

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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

For an Order Authorizing the Sale of Interests
in the Development Assets Required for the
Construction and Operation of Phase II of the
Lower Snake River Wind Facility

Docket No. UE-13 _____

APPLICATION

1. Puget Sound Energy, Inc. (“PSE”) has entered into an Asset Purchase and Sale Agreement to sell its interests in the development assets required for the construction and operation of Phase II of the Lower Snake River Wind Facility (the “Project”).¹ The purchaser of the interests in the development assets required for the construction and operation of the Project is Portland General Electric Company (“Portland General”), an Oregon corporation. The proposed sale is pursuant to the Asset Purchase and Sale Agreement executed by and between PSE and Portland General on June 3, 2013 (the “Asset Purchase and Sale Agreement”). The parties anticipate closing the transaction no later than August 1, 2013; therefore, PSE respectfully requests the Commission issue an order authorizing the transfer of the Purchased Assets and the BPA Transferred Transmission Credits to Portland General on or before July 29, 2013.

¹ PSE developed Phase I of the Lower Snake River Wind Facility (“LSR Phase I”) and placed it into service on February 29, 2012. In Docket UE-111048, the Commission found that PSE’s investments in LSR Phase I were prudent and the costs of LSR Phase I to be reasonable for recovery in rates. *WUTC v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Order 08 at ¶ 515 (May 7, 2012).

2. In this Application, PSE respectfully request that the Commission issue an order
 - (i) finding that the Purchased Assets are not necessary or useful pursuant to RCW 80.12.020 and WAC 480-143-180, or in the alternative approving the transfer of the Purchased Assets pursuant to WAC 480-143-120;
 - (ii) approving the transfer of the BPA Transferred Transmission Credits pursuant to WAC 480-143-120; and
 - (iii) approving the accounting and ratemaking treatment proposed by PSE in this Application.

II. THE TRANSACTION

A. The Parties

1. The Applicant: PSE

3. PSE is an investor-owned electric and gas utility serving over 1,000,000 electric customers and 765,000 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

PSE requests that all notices, correspondence and pleadings be sent to:

Katherine J. Barnard
Director, Revenue Requirements and Regulatory Compliance
Puget Sound Energy, Inc.
The PSE Building
10885 N.E. Fourth Street, Suite 800
Bellevue, WA 98004-5579
Phone: (425) 462-3716
Facsimile: (425) 462-3414
Email: katherine.barnard@pse.com

With a copy to:

Jason Kuzma
Donna Barnett
Perkins Coie LLP
The PSE Building
10885 N.E. Fourth Street, Suite 700
Bellevue, WA 98004-5579
Phone: (425) 635-1400
Facsimile: (425) 635-2400
Email: jkuzma@perkinscoie.com
dbarnett@perkinscoie.com

2. The Purchaser: Portland General

4. Portland General is an investor-owned utility engaged in the generation, purchase, transmission, distribution, and retail sale of electricity in the state of Oregon. The full and correct name and business address for Portland General are as follows:

Portland General Electric Company
121 S.W. Salmon Street
Portland, Oregon 97204

B. The Project

5. The Project is a fully permitted, shovel-ready utility-scale wind project located in Columbia County, Washington in the immediate vicinity of over 700 MW of operational wind projects separately owned by PSE and PacifiCorp. Once constructed, the Project will have a nameplate capacity of 266.8 megawatts (MW) and an annual average capacity of 101 average megawatts (aMW). It is anticipated that the Project will consist of the following components:

- 116 Siemens SWT-2.3-108 turbines erected on 80 meter towers;
- approximately 280 miles of 34.5 kilovolt (kV) conductor to deliver the output of the turbines to one 34.5/230 kV substations for the Project;
- approximately 18 miles of 230 kV overhead line to connect the Project substation to the Project's point of interconnection at the

Central Ferry substation, which includes an existing and operational 1250 megavolt amperes (MVA) 230/500 kV transformer;

- approximately 28 miles of new roads; and
- other ancillary facilities including, for example, turbine foundations and other civil works, a supervisory control and data acquisition (SCADA) system and operations and maintenance facilities, communication facilities, permanent meteorological towers, and spare parts.

6. PSE has entered into a large-generator interconnection agreement (LGIA) with the Bonneville Power Administration (“BPA”) for the Project. As part of the proposed transaction, PSE also intends to assign to PGE precedent transmission service agreements (“PTSAs”) that PSE has entered into with BPA. The PTSAs are for sufficient electrical capacity and tenure to fully deliver—on a firm basis—the output of the Project from the point of interconnection to PGE’s system.

1. The Purchased Assets

7. Subject to and upon the terms and conditions of the Asset Purchase Agreement, PSE has agreed to sell, assign, transfer, convey, and deliver to Portland General the following Purchased Assets:

- (i) all of Seller’s right, title and interests in and to the Real Property, all as more particularly listed and described in Part II of Schedule 6.10.1 to the Asset Purchase and Sale Agreement;
- (ii) all of PSE’s right, title and interests in and to the Assumed Contracts, all as more particularly listed and described in Parts I, II and III of Schedule 6.10.1 to the Asset Purchase and Sale Agreement;
- (iii) the Conditional Use Permits, as partially assigned pursuant to the Assignment of Interest in CUP Agreement, for the development of not less than 266.8 MW of installed nameplate capacity and associated Project and transmission, and all other Permits for

development of the Project held by PSE at Closing, including those listed or described in Part I of Schedule 6.11 to the Asset Purchase and Sale Agreement;

- (iv) all applications for Permits listed or described in Part II of Schedule 6.11 of the Asset Purchase and Sale Agreement;
- (v) at least 267 MW of firm transmission rights, and related rights to interim conditional firm transmission service, to be exclusively owned by and in the name of Portland General for transmission of the electrical output generated by the Project via the BPA transmission system from the Point of Interconnection to the Point of Delivery, which Transmission Rights shall be transferred through a combination of partial and full assignments of the PSE Precedent Agreements, as further specified in Schedule 4.2.14 of the Asset Purchase and Sale Agreement;
- (vi) true and complete copies of all books, records, files, drawings, plans, specifications, consents, the Wind Data and any and all other wind analyses, solely for the Project and in the possession or under the control of Seller, including any of the foregoing that have not been finalized but are still in process, and other printed or written materials, in each case relating solely to the Project;
- (vii) the permanent and temporary meteorological towers and wind monitoring instrumentation located on the Real Property and set forth on Schedule 1.2 of the Asset Purchase and Sale Agreement; and
- (viii) all warranties, guarantees, licenses and indemnification rights with respect to any of the Purchased Assets.

2. The BPA Transferred Transmission Credits

8. PSE has agreed to assign certain BPA Transferred Transmission Credits in an amount equal to \$20,500,000 to Portland General. As part of LSR Phase I, PSE made prepayments of \$102.2 million to BPA to construct the Central Ferry Substation and certain transmission Network Upgrades to interconnect the output of the various phases of the Lower Snake River Wind Project, including LSR Phase I and the Project. PSE's total prepayment of \$102.2 million to BPA consisted of a \$2.5 million prepayment for Interconnection Facilities and

a \$99.7 million prepayment for Network Upgrades. BPA will continue to refund to PSE the prepayment related to the Network Upgrade facilities, plus interest, through transmission credits to PSE's point-to-point transmission tariff expenses in the future, but BPA's refund obligation will be reduced by the \$20.5 million of transmission credits transferred to Portland General.

C. Payments to PSE

9. At the Closing, Portland General will pay a Closing Payment to PSE in an amount equal to \$16,008,000, as such amount may be adjusted to reflect any prepayments or payments made in arrears by PSE under any of the Assumed Contracts and any payments made by PSE in respect of property taxes relating to the Real Property, in any case on a pro-rata basis up to and including the Closing Date. In addition to this Closing Payment, Portland General will, after Closing and within two Business Days after BPA's notice to Portland General that BPA has completed its processing of PSE's assignment to Portland General of the BPA Transferred Transmission Credits, pay PSE an amount equal to \$20,500,000 in consideration of such assignment.

D. Closing Date

10. The closing date is at 10:00 a.m. local time on August 1, 2013 or on such other date to be agreed in writing by PSE and Portland General, which shall be no later than two business days after satisfaction (or waiver as provided herein) of the conditions set forth in Article 4 of the Asset Purchase Agreement, or at such other time or date as PSE and Portland General mutually agree upon in writing.

III. JURISDICTION AND AUTHORITY REGARDING SALE

A. Applicable Statutes and Regulations

11. Under RCW 80.12.020 and WAC 480-143-120, a public service company must secure Commission approval prior to completing the sale of a property necessary or useful in the performance of its duties to the public. WAC 480-143-120 requires that applications include details of the sale as well as the company's current financial statements and copies of all transfer instruments. Pursuant to WAC 480-143-170, the Commission shall approve the application for the sale of necessary and useful property if the transaction is in the public interest.

12. WAC 480-143-180 allows a public service company to dispose of certain property that is not necessary or useful, after filing an application with the Commission and obtaining a commission determination that the property is no longer necessary or useful. WAC 480-143-180 defines property necessary or useful for a public service company to perform its public duties as follows:

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.

WAC 480-143-180.

B. The Commission Should Find that the Purchased Assets are Not Necessary or Useful Pursuant to RCW 80.12.020 and WAC 480-143-180

13. The Purchased Assets are not necessary or useful on two grounds. First, the Purchased Assets are not necessary or useful under WAC 480-143-180(2) because they are surplus assets for which PSE will receive full value. Second, the Purchased Assets are not necessary or useful under WAC 480-143-180(4) because the Purchased Assets have never been included in PSE's rate base. Moreover, PSE has acquired eligible renewable resources and renewable energy credits to meet the renewable portfolio standards through 2022. PSE owns the development rights for additional phases of the Lower Snake River Wind Facility, and this application addresses some of the surplus development rights and transmission credits. The Purchased Assets are not necessary or useful in the performance of PSE's service to its customers, and, therefore, the Purchased Assets should be sold.

14. PSE is filing a request for a determination by the Commission that the Purchased Assets are not necessary or useful. As described above, PSE will receive a Closing Payment as consideration for the Purchased Assets in an amount equal to \$16,008,000, as such amount may be adjusted to reflect any prepayments or payments made in arrears by PSE under any of the Assumed Contracts and any payments made by PSE in respect of property taxes relating to the Real Property, in any case on a pro-rata basis up to and including the Closing Date. This amount will likely 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:

| Plant | Rate Base | 1/10% Auth. | 1/100% FMV Filing | Docket No. |
|--------------|------------------|--------------------|--------------------------|-------------------------|
| Electric | \$4,853,248,427 | > \$4,853,248 | <> \$485,329 | UE-111048 |
| Gas | \$1,633,228,479 | > \$1,633,228 | <> \$164,323 | UG-111049 |
| Common | \$6,486,476,906 | > \$6,486,477 | <> \$648,648 | UE-111048/ UG-111049 |

15. In the alternative, if the Commission finds that the Purchased Assets are necessary and useful, PSE requests that the Commission approve the sale of the Purchased Assets pursuant to RCW 80.12.020 and WAC 480-143-120. For the reasons discussed above, the sale of the Purchased Assets is consistent with the public interest.

C. The Commission Should Find that the Assignment of BPA Transferred Transmission Credits from PSE to Portland General is Consistent with the Public Interest

16. The assignment of the BPA Transferred Transmission Credits is in the public interest because it will benefit PSE's customers by reducing the regulatory asset account established for the prepayments made to BPA associated with the Network Upgrades for the Lower Snake River Wind Project. On May 20, 2010, PSE filed a petition with the Commission in Docket UE-100882 that sought an Accounting Order under WAC 480-07-370(b)(i) to authorize deferred accounting treatment related to the costs associated with the transmission network upgrades to meet transmission capacity needs of the region and serve the Lower Snake River Wind Project. Specifically, PSE requested that the Commission approve the following proposed accounting treatment: (1) the establishment of a regulatory asset account for the prepayments made to BPA associated with the Network Upgrades for the amount of \$99.7 million, and (2) the monthly booking of carrying charges on the deferred costs at PSE's approved net of tax rate of return until amortization begins. On May 31, 2012, the Commission issued a final order in Docket UE-100882 approving PSE's request for an Accounting Order.

17. PSE requests that the Commission approve the assignment of BPA Transferred Transmission Credits from PSE to Portland General pursuant to RCW 80.12.020 and WAC 480-143-120. PSE will receive \$20,500,000 from Portland General, which will benefit customers by reducing the Network Upgrade credits currently listed as a regulatory asset, as discussed in more detail below. In essence, the \$20,500,000 will expedite the payment of Network Upgrade credits to PSE's customers. For the reasons discussed herein, the assignment of BPA Transferred Transmission Credits is consistent with the public interest.

IV. ACCOUNTING AND RATEMAKING TREATMENT

A. Purchased Assets

18. As described above, PSE will receive a Closing Payment as consideration for the Purchased Assets in an amount equal to \$16,008,000, as such amount may be adjusted to reflect any prepayments or payments made in arrears by PSE under any of the Assumed Contracts and any payments made by PSE in respect of property taxes relating to the Real Property, in any case on a pro-rata basis up to and including the Closing Date. PSE's net book value for the Purchased Assets is approximately \$15,933,493, and projects total transactional costs of approximately \$175,000 with this transaction. Therefore, PSE projects that the sale of Purchased Assets will result in a net, after-tax loss of about \$100,000, although actual figures will not be known until the transaction closes. PSE proposes to allocate the after-tax loss to shareholders.

B. BPA Transferred Transmission Credits

19. As described above, Portland General will, after Closing and within two business days after BPA's notice to Portland General that BPA has completed its processing of PSE's assignment to Portland General of the BPA Transferred Transmission Credits, pay PSE an amount equal to \$20,500,000 in consideration of such assignment. PSE proposes to record this

\$20,500,000 payment as a regulatory liability and accrue interest on such regulatory liability at PSE's authorized net of tax rate of return grossed up for federal income tax from the date of receipt through the date rates change in the pending power cost only rate case in Docket UE-130617 (the "2013 PCORC"). PSE proposes to amend its filing in the 2013 PCORC to incorporate (i) the \$20,500,000 reduction to the Network Upgrade credits currently listed as a regulatory asset on Exhibit D and (ii) the interest payable on the regulatory liability established through the date rates change in the pending power cost only rate case in the 2013 PCORC.

V. TIMING

20. As stated above, the Closing Date is at 10:00 a.m. local time on August 1, 2013 or on such other date to be agreed in writing by PSE and Portland General, which shall be no later than two business days after satisfaction (or waiver as provided herein) of the conditions set forth in Article 4 of the Asset Purchase Agreement, or at such other time or date as PSE and Portland General mutually agree upon in writing. Accordingly, PSE respectfully requests that the Commission issue its Order as expeditiously as possible and prior to August 1, 2013.

VI. EXHIBITS

21. The exhibits that accompany this Application are:
- (a) Exhibit A – PSE's Financial Statements from the Year-Ended December 31, 2012, and the Quarter-Ended March 31, 2013; and
 - (b) Exhibit B – Copies of all contracts related to the sale of the Purchased Assets and the assignment of the BPA Transferred Transmission Credits.

VII. REQUEST

22. For the reasons stated above, PSE requests a Commission order:

- (i) finding that the Purchased Assets are not necessary or useful pursuant to RCW 80.12.020 and WAC 480-143-180, or, in the alternative, authorizing the sale of the Purchased Assets pursuant to RCW 80.12.020 and WAC 480-143-120;
- (ii) finding that the assignment of BPA Transferred Transmission Credits from PSE to Portland General is consistent with the public interest pursuant to WAC 480-143-120 and WAC 480-143-170;
- (iii) approving the accounting and ratemaking treatment proposed by PSE in this Application; and
- (iv) granting such other relief as the Commission deems necessary and proper.

Dated: June 27, 2013

Respectfully submitted,

PERKINS COIE LLP

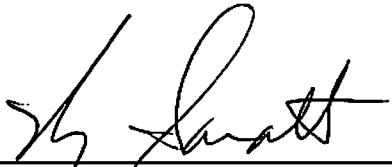
By  _____

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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: June 27, 2013

By 

Roger Garratt