



January 12, 2001

Ms. Carole J. Washburn, Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250

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UTILITY AND TRANSPORTATION
COMMISSION

Re: Notification of a Subsidiary of PSE Becoming a Subsidiary of Puget Energy

Dear Ms. Washburn:

On August 14, 2000, in Docket No. UE-991779, Puget Sound Energy ("PSE" or the "Company") received authorization to create a holding company structure through a corporate reorganization. Shareholders of PSE approved the formation of a holding company structure and plan of exchange on June 23, 1999. Per the Order, the Company is to notify the Commission within thirty days of any subsidiary of PSE becoming a subsidiary of the new holding company, Puget Energy, Inc. ("Puget Energy"). The Order also states that PSE will provide proposed corporate and affiliate cost allocation methodologies. This letter is intended to provide such notification as well as to serve as documentation regarding cost allocation methodologies.

The holding company corporate reorganization became effective January 1, 2001. Under the reorganization, Puget Energy, the holding company, will initially have two subsidiaries – PSE and InfrastruX Group, Inc. (referred to herein, together with its operating subsidiaries, as "InfrastruX"). Prior to January 1, 2001, InfrastruX was a subsidiary of PSE. Effective January 1, 2001, InfrastruX was transferred to Puget Energy. All other existing subsidiaries of PSE remain subsidiaries of PSE after the corporate reorganization on January 1, 2001. This letter serves as notification of the change in organizational structure, with respect to InfrastruX, as required by the Order issued in Docket No. UE-991779.

InfrastruX, was formed as a wholly owned subsidiary of PSE in June 2000. InfrastruX, has ownership in companies that provide design, construction, and engineering services primarily to telephone, electric, gas and

water utility industries. InfrastruX operates from its own facilities, and it has its own employees, equipment, and fixed assets. Services will be provided largely to utilities other than PSE and as a result, there will be few affiliated transactions between InfrastruX and PSE. It is expected that substantially all of InfrastruX's costs will be incurred directly by InfrastruX or directly assigned to InfrastruX in the few circumstances in which PSE or Puget Energy incur a cost on behalf of InfrastruX. Utilx, a subsidiary of InfrastruX, provides services to PSE which include underground trenching and restoration of underground electric cable through a silicone injection process. The services are provided to PSE at competitive market rates. The Company proposes to continue to record amounts paid to Utilx at the market prices charged by Utilx. The amounts paid to Utilx for such services in 2000, 1999, and 1998 were \$1 million (year to date, September 30, 2000), \$192 thousand, and \$1.3 million, respectively. Utilx's annual revenues are approximately \$100 million.

PSE's corporate cost allocation guidelines regarding affiliated transactions, as well as other intra-company transactions, include the utilization of methods authorized as part of the merger proceeding in Docket No. UE-960195. Cost allocation methods authorized include direct charging and allocation using causal relationships. Direct charging is the Company's preferred method for assigning costs. Allocation using causal relationships is the method that will be utilized for costs that cannot be directly charged to one company or the other. Costs will be allocated based upon a common cause of the cost.

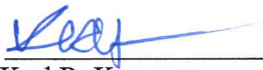
Regarding non regulated subsidiaries specifically, also presented in Docket No. UE-960195, the Company's cost allocation guidelines include the utilization of the following methodology: "Where practical, nonregulated subsidiaries will maintain separate facilities for staff and operations. The cost for these facilities and personnel will be charged to nonoperating expenses using the FERC system of accounts. When utility personnel provide services to the nonregulated subsidiary, the subsidiary will be billed for the salary, employee benefits and facility costs associated with supporting the employee. Facility costs will include an allocation for building rental, telephone service, purchasing support, payroll support, human resource and administration support. Charges by the subsidiary to the regulated company would have a similar overhead applied to its labor costs."¹ Except for the services charged by Utilx (which will be accounted for as discussed above), these procedures will be followed for charges between Puget Sound Energy and InfrastruX.

¹ Docket UE-960195, undisputed direct testimony of John Story, Exhibit T-21, Page 8.

If you have any questions regarding this matter, please call me at (425) 456-2797.

Very truly yours,

PUGET SOUND ENERGY, INC.

By 

Karl R. Karzmar
Manager, Revenue Requirements

Enclosures
cc: Simon ffitch