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March 29, 2000

Carole J. Washburn
Secretary
Washington Utilities and Transportation Commission
1300 SW Evergreen Park Drive, S.W.
Olympia WA 98504-7250

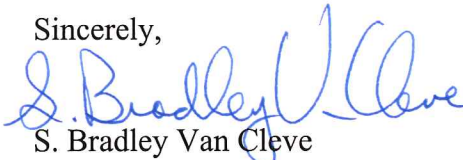
Re: Avista, PacifiCorp and Puget Sound Energy Sale of Centralia
Docket Nos. UE-991255, et al.

Dear Ms. Washburn:

Enclosed please find an original and twenty copies of the Industrial Customers of Northwest Utilities' Response to Petitions for Reconsideration in the above-captioned matter.

Please return one file-stamped copy of the Response in the postage-prepaid envelope provided. Thank you for your assistance.

Sincerely,


S. Bradley Van Cleve

Enclosure

cc: Service List

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OF COUNSEL

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of)
)
AVISTA CORPORATION)
)
for Authority to Sell its Interest in the Coal-)
Fired Centralia Power Plant)
_____)

DOCKET NO. UE-991255

In the Matter of the Application of)
)
PACIFICORP)
)
for an Order Approving the Sale of its)
Interest in (1) the Centralia Steam Electric)
Generating Plant, (2) the Rate Based Portion)
of the Centralia Coal Mine, and (3) Related)
Facilities; for a Determination of the Amount)
of and the Proper Rate Making Treatment of)
the Gain Associated with the Sale, and for an)
EWG Determination)
_____)

DOCKET NO. UE-991262

In the Matter of the Application of)
)
PUGET SOUND ENERGY, INC.)
)
for (1) Approval of the Proposed Sale of)
PSE's Share of the Centralia Power Plant and)
Associated Transmission Facilities, and (2))
Authorization to Amortize Gain Over a Five-)
Year Period)
_____)

DOCKET NO. UE-991409

**INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES' RESPONSE
TO PETITIONS FOR
RECONSIDERATION**

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ICNU submits the following response to requests from various parties for reconsideration of portions of the Commission's Second Supplemental Order approving the Centralia power plant sale in the above-referenced dockets.

ARGUMENT

1. **The Commission Should Reject PacifiCorp's Request To Use the "Depreciation Reserve" Method For Allocating the Gain from the Centralia Sale Between Shareholders and Ratepayers**

In its petition for reconsideration, PacifiCorp argues that the "only mechanism" for equitable sharing between ratepayers and shareholders is the depreciation reserve method. PacifiCorp Petition at 11-12. Using this method, ratepayers would receive 64 percent of the gain and shareholders would receive 36 percent of the gain. Ex. 214 (RW-1).

PacifiCorp made similar arguments before the Oregon Public Utility Commission ("OPUC") in the proceeding related to its request for approval to sell its share of Centralia (OPUC Docket No. UP 168), all of which were rejected by the OPUC. The OPUC concluded:

The Commission does not find PacifiCorp's position on the allocation of gain persuasive. We see no nexus between the proportion of book value that has been depreciated and the proportion of the gain that should go to customers. As several parties point out, PacifiCorp will ultimately be paid all of the book value of the Plant. No one contests PacifiCorp's right to return of that investment in total. In the final analysis, then, the Company will have been "paid back" 100 percent of the book value. Thus, the proportion of the book value that has been paid back up to the time of the sale is of no apparent significance.

OPUC Order No. 00-112 at 8 (Feb. 29, 2000).

This Commission also rejected PacifiCorp's approach and instead based its finding on the principle that reward should follow risk, and benefit should follow burden. Second Supplemental Order at 28. ICNU believes the Commission's decision to reject the depreciation reserve methodology was correct. Application of PacifiCorp's mechanism would result in excessive shareholder returns and would deprive ratepayers of the value of assets which they have paid for. The Company's proposed mechanism is flawed because it is based on the

simplified and inaccurate notion that because shareholders have put capital at risk to build Centralia, the Company is entitled to a larger amount of the sale proceeds. But it is ratepayers who have paid PacifiCorp both a return on its investment over the years and the depreciation expense for this investment. Despite PacifiCorp's assertion to the contrary, its shareholders have been adequately compensated. PacifiCorp has provided no reason for the Commission to reconsider this aspect of the Second Supplemental Order.

2. **The Commission Should Reject Puget Sound Energy's Request To Eliminate the Requirement of a 7.16% Carrying Cost On the Portion of the Gain Allocated To Ratepayers**

In its petition for reconsideration, PSE argues that it intends to reinvest the ratepayer share of the gain in "utility rate base items." PSE Petition at 4. PSE also argues that it must bear at least \$1.1 million in additional power costs during the remainder of PSE's Rate Plan if PSE proceeds with the proposed sale. PSE Petition at 6. If the Commission imposes the carrying costs, PSE argues that it would be better off not selling Centralia in the first place. PSE Petition at 5. The Commission should reject PSE's argument and require that the ratepayers' shares of the gain accrue interest at 7.16%.

PSE's decision to sell Centralia is voluntary. Therefore, PSE's increased power costs during the remaining term of the Rate Plan are not a ratepayer responsibility. In addition, PSE fails to acknowledge that it will have free use of the ratepayer share of the gain, which will offset the carrying cost. However, if PSE chooses not to go through with the sale, then ratepayers should not be responsible for any costs associated with this transaction. Furthermore, if PSE elects not to sell the plant, PSE's Centralia costs should be carefully evaluated in its next rate case, given the utilities' extensive discussion in the record in this proceeding showing the detriments of retaining Centralia.

The Commission also should reject the Companies' request to use ratepayers' share of the gain to fund rate base investments. PSE does not provide any details of how it intends to spend ratepayers' share of the gain. It simply says the funds will be reinvested in "rate base items." PSE Petition at 4. PSE's proposal should be rejected because it is inconsistent with the Rate Plan and the Second Supplemental Order.

In summary, the imposition of a carrying cost is an appropriate requirement. Otherwise, the free use of ratepayer money would be an impermissible windfall to PSE's shareholders. ICNU believes the Commission properly required PSE to defer the ratepayers' share of the gain and to accrue interest on that amount.

3. **Public Counsel Raises a Valid Concern About the Obligations of the Companies To Request an IRS Private Letter Ruling On Excess Deferred Taxes**

The Commission noted in its Order that the Companies have accrued deferred taxes and have tracked excess deferred taxes. Second Supplemental Order at 32. The Commission ordered the Companies to obtain private letter rulings from the IRS. Public Counsel expresses the concern that the Companies may have an incentive to submit a request that the IRS will reject. Public Counsel Petition at 2. ICNU supports the imposition of more stringent requirements on the utilities to ensure proper treatment of the excess deferred taxes.

4. **The Commission Should Reject the WUTC Staff Request That Transactions Costs Be Assigned To Both Shareholders and Ratepayers**

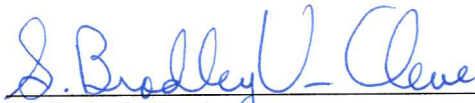
In its Petition, Staff argue that the Commission should require ratepayers and shareholders to share equally in the responsibility for transaction costs, "consistent with the assignment of the Appreciation gain" (50-50 split). Staff Petition at 4.

ICNU believes that the Companies should bear 100 percent of the transaction costs of the sale. It is the utilities who have decided voluntarily to sell the plant and who have retained the investment bankers, consultants and others to execute this complex transaction. The ratepayers have no say in the selection process of the various advisors, nor do they have any control over the expenditure of funds, which is an ongoing activity that will continue until the sale closes. Furthermore, there has been no demonstration that these costs are prudent. It would be unfair to require ratepayers to split these costs with shareholders. For those reasons, ICNU believes the shareholders should bear the full costs of paying for the transaction costs associated with the Centralia sale.

Dated this 29th day of March, 2000.

Respectfully submitted,

DUNCAN, WEINBERG, GENZER & PEMBROKE, P.C.



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Of Attorneys for Industrial Customers of
Northwest Utilities

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Industrial Customers of Northwest Utilities' Response to Petitions for Reconsideration upon each party on the official service list by causing the same to be mailed, postage-prepaid, through the U.S. Mail.

Dated at Portland, Oregon, this 29th day of March, 2000.


S. Bradley Van Cleve