | \$ 17,060,033 | \$ 26,246,205 |

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Exhibit F - Colstrip Availability Adjustment

Row

4 Part 1. Colstrip Equivalent Availability during PCA period -12 Month

| 5 | | | | | |
|----|---------------|----------------|----------------|---------|------|
| 6 | | <u>1&2</u> | <u>3&4</u> | | |
| 7 | PSE MW -> | 307 | 370 | PSE Wtd | days |
| 8 | Jul-02 | 85.00% | 85.00% | 85.0% | 31 |
| 9 | Aug-02 | 85.00% | 85.00% | 85.0% | 31 |
| 10 | Sep-02 | 85.00% | 85.00% | 85.0% | 30 |
| 11 | Oct-02 | 85.00% | 85.00% | 85.0% | 31 |
| 12 | Nov-02 | 85.00% | 85.00% | 85.0% | 30 |
| 13 | Dec-02 | 85.00% | 85.00% | 85.0% | 31 |
| 14 | Jan-03 | 85.00% | 85.00% | 85.0% | 31 |
| 15 | Feb-03 | 85.00% | 85.00% | 85.0% | 28 |
| 16 | Mar-03 | 85.00% | 0.00% | 38.5% | 31 |
| 17 | Apr-03 | 85.00% | 0.00% | 38.5% | 30 |
| 18 | May-03 | 85.00% | 0.00% | 38.5% | 31 |
| 19 | Jun-03 | 85.00% | 0.00% | 38.5% | 30 |

| | | | | | |
|----|-------------------------------|--------|--------|---|--|
| 20 | | | | | |
| 21 | 12 mo Average | 85.00% | 56.59% | 69.47% | |
| 22 | Weighted by days in the month | | | Weighted by Plant Capacity and days/month | |

23
24

25 Part 2. Calculate annual availability penalty ratio

| | | | |
|----|---------------|--------|-----------------------------|
| 26 | Less than 70% | yes | yes, penalty assessed |
| 27 | Actual Ratio | 69.47% | |
| 28 | Target Ratio | 75.00% | per Collaborative agreement |
| 29 | Penalty | -5.53% | |

30
31

32 Penalty Ratio = **-7.37%** = penalty $\frac{-5.53\%}{75.00\%}$ per Collaborative agreement

33
34
35

36 Part 3. Calculate Annual Colstrip Fixed Cost Penalty

37

38 Total Fixed Cost \$ 78,868,054 from Exhibit A-3 (Colstrip Total Revenue Requirement)

39

40 Penalty Ratio = -7.37%

41 **Penalty \$ (5,812,478)** to Exhibit B line 23