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BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Order Authorizing Deferral of  
Certain Electric Energy Supply Costs

DOCKET NO. UE-011170

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKET NO. UE-011163

PUGET SOUND ENERGY, INC.'S  
PETITION FOR RECONSIDERATION  
AND FOR REHEARING

1. Puget Sound Energy, Inc. ("PSE") hereby petitions for reconsideration and for rehearing of the Sixth Supplemental Order Granting Motions; and Dismissing Dockets ("Order") issued by the Commission in the above referenced matter on October 4, 2001. PSE's full name and mailing address are:

PUGET SOUND ENERGY, INC.'S PETITION  
FOR RECONSIDERATION AND FOR  
REHEARING - 1

[00000-0000/011163, PSE, Petition for Reconsideration, 10-12-01.doc]

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One Bellevue  
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Puget Sound Energy, Inc.  
P.O. Box 97034  
Bellevue, Washington 98009-9734  
Attn: Steve Secrist  
Director, Rates and Regulation

2. This Petition brings into issue the following rules or statutes: RCW 34.05.470; RCW 80.04.200; RCW 80.28.010; WAC 480-09-810 and WAC 480-09-820(1).

**I. SUMMARY OF PETITION**

3. The Order fails to recognize the gravity of the situation it addresses. As a result, the Order and a recent order regarding the Avista Corporation have driven the state's two investor-owned utilities to "junk" or near "junk" corporate bond status. Washington has taken great pains to distinguish itself from the recent California debacle. However, by not realistically addressing present financial conditions, these recent orders have left two major utilities approaching insolvency--just like California. For these reasons, PSE seek reconsideration of the Order pursuant to RCW 34.05.470 on the following grounds:

A. The Order does not conform with state law and good public policy that requires financially stable utilities. PSE's financial stability is threatened by the consequence of poor hydro conditions and volatile wholesale energy markets. The Commission has acknowledged that the drought and volatility in wholesale energy markets are circumstances that local utilities cannot control, resulting in unprecedented financial needs. However, the Order concludes that PSE's needs are not yet "critical," and rather than affording relief to avoid financial crisis, would grant relief only after such a crisis has occurred. Moreover, the Order mistakenly assumes that putting the brunt of extreme power costs exclusively on PSE's balance sheet serves or protects the interests of PSE's customers. This result will ultimately cause PSE customers to bear higher capital costs and is inconsistent with the need for

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financially sound utilities able to safely and reliably discharge their public service obligations.

B. The Order misinterprets the standard for relief established by the Commission in Pacific Northwest Bell Telephone Co., Cause No. U-72-30 (October 1972). This standard has been applied and interpreted, for nearly thirty years, in accordance with the Commission's statutory duty to allow utilities to obtain the relief necessary to attract capital on reasonable terms. Rather than follow this precedent, the Order establishes a higher threshold for relief. This new threshold violates good public policy and state law. In so doing, the Order denies PSE preventative relief and thereby harms PSE and its customers.

C. The Order is procedurally incorrect. The Order relies on facts not in evidence before the Commission, thereby violating state law and fundamental values of due process of law.

D. The Order misconstrues the scope of the Commission's authority to provide appropriate immediate relief. The Commission has the authority to grant relief in the form of a power cost tracker, or such other form of relief the Commission deems appropriate. PSE has heretofore proposed a phased proceeding (allowing further analysis of a power cost tracker while affording PSE relief during the pendency of such analysis), and has proposed relief in the form of a fixed surcharge. These options remain viable alternatives to dismissal without benefit of a hearing.

4. PSE also seeks rehearing, pursuant to RCW 80.04.200, to address subsequent injuries to PSE's financial condition. Since the Order was issued the value of Puget Energy, Inc. (NYSE:PSD) has declined by \$219,359,427.<sup>1</sup> Matters are getting worse. As noted in the Affidavit of Donald E. Gaines, attached hereto as Exhibit A, credit rating agencies and other

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<sup>1</sup> The comparison of the Company's stock price on 10/3/01 to the closing price on 10/11/01 yields a decline in market value of the Company from \$1,983,722,213 to \$1,764,412,786.

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members of the financial community have expressed grave concern as to PSE's financial condition. Specifically:

A. Standard & Poor's, October 8, 2001: "Standard & Poor's today *lowered its long-term ratings on Puget Sound Energy Inc. (PSE) and its subsidiaries. . . .* As such, without near-term responsive action by the WUTC that addresses PSE's weakened financial position, *PSE's corporate credit rating may be lowered by multiple notches.*" (Emphasis added).

B. Moody's Investors Service, October 9, 2001: "Moody's Investors Service placed the long-term ratings of Puget Sound Energy, Inc. (PSE) and the issuer rating of its parent, Puget Energy, Inc., under review for possible downgrade. . . . *Moody's is particularly concerned about the harsh stance adopted by the WUTC in this order, especially when compared to recent decisions rendered in other regulatory jurisdictions where utilities are facing similar circumstances.* (Emphasis added).

C. Merrill Lynch October 9, 2001: Merrill Lynch downgraded the company's common stock from C-3-2-7 to C-3-3-8 and its long-term opinion from Accumulate to Neutral. Merrill states: "While we're perplexed that *this Commission seems intent on pushing PSD to the brink, the reality is that we believe a California-esque predicament could occur in Washington if such costs are not addressed in a very timely manner.*" Merrill further states "*It makes no sense in our view for PSD to be put in harm's way in terms of financial viability.*" (Emphasis added).

D. D. A. Davidson, October 8, 2001: "If Puget Energy's accelerating cash flow deterioration is not quickly corrected by an interim rate increase and proper accounting orders, *then the company will be pushed to the brink of bankruptcy.*" (Emphasis added).

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## II. GROUNDS FOR RECONSIDERATION

### First Error of Law

5. The Order does not conform with fundamental principles of law and public policy that mandate financially sound utilities. The Commission is called upon to discharge its regulatory responsibilities in a manner that carefully balances the interests of investors and customers. Such balance provides customers with safe, reliable service, and in return, allows utilities to collect rates that are sufficient to attract capital on reasonable terms. WUTC v. Avista Corp., 2000 Wash. UTC LEXIS 558, at \*152 (2000); In re GTE Northwest, Inc., 1994 Wash. UTC LEXIS 83, at \*3 (1994); see also, Duquesne Light Co. v. Barasch, 488 U.S. 299, 310 and 312 (1989).

6. This balance of interests leads to, and ultimately depends upon, financially sound utilities that are able to safely and reliably discharge their public service obligation at a reasonable cost to customers. Financial stability is a value embedded in the statutory standard that requires rates to be *sufficient*. RCW 80.28.010. This is not to suggest that regulation is a guarantee that a utility will be financially successful. See, e.g., FPC v. Natural Gas Pipeline Co., 315 U.S. 575, 597 (1942). Similarly, regulation is not an opportunity to impose rates that are confiscatory. See Stone v. Farmers' Loan & Trust Co., 116 U.S. 307, 331 (1886) (the power to regulate is not a power to destroy). However, no one benefits when utilities face financial crisis: the cost of service increases and the quality of service decreases.

7. PSE's financial stability is threatened by the consequences of poor hydro and volatile wholesale energy markets.<sup>2</sup> This Commission has explicitly recognized that the drought and

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<sup>2</sup> As noted in the testimony of William A. Gaines, price caps imposed by the FERC in June of 2001, and the precipitous decline in both the spot and forward markets, deprived the Company of the value previously available from sales of power necessary to offset the cost of poor hydro and other cost pressures in the supply portfolio. Direct Testimony of William A. Gaines, page 6.

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wholesale market volatility have wreaked havoc on local utilities and are forces beyond the control of local utilities. In the Matter of Avista Corporation, Cause No. UE-010395 (September 2001) (the "Avista Order") the Commission observed:

In short, western wholesale power markets have exhibited, over the past eighteen months, prices and price volatility that are unprecedented in anyone's experience. *Regulation of those markets at the federal level has been too much focused on the promise of competition and too-little focused on the damage caused to utilities and their customers when markets go awry.*

....

[T]he upheaval in the western wholesale power market stems, in large measure, from a misplaced confidence by some government policy-makers--outside of Washington State--that competition in electricity markets would sufficiently discipline the price of wholesale power.

....

In general, it is undisputed that many retail power companies, municipal electric companies, cooperatives, and Public Utility Districts in Washington State face *unprecedented financial needs as a result of both extreme drought and wholesale power market volatility.*

....

We find on the basis of this evidence that Avista faces emergency conditions *due, in significant part, to circumstances beyond its ability to control.*

Avista at pp. 2-13, 15 (emphasis added).

8. PSE is one of many utilities in the region facing "unprecedented financial needs" as a result of these circumstances. The record shows that: (i) PSE faces power cost variances in an amount that is equivalent to PSE's annual earnings, Direct

Testimony of William A. Gaines at p. 3; (ii) this risk negatively

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impacts the cost and availability of capital to PSE, Direct Testimony of Howard L. Hiller at pp. 10-15; and (iii) the attendant and harmful consequences to the cost and availability of capital threaten PSE's financial stability, Direct Testimony of Donald E. Gaines at pp. 7-10.

9. In the Avista Order, the Commission attributes partial responsibility for these unprecedented events to regulation at the federal level "ha[ving] been too much focused on the promise of competition and too-little focused on the *damage caused* to utilities and their customers when markets go awry." Avista Order at p. 2 (emphasis added). The *damage* the Commission speaks of *is damage to the financial stability* of utilities in the State of Washington. If this damage is not promptly repaired and regulatory tools put in place that protect utilities and their customers from "markets that have gone awry," disastrous consequences will follow. As stated in the Direct Testimony of Howard L. Hiller:

The energy crisis in California highlighted the challenges of introducing competition into markets where supply was not necessarily in balance with demand. The mismatch between volatile market-driven power prices and frozen rate structures in that state caused rapid increases in its utilities' unrecovered power costs--on both an accounting and cash basis. Ultimately, these escalating costs precipitated financial distress and a bankruptcy filing at Pacific Gas & Electric.

Direct Testimony of Howard Hiller at p. 5.

10. It is a mistake to assume that putting extreme power costs on the utility's balance sheet serves or protects the interests of customers. Customers pay more, and service is diminished when utilities face financial crisis. The Washington State Supreme Court has spoken to this risk, and quoting the Supreme Judicial Court of Massachusetts, addressed the importance of the financial health of utilities from ratepayers' point of view:

The disdain of the financial markets for this company will be formidable, and that disdain can only mean that *eventually the*

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*customers of the company will pay a high price in terms of both extravagant compensation for new capital and an unavoidable service deterioration reflecting the scarcity of reasonably priced capital.*

People's Org. for Wash. Energy Res. v. WUTC, 104 Wn.2d 798, 820 (1985) (emphasis in original).

11. Viewed in this broader context, and in light of the new challenges presented by volatile wholesale markets, the Commission should make every effort to give utilities the financial support they need to attract capital on reasonable terms and thereby enable utilities to fulfill their public service obligations. Unfortunately, the Order does not provide such support. Instead, the Order requires that utilities suffer great financial harm *before* relief is granted. If utilities are forced to suffer such harm, so will their customers. This type of regulation is far removed from the balance of interests the public service laws are intended to preserve.

12. The Order inappropriately raises the bar for "extraordinary relief" requiring utilities to show "critical need" or "dire consequences" before relief can be granted. Order at pp. 7, 8. This requires that the damage--to utilities and the customers they serve--occur when such damage could be avoided by appropriate immediate relief. Such an order does not comport with state law and the public interest.

13. The need to maintain balance, and thereby maintain a utility's financial stability, mandates that the Commission act before matters are "critical" or "dire" especially when the problem is an event beyond the utility's control. PSE is not the only utility in the region facing this problem. It appears, however, to be the only utility not obtaining any relief. By way of comparison, at least 26 publicly-owned utilities, 6 cooperatives, and 6 investor-owned utilities in Washington, Oregon, Idaho and Nevada have sought and obtained rate relief within the last year, and in some cases, these utilities have obtained relief on more than one occasion.

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While all of these utilities are not regulated by the WUTC, they all operate under the same basic principle that rates must be sufficient to maintain the utility's financial health and attract capital on reasonable terms.<sup>3</sup> A summary of utility rate increases is attached as Exhibit B.

14. The Order should be rescinded and PSE's request for relief heard and considered consistent with state law and public policy protecting the public interest in financially stable utilities.

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<sup>3</sup> Municipal utilities have recognized that they must raise their rates in order to maintain their financial integrity in the face of fluctuating wholesale power costs. For instance, in its latest ordinance raising electric city rates, the Seattle City Council specifically said it needed to take action to protect the municipality's financial stability:

WHEREAS, the City Council has expressed its commitment to taking whatever future rate actions are necessary to preserve the financial integrity of the Department . . . .

City of Seattle Ordinance No. 120385 (May 30, 2001). Similarly, Snohomish County PUD made the following finding to support its increase in rates:

WHEREAS, the Board of Commissioners, based on information and evaluation presented by Staff, has concluded that an energy surcharge must be added to the District's retail rates in order to pay for the added costs it faces in the whole sale electric markets while maintaining the District's sound financial footing.

Resolution No. 4963, Commission of Public Utility District No. 1 of Snohomish County, Washington (Dec. 13, 2000). Because of the actions taken by these utilities in the face of wholesale power price fluctuations, Seattle has been able to maintain, during the period coinciding with such fluctuations, a bond rating of greater than "A," and Snohomish has been able to maintain a bond rating of "A+."

The ability of these municipal utilities to increase their rates has allowed them to continue to attract capital at reasonable terms, while the Commission's order, in violation of its statutory duty, has interfered with PSE's ability to do so. As a result of the Commission's order, PSE's financial integrity is threatened, while those municipal utilities neighboring it remain on "sound financial footing" and capable of accessing capital on reasonable terms.

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**Second Error of Law**

15. The Order distinguishes "interim relief" (sought in the context of a general rate case) from "extraordinary relief." Notwithstanding this distinction, the Commission purportedly reviewed PSE's request for relief under the six standards articulated for interim relief by the Commission in WUTC v. Pacific Northwest Bell Telephone Co., Cause No. U-72-30 (October 1972) (hereinafter "Pacific Northwest Bell"). Order at p. 12. However, the Order does not apply the Pacific Northwest Bell standard in a manner that is consistent with prior Commission precedent.

16. The Pacific Northwest Bell standard has been applied and interpreted for nearly thirty years in accordance with the Commission's statutory duty to allow utilities to obtain the relief necessary to attract capital on reasonable terms. In light of the present day context (i.e., a restructured wholesale market) the sufficiency of the standard could be questioned: the risk presented to utilities by the wholesale market did not exist when this standard was articulated by the Commission, and the financial consequences of "markets gone awry" are swift and devastating. For these reasons, the Pacific Northwest Bell standard needs to be construed broadly and to effect its underlying intent: to enable utilities to ward off disaster by ensuring prompt access to needed capital on reasonable terms. In this regard, PSE points to the fifth element of the Pacific Northwest Bell standard, which states:

In the current economic climate, the financial health of a utility may decline very swiftly and interim relief stands as a useful tool in an appropriate case to stave off impending disaster.

Pacific Northwest Bell, at 13.

17. Instead of interpreting the Pacific Northwest Bell standard to provide *greater* flexibility in response to wholesale market restructuring and market volatility, the Order narrows the standard and creates a higher threshold evidentiary of "critical need"

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(i.e., the damage has already occurred). This new evidentiary threshold requires a showing that:

- the utility cannot obtain financing at any cost;
- the utility must take extraordinary steps to preserve its financial integrity;
- the utility must be at the point of losing access to capital markets; and
- the utility must have a negative rate of return.

Order pp. 7-8, ¶ 20.

18. This evidentiary threshold of "critical need" departs from the principles underlying the Pacific Northwest Bell standard and conflicts with subsequent Commission decisions applying this standard to provide relief necessary to allow utilities to attract capital on reasonable terms.

Specifically:

A. Inability to finance is not a condition precedent to interim relief under the Pacific Northwest Bell standard. In WUTC v. Cascade Natural Gas Corporation, Cause No. U-74-20 (July 1974), the Commission stated "The Commission *cannot responsibly permit* the company's financial position to deteriorate to the point where it would have to bear *unreasonable expense* to accommodate the mandatory 1975 financing." (Emphasis added.)

B. The Pacific Northwest Bell standard does not require utilities to employ extraordinary measures to ward off financial disaster. Rather, the Pacific Northwest Bell standard recognizes that relief is appropriate, and in the public interest, before a crisis occurs. The Commission has, heretofore, clearly stated that the public interest is served by granting relief before a utility's "deteriorating financial condition will not allow it to meet essential financing needs."

WUTC v. Puget Sound Power & Light Co., Cause No. U-80-10 (June 1980).

C. The Pacific Northwest Bell standard does not require a utility to demonstrate that it is unable to access capital markets. In WUTC v. Puget Sound Power & Light Co., supra, relief was granted to

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mitigate rising costs (not denied access) to needed capital. The Commission stated, "the prevailing interest rates must be known in order to make findings as to the company's ability to access the commercial paper market, and again this inquiry is being made at a time of fluctuating rates; *but more important than making explicit findings in this area is the fact of the impact generally caused by the downgrading of Puget's commercial paper rating by Moody's Investor Service last month.* Its rating was lowered from P-2 to P-3 because of its deteriorating financial condition. The Commission recognizes that a P-3 Moody rating can still characterize a blue-chip company, but *the downgrading also means that Puget must face paying short-term interest rates 100 basis points over the level it would enjoy with a P-2 rating. The general financial condition of the company is thus seen to be deteriorating absent appropriate rate relief.*" (Emphasis added.)

D. Nor does the Pacific Northwest Bell standard require a utility to earn a negative rate of return. In Puget Sound Power & Light, supra, the Commission stated, "[l]ooking at evidence pertaining to Puget's overall rate of return further confirms its deteriorated financial condition. Its authorized rate of return is 9.8 percent; its actual rate of return for 1979 was 8.65 percent, and there is evidence that by mid-1980 the figure will drop to a 7-percent range."

19. The Commission has not applied the Pacific Northwest Bell standard in this case in a manner that is consistent with prior Commission precedent. Rather, it has articulated a new-- much higher--threshold for relief. This application of Pacific Northwest Bell is at odds with law and good public policy that mandate financially stable utilities. On reconsideration, PSE's petition should be heard and considered under the Pacific Northwest Bell standard, as it has been articulated and consistently applied since 1972 and consistent with the statutory duty of the Commission to allow PSE to collect rates that are sufficient to attract capital on reasonable terms.

**Third Error of Law**

PUGET SOUND ENERGY, INC.'S PETITION  
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20. The Order relies on facts not in evidence in this proceeding. At page 7 of the Order, paragraph 20, footnote, the Order states:

Here we compare the information Avista presented in its direct filing with that of PSE in its direct filing.

The Order goes on to consider these extra-record facts, comparing them and weighing them against facts in evidence, throughout pages 7-8, and at pages 12-13 of the Order.

21. Avista's direct filings are facts that are not in evidence before the Commission in this case, and as such, they may not be relied upon to dispose of PSE's request for relief. State ex rel. Tidewater-Shaver Barge Lines v. Kuykendall, 42 Wn.2d 885, 893 (1953). Nor is such disposition consistent with the standard applied by the Commission to consider PSE's petition for relief (e.g., CR 50, which requires, as the Order states, that the evidence be considered in the light most favorable to the respondent). Sing v. John L. Scott, Inc., 134 Wn.2d 24, 29 (1997). Under this standard, it is unfair and prejudicial for the Commission to rely on evidence not in the record, evidence to which PSE never had the opportunity to respond as it relates to PSE's request for relief.

22. Such disregard for the record is at odds with Commission precedent. In this regard, we note the language of the Avista Order as it relates to the record and requirements of due process:

In sum, the Commission has exercised care to ensure that it has a full record for decision and that the due process rights of all Parties have been protected.

Avista at 13. Here, in sharp contrast , PSE did not get a hearing, and did not even get to see evidence the Commission relied upon in dismissing its petition for relief.

**Fourth Error of Law**

23. The Order states, at page 11, paragraph 30, that PSE "has failed to assert circumstances proving the propriety of a

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PERKINS COIE LLP  
One Bellevue  
Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453-  
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power cost tracker." The Commission then agrees with Commission Staff's contention that a power cost study is necessary to consider a tracker as an appropriate form of relief.

24. Interim relief cases speak to the need of the Commission to fashion a remedy that the Commission determines to be appropriate under the circumstances presented in a given case (i.e., a remedy that is sufficient to prevent gross hardship). There is also a need for flexibility in fashioning interim rates in an expedited proceeding. WUTC v. Puget Sound Power & Light Co., UE-73-57 (1974). As PSE noted in its Answer To Motion To Dismiss, the Commission has not-- in past interim relief cases--sought to limit the scope of its remedial authority. Rather, in applying the Pacific Northwest Bell standard, the Commission's authority has been broadly implied from its full range of statutory authorities. The Order states at page 6:

[T]he Commission's authority to authorize immediate rate relief, subject to refund or other conditions, is a power necessarily incident to the exercise of the Commission's express statutory authority to regulate the rates of jurisdictional utilities. State ex rel. Puget Sound Navigation Company v. Department of Transportation, 33 Wn.2d 448, 206 P.2d 456 (1949).

The precedent upon which the Commission has heretofore fashioned and granted interim relief authorizes the Commission to approve a power cost tracker.

25. Moreover, the fact that the Commission did not view PSE's *proposed* remedy as appropriate on the evidence presented is no reason to reject PSE's request *for any remedy*. This is particularly harsh in light of PSE's offer, addressed in a letter to dated September 7, 2001 to the Honorable C. Robert Wallis (attached hereto as Exhibit C) wherein PSE proposed: (i) a phased proceeding, which would have allowed additional time to develop the type of evidence desired by Commission Staff, or (ii) a fixed surcharge, based upon a power cost analysis, in lieu of a power cost tracker. Unfortunately, these proposals were rejected by Commission Staff and Public Counsel.

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One Bellevue  
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1800  
411 - 108th  
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(425) 453-  
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26. Should the Commission decide to hear this case, PSE requests that its power cost tracker proposal be a considered, and if necessary to accommodate the development of additional evidence, to pursue such proposal in a phased proceeding as previously suggested. Alternatively, if the Commission does not wish to consider a power cost tracker in an "extraordinary relief case," PSE respectfully requests the Commission to consider a fixed surcharge (based upon a short term projection of power costs), as previously proposed.

**III. GROUNDS FOR REHEARING**

27. RCW 80.04.200 allows a public service company affected by an order of the Commission, and deeming itself aggrieved, to petition for rehearing "by showing a result injuriously affecting the petitioner which was not considered or anticipated at the former hearing." The statute further states that the Commission may, in its discretion, permit the filing of a petition for rehearing at any time.

28. In the instant case, PSE is aggrieved by the Order. Subsequent to the filing of PSE's petition for relief and the Commission's issuance of the Order, short term projections of dire financial consequences *in evidence in this proceeding* are now coming true. The Direct Testimony of Donald E. Gaines states, at lines 9-11 on page 9, states that "absent the requested interim relief, the Company's debt and preferred securities will be put under review for possible down grade or down graded altogether by credit rating agencies." Recent actions of the financial community are discussed in the Affidavit of Donald E. Gaines (Exhibit A), and are summarized as follows:

- Standard & Poor's, October 8, 2001: "Standard & Poor's today *lowered its long-term ratings on Puget Sound Energy Inc. (PSE) and its subsidiaries.* . . . Standard & Poor's placed all ratings of PSE and its subsidiaries on CreditWatch with negative implications. By exhibiting a lack of financial urgency in rejecting PSE's proposal,

Standard & Poor's is concerned about the WUTC's regard for the

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severity of the situation, as well as PSE's credit quality. Therefore, unless the WUTC provides immediate rate relief to alleviate any additional strain on PSE's financial position, ratings will be lowered. Compounding the lack of regulatory support is PSE's elevated debt leverage, which is about 60%. Further hampering PSE is the slowing regional economy, including noticeable layoffs. As such, without near-term responsive action by the WUTC that addresses PSE's weakened financial position, *PSE's corporate credit rating may be lowered by multiple notches.*" (Emphasis added).

- Moody's Investors Service, October 9, 2001: "Moody's Investors Service placed the long-term ratings of Puget Sound Energy, Inc. (PSE) and the issuer rating of its parent, Puget Energy, Inc., under review for possible downgrade. The rating reviews are in response to the recent decision by the Washington Utilities and Transportation Commission to deny PSE's request for immediate implementation of a power cost deferral mechanism and a rate adjustment to begin recovering cost deferrals starting November 1, 2001. . . . *Moody's is particularly concerned about the harsh stance adopted by the WUTC in this order, especially when compared to recent decisions rendered in other regulatory jurisdictions where utilities are facing similar circumstances.* Therefore, as part of the review process, Moody's will consider PSE's ability to achieve a better near-term result through filing for regulatory reconsideration or other legal avenues. (Emphasis added).

- Merrill Lynch October 9, 2001: Merrill downgraded the company's common stock from C-3-2-7 to C-3-3-8 and its long-term opinion from Accumulate to Neutral. Merrill states: "While we're perplexed that *this Commission seems intent on pushing PSD to the brink, the reality is that we believe a California-esque predicament could occur in Washington if such costs are not addressed in a very timely manner.*" Merrill further states *"It makes no sense in our view for PSD to be put in*

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One Bellevue  
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1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453-  
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*harm's way in terms of financial viability.* Unfortunately, the track record of the WUTC is not encouraging to us, and investors are still smarting from CA." (Emphasis added).

- D. A. Davidson, October 8, 2001: D.A. Davidson changed its rating of the Company's common stock from Buy to Neutral stating "Puget Sound Energy has until October 19, 2001 to ask the WUTC for reconsideration, which we believe will be the company's next step. *If Puget Energy's accelerating cash flow deterioration is not quickly corrected by an interim rate increase and proper accounting orders, then the company will be pushed to the brink of bankruptcy.*" (Emphasis added).

29. These deteriorating financial conditions represent injuries to PSE's financial stability that compel rehearing of PSE's request for relief.

**IV. RELIEF REQUESTED**

30. For the foregoing reasons, PSE respectfully requests that:

a. PSE's petition for reconsideration be granted, and that its request for relief be duly considered by the Commission after a full hearing on the merits of such request;

b. If the Commission decides to consider PSE's proposed interim power cost tracker in a phased proceeding, thereby allowing further evidence to be provided on the appropriateness of a power cost tracker, that the Commission enter an order implementing PSE's proposal for phrased proceeding set forth in Exhibit C;

c. Alternatively, if the Commission desires to limit its consideration of the form of relief to that of a fixed surcharge, that it proceed to hear this case and determine such surcharge using a forward projection of power costs, as described in Exhibit C;

d. PSE's petition for rehearing be granted for purposes of considering the further injuries to its financial condition;

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1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
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(425) 453-  
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- e. The Commission promptly schedule these matters for hearing; and
- f. For such further relief as the Commission shall deem appropriate.

Respectfully submitted this \_\_\_\_\_ day of \_\_\_\_\_, 2001.

**PERKINS COIE LLP**

By \_\_\_\_\_  
Markham A. Quehrn, WSBA #12795  
Kirstin Dodge, WSBA #22039  
Attorneys for Respondent Puget Sound Energy, Inc.

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served Puget Sound Energy, Inc. Petition For Reconsideration And For Rehearing on the persons and entities listed below via facsimile and US mail, first class postage prepaid.

DATED at Bellevue, Washington this 12th day of October, 2001.

\_\_\_\_\_  
Corinne Scowcroft

Simon fitch  
Assistant Attorney General  
900 Fourth Avenue  
Suite 2000  
Seattle, WA 98164

Shannon Smith  
Assistant Attorney General  
1400 South Evergreen Park Drive SW  
Olympia, WA 98504-0128

Robert Cedarbaum  
Senior Counsel  
1400 South Evergreen Park Drive SW  
Olympia, WA 98504-0128

Angela L. Olsen  
McGavick Graves, P.S.  
1102 Broadway  
Suite 500

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411 - 108th  
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Bellevue, WA  
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(425) 453-  
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Tacoma, WA 98402

Bradley Van Cleve  
Davison VanCleve, P.C.  
1000 Southwest Broadway  
Suite 2460  
Portland, OR 97205

Carol S. Arnold  
Preston Gates and Ellis, LLP  
701 Fifth Avenue  
Suite 5000  
Seattle, WA 98104

Harvard P. Spigal  
Preston Gates and Ellis, LLP  
222 Southwest Columbia Street  
Suite 1400  
Portland, OR 97201

Thomas W. Kuffel  
Donald Woodworth  
Deputy Prosecuting Attorneys  
516 Third Avenue  
Suite Number 550  
Seattle, WA 98104

John A. Cameron  
Davis Wright Tremaine LLP  
1300 SW Fifth Avenue  
Suite 2300  
Portland, OR 97201

Donald W. Schoenbeck  
900 Washington Street  
Suite 1000  
Vancouver, WA 98660

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Center, Suite  
1800  
411 - 108th  
Avenue Northeast  
Bellevue, WA  
98004 - 5584  
(425) 453-  
6980

