

BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application of  
PUGET SOUND ENERGY, INC.

for (1) EWG Determinations regarding the Sale  
of its Interest in the Skookumchuck  
Hydroelectric Plant, and (2) an Accounting  
Order authorizing treatment of the net gain from  
the sale.

Docket No. \_\_\_\_\_

**APPLICATION**

STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION

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RECORDS MANAGEMENT

**I. INTRODUCTION**

1. Puget Sound Energy, Inc. ("PSE" or the "Company") has entered into an agreement to sell its interest in the Skookumchuck dam, hydroelectric facility, and related assets (the "Skookumchuck Project"). The Skookumchuck Project buyer is 2677588 Washington LLC ("Washington LLC"), a limited liability company formed by TransAlta USA Inc. ("TransAlta"). PSE files this Application in order to obtain certain public interest findings by the Commission that are required in order for Washington LLC to qualify as an exempt wholesale generator ("EWG") under Section 32 of the Public Utility Holding Company Act of 1935 ("PUHCA"). PSE also files this Application to obtain an Accounting Order authorizing treatment of the net gain from the sale of the Skookumchuck Project in the same manner as the Commission authorized with respect to PSE's sale of its interest in the Centralia Power Plant in Docket No. UE-991409. PSE does not seek the Commission's approval of its sale of the Skookumchuck Project because, pursuant to WAC 480-143-180, the sale of PSE's interest in the Project does not require such approval.

2. This Application brings into issue the following statutes and regulations: 15 U.S.C. § 79z-5a(c), WAC 480-143-180, and WAC 480-143-190.

## II. THE TRANSACTION

### A. The Parties

#### The Applicant: PSE

3. PSE is an investor-owned electric and gas utility serving approximately 900,000 electric customers and 550,000 natural gas customers primarily in Western Washington. The full and correct name and business address for PSE are as follows:

Puget Sound Energy, Inc.  
The PSE Building  
10885 N.E. Fourth Street  
Bellevue, WA 98004-5579

4. PSE requests that all notices, correspondence and pleadings with respect to this Application be sent to:

For PSE:

John Story  
Director, Rates and Regulation  
Puget Sound Energy, Inc.  
The PSE Building  
10885 N.E. Fourth Street, Suite 800  
Bellevue, WA 98004-5579  
Tel. (425) 462-3885  
Fax (425) 462-3414  
Email: john.story@pse.com

With a copy to:

Kirstin S. Dodge  
Perkins Coie LLP  
The PSE Building  
10885 N.E. Fourth Street, Suite 700  
Bellevue, WA 98004-5579  
Phone: (425) 635-1407  
Facsimile: (425) 635-2407  
ksdodge@perkinscoie.com

Please also send electronic copies of data requests to karl.karzmar @pse.com.

#### The Owners

5. The current owners of the Project are: PacifiCorp<sup>1</sup>; Public Utility District No. 1 of Snohomish County, Washington; Puget Sound Energy, Inc.; City of Tacoma, Washington; Avista Corporation; City of Seattle, Washington; and Public Utility District No. 1 of Grays Harbor County, Washington (collectively, the "Owners").

#### The Purchaser

6. Washington LLC is a Washington limited liability company and a direct, wholly-owned subsidiary of TransAlta. TransAlta is the indirect owner of the Centralia Power Plant and the Centralia Coal Mine. In 2000, the Owners sold the Centralia Power Plant to a direct wholly-owned subsidiary of TransAlta, TECWA Power Inc., and PacifiCorp sold the Centralia Coal Mine to another direct wholly-owned subsidiary of TransAlta, TECWA Fuel Inc. TransAlta Centralia Generation LLC, a direct wholly-owned subsidiary of TECWA Power Inc. owns and operates the Centralia Power Plant as an EWG. The sale of the Centralia facilities was approved by the Commission in March 2000. *See* Docket No. UE-991409, Second Supplemental Order Approving Sale with Conditions (March 6, 2000). The Centralia sale agreement granted the purchaser, TransAlta, an option to purchase the Skookumchuck Project facilities. TransAlta is now exercising its purchase option.

**B. The Project**

7. The Skookumchuck Project is a small earth-fill dam and hydroelectric generating plant located in the vicinity of Centralia, Washington on property adjacent to the Centralia Power Plant. The Skookumchuck dam was constructed in 1973 as a water storage facility for the Centralia Power Plant. In 1991, a generating plant with a capacity of approximately one megawatt was constructed at the dam. The Project includes real property and associated easements and water rights, as well as various equipment. The Project was granted an exemption from licensing as a hydropower facility by the Federal Energy Regulatory Commission ("FERC") pursuant to 16 U.S.C. §2705(d), which allows exemptions for facilities less than 5 MW. The Project is, however, subject to dam safety regulation by the FERC.

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(...continued)

<sup>1</sup> PacifiCorp has already filed an Application with the Commission requesting approval of the sale of its share of the Skookumchuck Project, as well as EWG determinations. See Docket No. UE-040202.

8. The Project is located in Thurston County, Washington. A more specific description of the facilities, real estate, water rights and other property to be transferred is contained in Schedules 2.1(a) through 2.1(e) of the Sale Agreement, which is provided as PSE Exhibit \_\_\_ (MLJ-2).

9. Application Exhibit No. 1 is a statement, by primary account, of PSE's Original Cost, Accumulated Depreciation and Net Book Value of Assets to be Transferred for the Skookumchuck Project.

### III. JURISDICTION AND AUTHORITY REGARDING SALE

#### A. Commission Approval of the Sale of PSE's Interest in the Project is Not Required

10. No Commission approval of PSE's sale of its share of the Skookumchuck Project is required because the Project is not necessary or useful to perform PSE's public duties. WAC 480-143-180 provides:

**WAC 480-143-180 Disposal and determination of necessary or useful property.** A public service company must not dispose of any property necessary or useful to perform its public duties unless it first applies for, and obtains, written authority from the commission.

Necessary or useful includes all property except items that:

- (1) Are substituted with or replaced by items of equal or greater value or usefulness;
- (2) Are surplus and unneeded assets for which full value is received;
- (3) Are obsolete; or
- (4) Are excluded from the public service company's rate base by commission order, or otherwise.

The public service company must file an application for commission determination that the property is not necessary or useful, prior to disposing of such property, if the property to be disposed of has a market value that exceeds the greater of .1% of the public service company's rate base (for the applicable utility service) last established by commission order, or \$20,000.

11. The Skookumchuck Project is: (1) a surplus and unneeded asset for which full value is being received; and (2) is obsolete. Though still capable of producing a small amount of energy, the facilities may need significant upgrading to meet FERC required seismic stability criteria and the cost of on-going operation and maintenance could be excessive.

12. PSE is informed that Washington LLC will continue operation of the Project to provide cooling water supply to the Centralia Power Plant, and that it will produce power from the Project either as an EWG or as a qualifying facility under the Public Utility Regulatory Policies Act of 1978. Subject to negotiation and execution of a mutually acceptable power purchase and sale agreement, PSE will still have the opportunity to purchase the electric output from the new owner, if it is economic compared to other alternatives available.

13. PSE is not filing a request for a determination by the Commission that the Skookumchuck project is not necessary or useful because 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." WAC 480-143-180. PSE's rate base for electric and gas are as set forth below:

<u>Plant</u>	<u>Rate Base</u>	<u>1/10% Auth.</u>	<u>1/100% FMV Filing</u>	<u>Docket No.</u>
Electric	\$ 2,631,502,866	> 2,631,503	< > 263,150	UE-011570
Gas	\$ 974,041,859	> 974,042	< > 97,404	UG-011571
Common	\$ 3,605,544,725	> 3,605,545	< > 360,554	UE/G-01157X

14. PSE plans to sell and transfer to Washington LLC its share in the dam, powerhouse, water rights, land, easements and other assets of the Project, including certain fixtures, contracts and other rights. The sale and transfer of the Project is governed by the Skookumchuck Facilities Purchase and Sale Agreement between the Owners and Washington LLC, dated November 25, 2003 (the "Sale Agreement"), which is provided as PSE Exhibit \_\_\_\_ (MLJ-2).

15. The aggregate sale price of the transaction is approximately \$7.57 million, adjusted for changes in PacifiCorp's Net Book Value of the Facilities from September 30, 2003 to the Closing Date. See Section 2.3(a) of the Sale Agreement. PSE's share of this amount is 7.0 percent – approximately \$527,000, well below the threshold required for a Commission determination pursuant to WAC 480-143-180.

16. Instead, PSE will include the Skookumchuck project in its detailed list of property disposed of without commission approval in its March 1, 2005 filing pursuant to WAC 480-143-190.

#### **B. Required EWG Determinations**

17. To qualify as an EWG, Washington LLC must be engaged exclusively in the business of owning or operating an "eligible facility" and selling electric energy at wholesale. If the costs of a generation facility were included in the rates of a regulated utility on October 24, 1992 (the date of enactment of section 32 of PUHCA), then in order for the facility to be considered an "eligible facility," every state commission having jurisdiction over such rates must specifically determine that allowing the facility to become an eligible facility (1) will benefit consumers, (2) is in the public interest, and (3) does not violate State law. 15 U.S.C. § 79z-5a(c). Thus, the Commission must make these determinations regarding PSE's transfer of its portion of the Skookumchuck Project.

##### **(1) Compliance with State Law**

18. The requirements of Washington law regarding the transfer of the Skookumchuck Project to Washington LLC are set forth in Section III.A of this Application, above. Because PSE's transfer to Washington LLC is in accordance with the provisions of WAC 480-143-180, the transfer and allowing the Project to become an eligible facility will not violate Washington State law.

##### **(2) Benefits to Consumers**

19. PSE proposes to transfer the Project to Washington LLC because a sale is a lower cost option than continuing to invest in and operate and maintain the Project.

20. The Skookumchuck Project has an electrical capacity of 1 MW, but because the Project is operated for purposes of supplying cooling water to the Centralia Power Plant, it has relatively low energy output. Over the last eight years, the average annual production has been 3,013 megawatt-hours. The Project's bus bar cost for the twelve months ending March 31, 2003 was approximately \$250 per MWh. The Project is interconnected with the distribution system of PSE and historically all of the power from the Project has been sold to PSE.

21. As one of the Owners of the Project, PSE must pay its proportionate share of the costs of the Project. The Owners' analysis demonstrates that their customers will not be harmed by the proposed transaction and will in fact benefit from it. To measure the impact on power costs, the Owners compared the forecast of future power costs to the cost of power generated by the Project. While forecasts of the market price for power cannot predict the future with certainty, the forecasts provide a reasonable framework to measure potential outcomes. Here, the forecasts predict that ratepayers will see lower costs if the Project is sold because the projected cost of power from the Project substantially exceeds the projected cost of market power. Moreover, the expected impact of the sale is to lower the Company's future revenue requirement by removing the Project from the Company's rate base and revenue requirement.

22. 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. PSE's share of this investment is estimated to be approximately \$590,000. The benefits from the proposed sale outweigh the risks of rising costs of continuing to own and operate the Project.

23. As shown by the Owners' analysis, continued operation of the Project as a hydroelectric project would be uneconomic, and such operation would not be in the public interest. An alternative to the proposed sale would be discontinuing operation of the Project and draining the reservoir created by the Skookumchuck dam, which would subject the Centralia

Power Plant to run-of-the-river operations. This alternative is likewise not in the public interest, as it would adversely impact the ability of the Centralia Power Plant, with over 1,200 MW of generation capacity, to produce power.

24. Moreover, the sale will not harm the public interest because competitive markets will be unaffected by the sale. It cannot reasonably be suggested that a 1 MW plant, with only 3,000 MWhs of annual production, could have a measurable impact on western electricity supply or any impact on wholesale electricity prices.

**(3) Public Interest Standard**

25. The transfer of the Skookumchuck Project to Washington LLC is in the public interest because it will benefit PSE's customers by lowering the Company's costs of providing electrical service, for the reasons stated in Section III.B(2) of this Application, above. In addition, the transfer will give TransAlta greater control of the water flows in the Skookumchuck River for providing cooling water to the Centralia Power Plant, thus allowing the maximum electrical output of the Centralia Power Plant for the benefit of all electricity consumers.

**IV. ACCOUNTING AND RATEMAKING TREATMENT**

26. As described above, PSE's 7.0 percent share of the sale price will be approximately \$527,094. PSE's net book value for the plant is approximately \$338,258. PSE projects that the sale of Skookumchuck will result in a small after-tax gain. Actual figures will not be known until the transaction closes. PSE proposes to allocate the after-tax Skookumchuck gain between ratepayers and shareholders in the same manner as PSE's after-tax gain on the sale of the Centralia Power Plant was allocated in Docket Nos. UE-991409. Applying the methodology for allocating proceeds set forth in the orders approving the sale of the Centralia Power Plant to the estimated after-tax gain of approximately \$183,954, yields an allocation to ratepayers at 100%. The calculation and allocation of the estimated gain is attached as Application Exhibit 2.



27. PSE is proposing that the gain from sale of the Skookumchuck Project, which is estimated to be approximately \$183,954, be applied against the electric conservation tariff rider balance. This proposal is consistent with the methodology of handling any 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. An over-refund associated with the pass through of the gain on the sale of the Centralia Power Plant of approximately \$1.9 million dollars has previously been charged to the electric conservation tariff rider balance. The gain from the Skookumchuck Project sale would result in a credit of approximately \$183,954 to the electric conservation tariff rider balance. PSE proposes to make this payment by wire transfer at closing.

## V. TIMING

28. PSE and the other Owners propose to transfer operation of the Skookumchuck Project to Washington LLC by March 31, 2004. Washington LLC cannot process its EWG application with the FERC until the Commission has made the three determinations required by section 32 of PUHCA. Accordingly, PSE respectfully requests that the Commission conduct its proceedings and issue its Order as expeditiously as possible.

## VI. EXHIBITS

### A. Exhibits to Application

29. The exhibits that accompany this Application are:
- (a) Application Exhibit No. 1: Original Cost, Accumulated Depreciation and Net Book Value of Assets to be Transferred;
  - (b) Application Exhibit No. 2: Allocation of Gain Per Commission Methodology in Docket Number UE 991409; and

- (c) Application Exhibit No. 3: Proposed Journal Entries for Recording the Transfer Proceeds.

**B. Prefiled Testimony Accompanying Application**

30. Michael L. Jones, PSE's Consulting Contract Administrator, is sponsoring prefiled testimony in support of this Application. Mr. Jones describes the Owner's analysis of the future economic viability of the Project, explains the possibility that the FERC will require capital investments in the Project to ensure the safety and structural integrity of the dam, and summarizes the key terms of the Sale Agreement. *See* Exhibit \_\_\_\_ (MLJ-1T).

31. Exhibit \_\_\_\_ (MLJ-3) to the testimony of Michael Jones is the Sale Agreement for sale of the Skookumchuck Project.

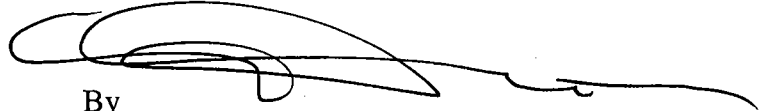
**VII. REQUEST**

32. For the reasons stated above, PSE requests a Commission order:
- (a) Determining that the proposed transfer of the Skookumchuck Project to Washington LLC and allowing the Project to become an “eligible facility” within the meaning of section 32 of PUHCA (1) will benefit consumers, (2) is in the public interest and (3) does not violate Washington State law;
  - (b) Approving the accounting and ratemaking treatment proposed by PSE, whereby any gain from the sale will be treated in the same manner set by the Commission in its order approving PSE's sale of its share of the Centralia Power Plant and Associated Transmission Facilities. *See* Docket No. UE-991409, Second Supplemental Order (March 6, 2000) and Fifth Supplemental Order (August 23, 2000); and
  - (c) Granting such other relief as the Commission deems necessary and proper.

Dated: February 20, 2004

Respectfully submitted,

PERKINS COIE LLP

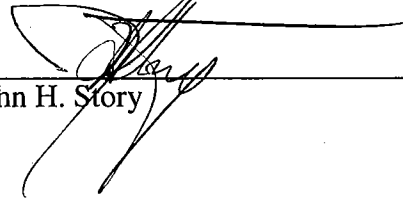


By \_\_\_\_\_  
Kirstin S. Dodge  
Counsel for Puget Sound Energy, Inc.

**VERIFICATION**

The undersigned hereby certifies that the information set forth in the foregoing Application is true and correct to the best of the signer's information and belief under penalty of perjury as set forth in RCW 9A.72.085.

Dated: February 20, 2004



John H. Story

PUGET SOUND ENERGY  
SKOOKUMCHUCK VALLEY  
FOR THE PERIOD ENDING DECEMBER 31, 2003

..ilbit 1

ASSET NUMBER	YEAR	ASSET CATEGORY	SUPER NUMBER	FERC	UOP	DESCRIPTION	ACQUISITION VALUE	ACCUMULATED DEPRECIATION	NET BOOK VALUE
1090304	1973	LAND	GNR-SKK	E330	HYDRO PROD.	LAND&RTS SKOOKUMCHUCK	176.36	-	176.36
1090305	1973	LAND	GNR-SKK	E330	HYDRO PROD.	LAND&RTS SKOOKUMCHUCK	9,895.00	-	9,895.00
1090306	1973	LAND	GNR-SKK	E330	HYDRO PROD.	LAND&RTS SKOOKUMCHUCK	54,423.00	-	54,423.00
1090307	1973	LAND	GNR-SKK	E330	HYDRO PROD.	LAND&RTS SKOOKUMCHUCK	34,633.00	-	34,633.00
			<b>TOTAL</b>	<b>E330</b>			99,127.36	-	99,127.36
1060053	1990	STRUCT	GNR-SKK	E331	SPEC HYDRO PROD.	STRU&IMP SKOOKUMCHUCK	21,682.36	(6,526.89)	15,155.47
1060053	1995	STRUCT	GNR-SKK	E331	SPEC HYDRO PROD.	STRU&IMP SKOOKUMCHUCK	499.49	(94.47)	405.02
1060053	1996	STRUCT	GNR-SKK	E331	SPEC HYDRO PROD.	STRU&IMP SKOOKUMCHUCK	69.54	(11.61)	57.93
1069992	1973	STRUCT	GNR-SKK	E331	SPEC HYDRO PROD.	STRU&IMP SKOOKUMCHUCK-FENCING	4,200.00	(3,836.56)	363.44
1069994	1973	STRUCT	GNR-SKK	E331	SPEC HYDRO PROD.	STRU&IMP SKOOKUMCHUCK-FISHERIES	127,606.29	(116,563.98)	11,042.31
			<b>TOTAL</b>	<b>E331</b>			154,057.68	(127,033.51)	27,024.17
1020933	1998	RESVOIR	GNR-SKK	E332	SPEC HYDRO PROD.	RESERVOIRS, DAMS AND WATERWAYS	1,286.03	(138.45)	1,147.58
1069997	1973	RESVOIR	GNR-SKK	E332	SPEC HYDRO PROD	RES/DAM/WTRWAY-SKOOKUMCK-OUT VALVES	79,446.36	(71,990.23)	7,456.13
1069998	1973	RESVOIR	GNR-SKK	E332	SPEC HYDRO PROD	RES/DAM/WTRWAY-SKOOKUMCK-RESERVOIR	76,705.65	(69,506.74)	7,198.91
1069999	1973	RESVOIR	GNR-SKK	E332	SPEC HYDRO PROD	RES/DAM/WTRWAY-SKOOKUMCK-CLAY DAM	292,576.13	(265,117.54)	27,458.59
1070000	1973	RESVOIR	GNR-SKK	E332	SPEC HYDRO PROD	RES/DAM/WTRWAY-SKOOKUMCK-SPILLWAY	246,614.76	(223,469.69)	23,145.07
			<b>TOTAL</b>	<b>E332</b>			696,628.93	(630,222.65)	66,406.28
1060553	1990	WTRWHEEL	GNR-SKK	E333	SPEC HYDRO PROD.	WATERWHL SKOOKUMCH.	142,253.56	(43,949.63)	98,303.93
1060553	1991	WTRWHEEL	GNR-SKK	E333	SPEC HYDRO PROD.	WATERWHL SKOOKUMCH.	9,274.30	(2,663.21)	6,611.09
1060553	1992	WTRWHEEL	GNR-SKK	E333	SPEC HYDRO PROD.	WATERWHL SKOOKUMCH.	2,756.63	(731.50)	2,025.13
1069811	1999	WTRWHEEL	GNR-SKK	E333	SPEC HYDRO PROD.	WATERWHL SKOOKUMCH.	1,758.00	(175.97)	1,582.03
			<b>TOTAL</b>	<b>E333</b>			156,042.49	(47,520.31)	108,522.18
1060554	1990	ACCESSEQ	GNR-SKK	E334	SPEC HYDRO PROD.	ACCEQUIP SKOOKUMCH.	40,152.56	(12,433.91)	27,718.65
1060554	1995	ACCESSEQ	GNR-SKK	E334	SPEC HYDRO PROD.	ACCEQUIP SKOOKUMCH.	7,974.33	(1,584.87)	6,389.46
1060554	1996	ACCESSEQ	GNR-SKK	E334	SPEC HYDRO PROD.	ACCEQUIP SKOOKUMCH.	240.15	(42.39)	197.76
			<b>TOTAL</b>	<b>E334</b>			48,367.04	(14,061.17)	34,305.87
1070002	1973	RESVOIR	GNR-SKK	E336	SPEC HYDRO PROD	SKOOKUMCHUCK - BRIDGE	1,400.00	(1,255.40)	144.60
1070003	1973	RESVOIR	GNR-SKK	E336	SPEC HYDRO PROD	SKOOKUMCHUCK - ROADS	25,489.59	(22,856.88)	2,632.71
			<b>TOTAL</b>	<b>E336</b>			26,889.59	(24,112.28)	2,777.31
1070004	1996	TRANSEQ	GNR-SKK	E392	GENERAL PLANT - T.E.VEH	SKOOKUMCHUCK	1,676.94	(1,581.65)	95.29
			<b>TOTAL</b>	<b>E392</b>			1,676.94	(1,581.65)	95.29
			<b>TOTAL SKOOKUMCHUCK</b>				1,182,790.03	(844,531.57)	338,258.46

PSE SKOOKUMCHUCK SMALL HYDRO (GNR-SKK) BOOK VALUE SUMMARY:									
ASSET NUMBER	YEAR	ASSET CATEGORY	SUPER NUMBER	FERC	UOP	DESCRIPTION	ACQUISITION VALUE	ACCUMULATED DEPRECIATION	NET BOOK VALUE
			<b>TOTAL</b>				99,127.36	-	99,127.36
			<b>TOTAL</b>				154,057.68	(127,033.51)	27,024.17
			<b>TOTAL</b>				696,628.93	(630,222.65)	66,406.28
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			<b>TOTAL</b>				26,889.59	(24,112.28)	2,777.31
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			<b>TOTAL</b>				1,676.94	(1,581.65)	95.29
			<b>TOTAL SKOOKUMCHUCK</b>				1,182,790.03	(844,531.57)	338,258.46
			<b>TOTAL</b>				99,127.36	-	99,127.36
			<b>TOTAL</b>				154,057.68	(127,033.51)	27,024.17
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			<b>TOTAL SKOOKUMCHUCK</b>				1,182,790.03	(844,531.57)	338,258.46
			<b>TOTAL</b>				99,127.36	-	99,127.36
			<b>TOTAL</b>				154,057.68	(127,033.51)	27,024.17
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			<b>TOTAL</b>				156,042.49	(47,520.31)	108,522.18
			<b>TOTAL</b>				48,367.04	(14,061.17)	34,305.87
			<b>TOTAL</b>				26,889.59	(24,112.28)	2,777.31
			<b>TOTAL</b>				1,676.94	(1,581.65)	95.29
			<b>TOTAL</b>				1,676.94	(1,581.65)	95.29
			<b>TOTAL SKOOKUMCHUCK</b>				1,182,790.03	(844,531.57)	338,258.46



**Skookumchuck Dam Sale**  
**Allocation of Gain per Commission Methodology**  
**As of December 31, 2003**

	<u>Total</u>	<u>Customer</u>	<u>PSE</u>
	(a)	(b)	(c)
1 Sales Proceeds (Note 5)	\$ 527,094		
2 Allocation:			
3 Net book value of plant	\$ 338,258	\$ -	\$ 338,258
4 Book value of fuel and material inventory	-	-	-
5 Accumulated depreciation	844,532	844,532	-
6 Appreciation (Note 1)	(655,696)	(327,848)	(327,848)
7 Proceeds	527,094	516,684	10,411
8 Less net book value (Plt NBV + Fuel & Mat. Sales price)	(338,258)	-	(338,258)
9 Gain before taxes and transaction costs	188,836	516,684	(327,848)
10 Less cost of transaction (Notes 3)	(4,882)	(4,882)	-
11 Total pre-tax gain	183,954	511,802	(327,848)
12 Total federal taxes due (Note 4)	(64,384)	(64,384)	-
13 Total state taxes due (Note 2)	(1,038)	(1,038)	-
14 Existing deferred taxes	14,277	14,277	-
15 Net Book Gain	\$ 132,809	\$ 460,657	\$ (327,848)

Note 1	Proceeds of the sale less PSE's acquisition value ( $=\$527,094 - \$1,182,790 = (\$655,696)$ )		
Note 2	State excise tax on transaction		
Note 3	Transaction costs allocated equally between the Company and ratepayer.		
	Legal Fees	\$	-
	Survey of the easement		4,882.00
	Postage & Delivery Charges		
	Others		
		<u>\$</u>	<u>4,882.00</u>
Note 4	Reversal of deferred income taxes due to accelerated depreciation assigned to accumulated depreciation component of gain.		
Note 5	NBV on PacifiCorp's book:		
	Sales price	\$	527,094.41
	LLC Savings Allocation		
	Mine Break-even Distribution		
	Others		
	Total Sale Price of the Dam	<u>\$</u>	<u>527,094.41</u>
Note 6	Original book value or PSE's acquisition value equals to \$1,182,790.		

**Puget Sound Energy  
Skookumchuck Sale Journal Entries**

Exhibit 3

In Docket No. UE-xxxx, the Commission approved the sale of PSE's share of the Skookumchuck Dam.

The following entries (cumulative) will be done following the sale on PSE's book: (Amounts are as December 31, 2003 )

<u>Account</u>	<u>Order</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<b>Entry 1 - Treasury</b>				
13101023		Cash	527,094.41	
10200003		Electric Plant Purchased or Sold		527,094.41

To record receipt of funds related to the Skookumchuck Dam sale.

<b>Entry 2 - Property Accounting</b>				
10200003		Electric Plant Purchased or Sold	1,182,790.03	
10100001		Electric Plant In Service		1,182,790.03

To transfer Skookumchuck Dam in service to FERC account 102 to record the plant sale per FERC Uniform Accounting Instructions.

<b>Entry 3 - Property Accounting</b>				
10800001		Accum Prov for Depr - Regular	844,531.57	
10200003		Electric Plant Purchased or Sold		844,531.57

To transfer the related Skookumchuck Dam Accumulated Depreciation to FERC account 102 to record the Skookumchuck Dam sale per FERC Uniform Accounting Instructions.

<b>Entry 4 - General Ledger</b>				
10200001		Electric Plant Purchased or Sold	183,953.95	
25400121		Regulatory Liability - Gain on Sale of the Dam		183,953.95

To record the pre-tax gain of the Skookumchuck sale. 100% of the gain will be allocated to the ratepayers, and 0 to PSE.

<b>Entry 5 - Tax Dept.</b>				
63400400	40810002	Washington State Excise Tax	1,038.00	
23600471		Washington State Tax Payable		1,038.00

To record Washington state excise taxes due on the sale of Skookumchuck.

<b>Entry 6 - Tax Dept.</b>				
40920001	40920001	Federal Income Tax Expense	64,383.88	
23600023		Current FIT Payable		64,383.88

To record the current Federal Income Tax due on the gain on the sale of the Skookumchuck Dam.

<b>Entry 7 - Tax Dept.</b>				
28200111		Deferred Income Tax	14,277.00	
41110001	41110001	Provision for Deferred Tax - credit		14,277.00

To clear the deferred taxes related to accelerated depreciation of the Skookumchuck Dam for tax purposes.

<b>Entry 8 - General Ledger</b>				
25400121		Regulatory Liability - Gain on Sale of the Dam	183,953.95	
18230021		Electric Conservation not in RB		183,953.95

To allocate the pre-tax gain to the ratepayers for the Skookumchuck Dam sale in the 2003 PCA filing