

**BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Accounting Order Authorizing Deferral
Accounting Treatment of Costs Associated with
Transmission Network Upgrades To Meet
Transmission Capacity Needs of the Region and
Serve the Lower Snake River Wind Project

Docket No. UE-10____

ORDER (PROPOSED)

1. On May 20, 2010, Puget Sound Energy, Inc. (“PSE”) filed a petition requesting that the Commission issue an order authorizing cost deferral accounting treatment related to prepayments made to the Bonneville Power Administration (“BPA”) by PSE to construct the new Central Ferry Substation and certain transmission Network Upgrades¹ required to meet the transmission capacity needs of the region and to serve the Lower Snake River Wind Project. PSE stated that BPA will return to PSE the prepayments related to the Network Upgrade facilities, plus interest, by providing a monthly credit to PSE’s future transmission bill in an amount equal to the point-to-point transmission tariff expenses associated with the use of the

¹ A "Network Upgrade" is described by PSE as a type of transmission interconnection that is located on the grid (*i.e.*, “at or beyond” the point of interconnection) and that improves the transmission system for the benefit of all users.

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Interconnection Facilities² and Network Upgrades. PSE further requested that the Commission issue the requested order commencing as of the date of PSE's filing, May 20, 2010.

2. PSE requested in its Petition that the Commission approve: (1) the creation of a regulatory asset account for the prepayments made to BPA associated with the Network Upgrades, and (2) the monthly booking of carrying charges on that regulatory asset at PSE's approved net of tax rate of return. PSE states that the required payment to BPA for the Interconnection Facilities and Network Upgrades is similar to the prepayments made to BPA on PSE's Hopkins Ridge Wind Project, which was allowed for recovery in WUTC Docket No. UE-050870. PSE states that the prepayments PSE made and will make to BPA are being made further in advance of the Lower Snake River Wind Project's commercial in-service date than was the case for PSE's Hopkins Ridge Wind Project due to the size, scope and construction schedule of necessary BPA Interconnection Facilities and Network Upgrades. For the Interconnection Facilities and Network Upgrades associated with the Lower Snake River Wind Project, BPA requires a new 500 kilovolt ("kV") substation with an additional transformer to connect to the BPA high voltage transmission system. PSE did not request in its Petition that the Commission address: (1) the prudence of the Lower Snake River Wind Project; or (2) the rate treatment for recovery of the carrying charges on the Network Upgrade prepayment.

² An "Interconnection Facility" is described by PSE as a type of transmission interconnection that is located before the point of interconnection and that allows generators to connect to the transmission grid.

BACKGROUND AND MEMORANDUM

A. Lower Snake River Wind Project Phase 1

3. PSE describes the Lower Snake River Wind Project Phase 1 as a utility-scale wind generation facility currently under construction that will consist principally of 149 Siemens SWT 101 2.3 MW Wind Turbine Generators generating 342.7 MW of nameplate capacity on 39,600 acres of leased land in Western Garfield County, Washington. PSE estimates a Commercial Operation Date of April 2012 for Phase 1. PSE states that there will be additional project elements, including wind turbine generators erected on tubular steel towers with foundations and individual turbine step-up transformers to connect to the in-project grid collection system. PSE states that supporting infrastructure will include access roads, underground and overhead electric collection system lines, step-up substations, transmission lines, microwave communications, permanent meteorological towers, an operations and maintenance center, and temporary construction access and staging areas.

B. The Central Ferry Substation

4. PSE states that, to interconnect the Lower Snake River Wind Project, BPA will construct, operate, and maintain a new substation, the Central Ferry Substation. The Substation will be constructed at a point along BPA's existing Little Goose-Lower Monumental 500-kV transmission lines approximately two miles southeast of the Snake River near the Port of Central Ferry in Garfield County, Washington, and about 15 miles northwest of the City of Pomeroy, Washington. PSE states that these transmission lines will be looped into the new Central Ferry Substation. PSE adds that new transmission lines developed by PSE for the Lower Snake River

Wind Project will deliver power generated by the Lower Snake River Wind Project to the Central Ferry Substation.³

5. PSE describes the BPA Central Ferry Substation as a 500-kV substation with five breakers, a 500-kV shunt capacitor group, and a 230-kV, 2 breaker ring bus with 3-single phase 500/230-kV transformers. The basic elements of the substation will be circuit breakers, disconnect switches, transformers, ground mat, steel structures, electrical equipment, a control house, and miscellaneous other equipment. Communication facilities will include fiber optic facilities on BPA's and PSE's transmission line systems as well as an adjacent microwave tower for use by PSE for communication with centralized system operations. BPA will own all substation facilities.⁴

C. The Little Goose Area Reinforcement Project

6. The BPA Central Ferry Substation is a part of BPA's Little Goose Area Reinforcement project, which is one of five projects that BPA determined in its 2008 Network Open Season process⁵ that BPA could serve at embedded cost transmission rates. The other four

³ See the Record of Decision for the Electrical Interconnection of the Lower Snake River Wind Energy Project, issued by BPA, on January 28, 2010, at page 3 (the "Interconnection Record of Decision") (available at http://www.efw.bpa.gov/environmental_services/Document_Library/Central_Ferry_Substation_Project/CFS_Lower_SnakeRiverWindEnergyROD.pdf)

⁴ See Interconnection Record of Decision at page 3.

⁵ BPA describes its Network Open Season process as a "process to eliminate the bottleneck in the queue so that BPA could provide transmission for new generation to meet growing loads, transmit new renewable generation to meet state renewable portfolio standards, and meet the obligations under BPA's [Open Access Transmission Tariff] to process [Transmission Service Requests]." 2008 Network Open Season Administrator's Decision Letter, dated February 16, 2009, Attachment A (Rationale Supporting Determination of Rate Treatment Applicable to Projects Under 2008 Network Open Season) at page 2 (available at

projects resulting from the 2008 Network Open Season process are the McNary-John Day 500-kV transmission line, the Big Eddy-Station Z 500-kV transmission line and substation, the I-5 Corridor 500-kV transmission line and substation, and the West-of-Garrison remedial action scheme.⁶

7. PSE states that the Little Goose Area Reinforcement project will be a new 40-mile, 500 kV transmission line beginning at the new Central Ferry Substation and running to the existing Lower Monumental Substation. PSE's Petition states that BPA believes that construction of the new 500 kV line will help relieve system strain on the Lower Snake Area transmission system during spring off-peak load periods when the following conditions are most likely to coincide:

- High generation on Snake River hydro projects due to Spring and early Summer runoff
- High transfers from Montana to the Pacific Northwest, including high output at Western Montana Hydro plants
- High wind generation in SE Washington, including existing projects connected at 230 kV and below
- High transfers from Idaho to the Northwest; and
- Lower local load in SE Washington.⁷

http://www.transmission.bpa.gov/customer_forums/open_season/docs/Attachment_A_-_Rationale_of_Rate_Treatment.pdf). The Federal Energy Regulatory Commission ("FERC") approved BPA's Network Open Season process as meeting FERC's reciprocity standards. See *Bonneville Power Admin.*, 123 FERC ¶ 61,264 (2008).

⁶ See 2008 Network Open Season Administrator's Decision Letter, dated February 16, 2009 (available at http://www.transmission.bpa.gov/customer_forums/open_season/docs/Decision_Letter_02_16_2009.pdf).

⁷ See 2008 Network Open Season Administrator's Decision Letter, dated February 16, 2009, Attachment C (Description of 2008 Network Open Season Projects Moving Forward with NEPA) at page 4 (available at

D. The Standard Large Generator Interconnection Agreement

8. PSE states that it and BPA have executed a Standard Large Generator Interconnection Agreement, BPA Contract No. 10TX-14570, which sets forth the parties' respective rights and obligations. PSE states that under such contract, it is required to prepay \$102.2 million to BPA to fund the construction of the Central Ferry Substation for the Lower Snake River Wind Project Interconnection Facilities and related Network Upgrades. *See* Exhibit A to PSE's Petition for the payment schedule related to such work. PSE explains that the cost for construction of the Central Ferry Substation is determined in BPA's sole discretion and in accordance with its standardized interconnection requirements to step up power from 230 kV to 500 kV, including transformers, breakers and other substation equipment sized specifically for 1250 MW of capacity.

E. Network Upgrades Under the Standard Large Generator Interconnection Agreement

9. PSE explains that the pricing methodology established by FERC⁸ in Order No. 2003,⁹ by which transmission providers must set their rates for interconnections, recognizes that interconnection requires an initial cost outlay for two types of facilities. The first type of

http://www.transmission.bpa.gov/customer_forums/open_season/docs/2008_NOS_Project_Descriptions_AttachC_updated_Oct2009.pdf.

⁸ PSE states that, although BPA is not subject to FERC jurisdiction, BPA has elected to follow the open access transmission tariff to ensure that it will receive reciprocal and non-discriminatory access to the transmission systems of utilities that are subject to FERC's jurisdiction. *See* Interconnection Record of Decision at page 1.

⁹ *Standardization of Generator Interconnection Agreements and Procedures*, Order No. 2003, FERC Stats. & Regs. ¶ 31,146 (2003), *on reh'g*, Order No. 2003-A, FERC Stats. & Regs. ¶ 31,160 (2004), *on reh'g*,

facilities (labeled “Interconnection Facilities”) is located before the point of interconnection and allows generators to connect to the transmission grid. The second type of facilities (labeled “Network Upgrades”) is located on the grid (*i.e.*, “at or beyond” the point of interconnection) and improves the transmission system for the benefit of all users.

10. PSE further explains that although the interconnecting generator prepays for both Interconnection Facilities and Network Upgrades, the treatment of prepayments vary by the type of facilities. PSE states that, because Interconnection Facilities benefit only the interconnecting generator, the generator bears their full cost. Network Upgrades, by contrast, improve the entire transmission system, thus their cost must be spread among all users of the transmission system. PSE adds that the cost of Network Upgrades is assigned to the transmission provider whose transmission system is improved. The transmission provider then rolls this cost into its transmission rates so that all users of the transmission system pay their fair share. PSE states that because an interconnecting generator prepays for Network Upgrades, it would be unfair to make it pay again for those upgrades through increased transmission rates designed to spread the cost of the upgrades among all beneficiaries of the improved service. PSE states that the transmission provider must therefore grant the interconnecting generator “transmission service credits” equal to the total cost of the Network Upgrades. The interconnecting generator uses its transmission

Order No. 2003-B, FERC Stats. & Regs. ¶ 31,171 (2004), on reh’g, Order No. 2003-C, FERC Stats. & Regs. ¶ 31,190 (2005), *aff’d sub nom. Nat’l Ass’n of Regulatory Util. Comm’rs v. FERC*, 475 F.3d 1277 (D.C. Cir. 2007).

service credits to offset future transmission charges paid to move power over the improved transmission system.¹⁰

11. PSE states that BPA has determined that \$99.7 million of the total pre-payments of \$102.2 million under the Standard Large Generator Interconnection Agreement are associated with Network Upgrades. PSE expects, pursuant to that Agreement, that BPA will provide transmission credits to PSE's point-to-point transmission equal to the total cost of the Network Upgrades of \$99.7 million, plus interest. PSE states that payments it has made to BPA prior to the execution of the Agreement have accrued interest receivable from BPA at the annual FERC interest rate, updated quarterly, but now BPA uses a fixed Bloomberg 10-year Treasury bond rate to accumulate interest on all prepayments. PSE states that BPA has classified the remaining \$2.5 million of the \$102.2 million cost as Interconnection Facilities. PSE states that it will include this \$2.5 million in expense in a Construction Work In Progress account for the Lower Snake River Wind Project.

F. Allocation of Prepayments Among Lower Snake River Wind Project Phases

12. PSE states that it will allocate a prepayment to the Lower Snake River Wind Project Phase 1, which costs will consist of: (i) a portion of the \$99.7 million prepaid Network Upgrades, and (ii) 100 percent of the direct assigned Interconnection Facilities costs of \$2.5 million. PSE will allocate the remainder of the prepaid Network Upgrade expenditures among future phases of the Lower Snake River Wind Project. PSE states that it has established a

¹⁰ See generally Order No. 2003.

methodology by which development rights costs and the cost of subsequent development work is allocated across the balance of the Lower Snake River Wind Project. PSE explains that at the time of the purchase of the initial 50 percent development rights by PSE from Renewable Energy Systems Americas Inc. (“RES Americas”), there were four defined wind resource areas encompassing the Lower Snake River Wind Project footprint. PSE states that following its acquisition of the first 50 percent interest in development rights, PSE and RES Americas allocated the four wind resource areas among five conceptual project phases to better align with the initial development plan. Lower Snake River Wind Project Phase 1 contained portions of the Oliphant Ridge and Kuhl Ridge wind resource areas.

13. PSE plans to utilize the entire transmission capacity made possible by the construction of the Central Ferry Substation and related network facilities. PSE states that a portion of such Network Upgrades will be allocated to this future generation project development; however, for refund purposes, BPA will not track that portion of its Network Upgrades separately. PSE states that, over time, the full amount of the required transmission system Network Upgrades of \$99.7 million will be refunded as a credit to transmission service with or without the build-out of the remainder of the generation project.

PSE'S PROPOSED ACCOUNTING AND RATEMAKING TREATMENT

14. PSE has proposed to treat 100% of the \$99.7 million prepayment of the transmission Network Upgrades as a regulatory asset that will earn the current allowed net of tax rate of return consistent with the treatment accorded other power cost related regulatory assets

and construction work in progress. BPA would accrue interest on the total of PSE's deposits and such BPA interest accrual would be credited back to PSE customers as a reduction to future transmission point-to-point expense.

15. PSE further proposes that once transmission service for the Lower Snake River Wind Project Phase 1 begins, it will clear the regulatory asset and interest receivable from BPA accounts based on actual BPA transmission billings. These billings will show a credit to PSE's transmission demand costs associated with the Lower Snake River Wind Project for a given month. PSE states that BPA does not attribute the credit between principal and interest, but rather applies the full credit against the full outstanding deposit balance, which includes both principal and interest. PSE proposes to allocate the credits first to any accumulated interest accrued prior to the then-current billing. Once the accumulated interest has been cleared, PSE plans to then allocate the credit between monthly interest and principal. PSE states that this proposed allocation of the credits between principal and interest is consistent with the methodology used to account for the prepaid Network Upgrades PSE made to BPA for the Hopkins Ridge project.

16. PSE will track and credit the accumulated interest owed PSE versus the interest owed the customer based on when the interest was accrued. Interest paid on balances prior to the date of PSE's Accounting Petition will be allocated to PSE, and all BPA interest accrued after the filing date of PSE's Accounting Petition will be allocated to PSE's customers. PSE states that the customer's portion of the BPA interest will be used to reduce transmission expense. Interest allocated to PSE would be reported as below-the-line interest income. The portion of the BPA

credit allocated to principal would be used to reduce the regulatory asset account associated with the \$99.7 million prepayment, with an offsetting charge to transmission expense, until the full cost associated with the prepayment is recovered. These charges or reductions to transmission expense would be reflected in the Power Cost Adjustment mechanism.

17. PSE's currently authorized rate of return is equivalent to the allowed Allowance for Funds Used During Construction ("AFUDC") rate for Washington. Accordingly, under this proposed accounting treatment PSE will earn its authorized rate of return on the transmission investment for the BPA Central Ferry Substation and related Network Upgrades. PSE's proposed accounting treatment would reimburse PSE for its actual cost of funds as allowed in its 2009 general rate case during the construction period of the Lower Snake River Wind Project Phase 1. PSE states that when the Lower Snake River Wind Project Phase 1 is placed in service, this accrued interest will be included in rate base in the same manner as AFUDC is included for other construction costs and amortized over the life of the Lower Snake River Wind Project Phase 1.

FINDINGS AND CONCLUSIONS

18. 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.

19. On May 20, 2010, PSE filed a Petition with the Commission for an order authorizing the cost deferral accounting treatment related to prepayments made to the Bonneville

Power Administration by PSE to construct the new Central Ferry Substation and certain transmission Network Upgrades required to meet the transmission capacity needs of the region and to serve the Lower Snake River Wind Project.

20. The accounting treatment methodology proposed in the Petition is reasonable and in the public interest, and should be approved.

DETERMINATION AND ORDER

WHEREFORE, THE COMMISSION HEREBY:

21. Approves the accounting treatment in PSE's Petition with respect to prepayments made to the Bonneville Power Administration by PSE to construct the new Central Ferry Substation and certain transmission Network Upgrades required to meet the transmission capacity needs of the region and to serve the Lower Snake River Wind Project.

22. 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.

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

ORDER (PROPOSED)

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

JEFFREY D. GOLTZ, Chairman

PATRICK J. OSHIE, Commissioner

PHILIP B. JONES, Commissioner

ORDER (PROPOSED)