

**BEFORE THE
WASHINGTON UTILITIES & 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. _____

ORDER (PROPOSED)

MEMORANDUM

1. On February ____, 2004, Puget Sound Energy, Inc. ("PSE" or "the Company") submitted an Application relating to the sale of its share of the Skookumchuck Hydroelectric Plant and related facilities (the "Skookumchuck Project" or "Project"). According to the Application, PSE and the other Project owners intend to transfer the Skookumchuck Project to 2677588 Washington LLC ("Washington LLC"), a limited liability company formed by TransAlta USA Inc. ("TransAlta"), on March 31, 2004.

2. In the Application, PSE requested an order containing:

- 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"); and

- Approval to treat any gain from the sale of the Skookumchuck Project in accordance with the Commission Order approving the sale of the Centralia Power Plant. *See* Docket No. UE-991409, Second Supplemental Order (March 6, 2000) and Fifth Supplemental Order (August 23, 2000).

Background

A. Skookumchuck Hydroelectric Project

3. 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. The sole purpose of the dam was to store portions of the natural flow of the Skookumchuck River for release in a controlled manner to meet the cooling water requirements of the Centralia Steam Plant. Water from the reservoir is released into the natural channel of the river and then diverted at the Centralia Steam Plant Pumping Station located approximately 2 miles downstream of the dam.

4. In 1991, a generating plant with a capacity of approximately one megawatt was constructed at the dam. The hydroelectric facilities were constructed in 1991 and were sized at 1 MW in order not to conflict with the water cooling needs of the Centralia Steam Plant. The Project includes real property and associated easements and water rights, as well as various equipment.

5. 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.

6. The current owners of the Project are: PacifiCorp; 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”).

7. In 2000, the Commission approved the sale of the Centralia Power Plant and specified how any gain from the sale of the Centralia Power Plant should be handled by the Company. *See* Docket No. UE-991409, Second Supplemental Order Approving Sale with Conditions (March 6, 2000). The Commission subsequently approved a method for crediting the customers' share of the gain from PSE's share of the sale in which such gain was immediately passed through by a credit to PSE's electric conservation tariff rider balance. *See* Docket No. UE-991409, Fifth Supplemental Order (August 23, 2000).

8. The Owners are selling to Washington LLC all of their interests in the Skookumchuck Dam, 1,653 acres of real property underlying and adjacent to the reservoir, all relevant easements, rights of way, licenses, franchises, and water rights appurtenant to the real property or associated with operation of the hydroelectric facility. Washington LLC will also acquire the powerhouse structure, equipment utilized to operate the Skookumchuck Dam and hydroelectric generating facilities, outbuildings, and specifically identified vehicles.

9. The aggregate sale price of the transaction is approximately \$7.57 million, adjusted for changes in Net Book Value of the Facilities from September 30, 2003 to the Closing Date. PSE's share of this amount is 7.0 percent – approximately \$527,094. PSE's net book value for the plant is approximately \$338,258.

10. 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." *See* WAC 480-143-180.

B. Proposed Exempt Wholesale Generator findings

11. 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). The Commission must make these determinations regarding PSE’s transfer of its portion of the Skookumchuck Project.

C. Proposed Accounting and Ratemaking Treatment of Gains

12. In its application, PSE proposes to treat any net gain in the same manner set forth 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 Approving Sale with Conditions (March 6, 2000); Docket No. UE-991409, Fifth Supplemental Order (August 23, 2000).

FINDINGS

13. PSE is engaged in the business of furnishing electric and gas service within the state of Washington as a public service company, and is subject to the jurisdiction of this Commission.

14. On February ____, 2004, PSE submitted an Application requesting: (1) EWG determinations regarding future operation of the Skookumchuck Project by Washington LLC, and (2) accounting and ratemaking treatment of any gains consistent with this Commission's Order regarding the sale of the Centralia Power Plant. *See* Docket No. UE-991409, Second Supplemental Order Approving Sale with Conditions (March 6, 2000); Docket No. UE-991409, Fifth Supplemental Order (August 23, 2000).

15. 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.

16. The accounting and ratemaking treatment requested by PSE in the Application is reasonable and is in the public interest and should be approved. Any gain from the sale of the Skookumchuck Project should be treated in the same manner for the reasons stated in this Commission's Orders in Docket No. UE-991409. *See* Docket No. UE-991409, Second Supplemental Order Approving Sale with Conditions (March 6, 2000); Docket No. UE-991409, Fifth Supplemental Order (August 23, 2000). 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%.

17. The projected cost of power from the Skookumchuck Project substantially exceeds the projected cost of market power. 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. 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. Continued operation of the Project as a hydroelectric project would be uneconomic, and such operation would not be in the public interest. The benefits from the proposed sale outweigh the risks of rising costs of continuing to own and operate the Project.

18. The transfer of the Skookumchuck Project to Washington LLC is in the public interest. It will benefit PSE's customers by lowering the Company's costs of providing electrical service. It will assist TransAlta in increasing the electrical output of the Centralia Power Plant, for the benefit of all electricity consumers.

ORDER

WHEREFORE, THE COMMISSION HEREBY ORDERS:

19. The following determinations are made with regard to section 32 of the Public Utility Holding Company Act of 1935 (“PUHCA”):

- Allowing the sale of PSE's share of the Skookumchuck Project to Washington LLC will benefit consumers.
- Allowing the sale of PSE's share of the Skookumchuck Project to Washington LLC is in the public interest.
- Allowing the sale of PSE's share of the Skookumchuck Project to Washington LLC does not violate State Law.

20. PSE shall treat any gain realized on the Skookumchuck Project in accordance with this Commission's Order regarding any gain realized on the Centralia Plant. *See* Docket No. UE-991409, Second Supplemental Order Approving Sale with Conditions (March 6, 2000); Docket No. UE-991409, Fifth Supplemental Order (August 23, 2000). 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 estimated gain of the Skookumchuck Project (approximately \$183,954) shall be allocated to ratepayers and applied against the electric conservation tariff rider balance.

21. This order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of cost or any matters whatsoever that may come before it, nor shall anything herein be construed as an acquiescence in any estimate or determination of costs claimed or asserted.

22. The Commission retains jurisdiction over the subject matter of the Application and PSE to effect the provisions of this order.

DATED at Olympia, Washington, and effective this ____ day of _____, ____.

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

PATRICK J. OSHIE, Commissioner