



July 14, 2000

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STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION

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

**RE: Docket No. UE-991409, Sale of Centralia Power Plant and Associated Transmission Facilities**

Dear Ms. Washburn,

On March 6, 2000, in its Second Supplemental Order, the Commission authorized PSE to sell its 7% ownership interest in the coal-fired Centralia Electric Generating Plant located in southwest Washington State to TECWA Power, Inc. The Order also set forth accounting treatment for the transaction.

On May 4, 2000, PSE sold its share of the Centralia Generating Plant to TECWA Power, Inc. for \$31,681,861, subject to final adjustments to be made later in the year. It is not expected that these final sales price adjustments will be material.

Per the Commission's Second Supplemental Order, the Company is to "recalculate the gain on the sale to match the date that the sale closes" and that the "figure must be provided to the commission". Attachment A includes the calculation of the gain at the date of the sale. Attachment B includes the journal entries which were recorded in May 2000 and June 2000 related to the Centralia Facilities sale. Later in the year, the final accounting for the sale will be performed. The Company does not expect any material change to the recorded gain and asks, in accordance with paragraph 126 of the Fourth Supplemental Order, that it be allowed to recognize its portion currently. A true-up to the final accounting amounts will be performed when the final accounting takes place. Journal entries to reflect the true-up will be recorded on the Company's books and the final accounting amounts will be provided to the Commission.

The Second Supplemental Order also states that the Company "must seek a ruling from the Internal Revenue Service allowing pass-through of excess deferred taxes as part of the net gain from the instant sale". The Company is pursuing the resolution of this issue and will notify the Commission as soon as it is resolved.

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

Sincerely,



Karl R. Karzmar  
Manager, Revenue Requirements

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attachments

Cc: Merton Lott, WUTC Gas Industry Coordinator  
Doug Kilpatrick, WUTC Electric Industry Coordinator

**Puget Sound Energy  
Centralia Power Plant Sale**

**Calculation and Allocation of Gain as Clarified in the Fourth Supplemental Order in Docket No. UE-991409**

	<u>Total</u>	<u>Customer</u>	<u>PSE</u>
	(a)	(b)	(c)
1 Plant	\$ 31,681,861.00		
2 Fuel	1,024,097.40		
3 Sales Proceeds	<u>\$ 32,705,958.40</u>		
4 Allocation:			
5 Net book value of plant	\$ 7,911,879.71	\$ -	\$ 7,911,879.71
6 Book value of fuel and material inventory	1,669,727.75	-	1,669,727.75
7 Accumulated depreciation	19,146,135.34	19,146,135.34	-
8 Appreciation (Note 1)	<u>3,978,215.60</u>	<u>1,989,107.80</u>	<u>1,989,107.80</u>
9 Proceeds	32,705,958.40	21,135,243.14	11,570,715.26
10 Less net book value	<u>(8,935,978.11)</u>	-	<u>(8,935,978.11)</u>
11 Gain before taxes and transaction costs	23,769,980.29	21,135,243.14	2,634,737.15
12 Less cost of transaction (Notes 2 and 3)	<u>(1,561,696.96)</u>	<u>(780,848.48)</u>	<u>(780,848.48)</u>
13 Total pre-tax gain	22,208,283.33	20,354,394.66	1,853,888.67
14 Total federal taxes due (Note 4)	(9,425,803.47)	(8,776,942.44)	(648,861.03)
13 Total state taxes due	-	-	-
14 Existing deferred taxes (Note 4)	<u>700,701.00</u>	<u>700,701.00</u>	<u>-</u>
15 Net Book Gain	<u>\$ 13,483,180.86</u>	<u>\$ 12,278,153.22</u>	<u>\$ 1,205,027.63</u>

Note 1 Proceeds of \$32,705,958 less original cost of \$27,058,015 and fuel and material inventory of \$1,669,728.

Note 2 Scrubber cost overruns (\$420,000), costs related to sale (\$496,068), and loss on fuel and inventory (645,629).

Note 3 Transaction costs, including costs of seeking a ruling from the Internal Revenue Service on excess deferred taxes, allocated equally between the Company and ratepayer.

Note 4 Reversal of deferred income taxes due to accelerated depreciation assigned to accumulated depreciation component of gain and remaining taxes spread proportionately to remaining gain.

PUGET SOUND ENERGY  
CENTRALIA SALE ACCOUNTING INSTRUCTIONS  
DOCKET NO. UE-991409

In Docket No. UE-991409, the Commission approved the sale of PSE's share of the Centralia power plant and associated transmission facilities. The Commission ordered PSE to allocate the proceeds as follows: net book value to the shareholders; remainder, up to original cost, to ratepayers; of the remainder (appreciation), one-half to shareholders and one-half to ratepayers; taxes are to be paid by shareholders and ratepayers in proportion to taxable gain awarded. PSE must defer the gain from the sale until its next general rate proceeding. It must defer the gain with an after tax return of 7.16%.

The Funds Transfer Memo related to the Sale Agreement called for \$24,461,514.11 to be wired to the Company's bank account. The remaining balance, ten percent of the sales price and amount associated with reclamation trust funds, will be provided after a true-up to be performed within 60 days. The \$24,461,514.11 was debited to 13100023-Cash, and credited to 10200001-Electric Plant Purchased or Sold, in May 2000.

The following additional entries have been recorded in May 2000 and June 2000 business to reflect the transaction on the Company's books:

<u>Account</u>	<u>Order</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<b><u>Entry 1 - Property Accounting</u></b>				
10200001		Electric Plant Purchased or Sold	27,058,015.05	
10100001		Electric Plant In Service		27,058,015.05

To transfer Centralia plant in service and CWIP to FERC account 102 to record the plant sale per FERC Uniform Accounting Instructions.

<b><u>Entry 2 - Property Accounting</u></b>				
10800001		Accum Prov for Depr - Regular	19,146,135.34	
10200001		Electric Plant Purchased or Sold		19,146,135.34

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

<b><u>Entry 3 - General Ledger</u></b>				
(a) various	18601006	Reserve for Centralia Sale Costs	405,383.95	
various	42650005	Other Deductions-Miscellaneous		405,383.95

To reverse the reserve established for Centralia sale costs. (Document # 100036209)

(b)	10200001	Electric Plant Purchased or Sold	1,024,098.40	
	63000090	18601001 Costs Related to Centralia Sale	278,710.35	
	15100011	Fuel Stock - Centralia		863,279.16
	15400021	Plant Materials- Centralia		439,529.59

To reflect the transaction cost related to Centralia fuel and material inventories within the cost accumulation account. (Document # 100040477)

(c)	63000090	18601001 Costs Related to Centralia Sale	420,000.00	
	10200001	Electric Plant Purchased or Sold		420,000.00

To reflect the transaction cost related to Centralia scrubber cost overrun escrow within the cost accumulation account. (Document # 100040478)



**PUGET SOUND ENERGY**  
**CENTRALIA SALE ACCOUNTING INSTRUCTIONS**  
**DOCKET NO. UE-991409**

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
(d) 10200001	Electric Plant Purchased or Sold	1,193,563.30	
68999000 18601001	Costs Related to Centralia Sale		1,193,563.30

To transfer the cost of sale in FERC account 102 per FERC Uniform Accounting Instructions.  
(Document # 100040487)

**Entry 4 - General Ledger**

10200001	Electric Plant Purchased or Sold	14,383,839.04	
14300121	Receivable from TransAlta & PacifiCorp	7,824,444.29	
25400121	Regulatory Liability - Gain on Sale of Centralia		22,208,283.33

To record the sale of Centralia facilities. The Company's share of the gain will be recorded to income once the final accounting is complete, filed, and is accepted by the Commission. (Document # 100040589)

**Entry 5 - Tax Dept.**

28300361	Accum Def Tax Liability - FAS 109	1,464,311.00	
18230631	FAS 109 Taxes		1,464,311.00

To reduce the FAS 109 related taxes from the sale of the Centralia Plant.

**Entry 6 - General Ledger**

40810001 18601001	Washington State Tax	1,214.66	
23600471	Washington State Tax Payable		1,214.66
10200001	Electric Plant Purchased or Sold	1,214.66	
68999000 18601001	Costs Related to Centralia Sale		1,214.66

To record Washington state excise taxes due on the gain related to the sale of Centralia and transfer to FERC 102.  
(Document # 100040561)

**Entry 7- Tax Dept.**

40910001 40910001	Federal Income Tax Expense	9,425,803.47	
23600023	Current FIT Payable		9,425,803.47

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

**Entry 8 - Tax Dept.**

28200111	Deferred Income Tax	700,701.00	
41110001 41110001	Provision for Deferred Tax - credit		700,701.00

To clear the deferred taxes related to accelerated depreciation of Centralia Plant for tax purposes.

**Entry 9- Tax Dept.**

28200111/121	Excess Deferred Taxes	32,874.00	
28200241	Excess Deferred Taxes-Centralia		32,874.00

To record Centralia Plant taxes in excess of 35% in a deferred account until the IRS determines proper treatment of the related tax on the accelerated depreciation for tax purposes.

PUGET SOUND ENERGY  
CENTRALIA SALE ACCOUNTING INSTRUCTIONS  
DOCKET NO. UE-991409

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
<b>Entry 10 - Tax Dept.</b>			
19000291	Def Tax Centralia Gain (federal)	8,725,102.47	
41110001 41110001	Provision for Deferred Tax-credit (federal)		8,725,102.47

To record deferred taxes on the regulatory liability.

**Entry 11 - General Ledger**

<b>May</b> 43100053 43100610	Centralia Sale-Interest on Deferred Gain	65,933.68	
(a) 25400121	Regulatory Liability - Gain on Sale of Centralia		65,933.68

To record prorata interest monthly, at a 7.16% annual rate, on Net Deferred Gain until next general rate case.

<del>June</del> 43100053 43100610	<del>Centralia Sale-Interest on Deferred Gain</del>	<del>73,259.65</del>	
<del>(b) 25400121</del>	<del>Regulatory Liability - Gain on Sale of Centralia</del>		<del>73,259.65</del>

To record interest monthly, at a 7.16% annual rate, on Net Deferred Gain until next general rate case.

Additional entries related to the sale may be recorded after the sale true-up is performed, within 60 days. The monthly interest entry may change as a result. The Revenue Requirements Department will provide notification of any additional entries and/or changes in the interest entry.