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May 17, 2000

Carole J. Washburn  
Washington Utilities & Transportation Commission  
1300 S. Evergreen Park Drive SW  
Olympia, WA 98504

RE: PacifiCorp/Puget Sound Energy/Avista  
Docket Nos. UE-991255, -991262, and -991409

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RECORDS MANAGEMENT  
00 MAY 17 PM 4:32  
STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION

Dear Ms. Washburn:

Yesterday, I e-mailed Judge Schaer with respect to the Commission's decision to cancel the order conference scheduled for May 16, 2000. I concluded subsequently that I should have filed my comments more formally with the Commission as a request for clarification. Therefore, I have included below my original e-mail. Staff would appreciate a Commission response to the concerns we raised, whether by Commission letter or by reconvening the order conference to allow clarification on those, and any other, issues.

My original e-mail is as follows:

Dear Judge Schaer:

On May 15, the Commission canceled the order conference requested by PacifiCorp and scheduled for this afternoon. The Company's letter prompting the cancellation indicated that the clarification it had requested had been provided through preliminary discussions with advisors to the Commission. Thus, the order conference was deemed unnecessary.

The Company also attached to its letter an example of the Commission's gain sharing methodology, which the Company believes represents the result of its discussions with the Commission's advisors. Staff was not a party to the discussions between the Company and the Commission's advisors. Therefore, we request a letter from the Commission affirming, if appropriate, PacifiCorp's representation that the



attachment accurately portrays the Commission's gain sharing methodology.

We would also note several aspects of PacifiCorp's attachment which require either correction or further clarification. First, in calculating the book basis for materials and supplies ("M&S"), the Company includes the amount of \$6,062,998. This represents 100% of the proceeds received from TransAlta for materials and supplies, when only 47.5% should be included to match PacifiCorp's ownership share of the proceeds.

Second, the calculation of the gain presented by PacifiCorp does not include excess deferred taxes under the assumption that the Company has requested, but failed, to receive an IRS ruling allowing pass-through as part of the gain. The attachment provided by PacifiCorp should, therefore, be clarified to require inclusion of excess deferred taxes if a favorable IRS ruling is received.

Third, the Company has utilized 2 tax rates (42% and 37%) in allocating the gain to Washington ratepayers and shareholders. Staff requests clarification of the reason for this treatment. We also request that PacifiCorp detail its tax calculation in a manner similar to Avista in its petition for reconsideration.

Fourth, the proceeds from the sale of \$195 million are determined net of all transaction costs. There should, however, be a sharing of the transaction costs between the plant itself and the mine. The Company's calculation does not include such a sharing of transaction costs.

Fifth, to allocate customer gain, the Company uses balances as of December 31, 1999. We assume, but would appreciate the clarification that balances as of the date of closing will be substituted when those final amounts are determined. The same clarification would be appreciated for allocation factors and other variables that are subject to update.

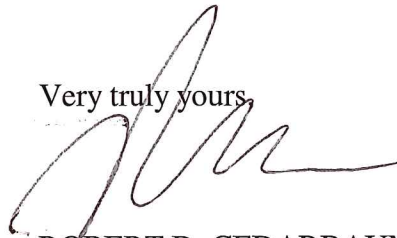
Finally, the sale of Centralia assumes that PacifiCorp will break-even on the mine. The Company's attachment does not reflect that result, however. Therefore, the Company should be required to submit the break-even calculation for the mine based on actual operations.

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Thank you for your consideration of the matters described in this message. While the Commission's 3rd and 4th Supplemental Orders represent its final resolution of these cases, we also believe that clarification from the Commission of these issues will avoid controversy and confusion when the Company submits its final gain calculation at a later time.

Please contact me if you have any questions.

Very truly yours,

A handwritten signature in black ink, appearing to read 'RDC', written over the typed name.

ROBERT D. CEDARBAUM  
Senior Counsel

RDC:kl  
Enclosure  
cc: All Parties