January 27, 2017

VIA WEB PORTAL AND OVERNIGHT COURIER

Mr. Steven V. King

Executive Director and Secretary

Washington Utilities and Transportation Commission

1300 S. Evergreen Park Drive, SW

Olympia, WA 98504

Re: *Petition of Puget Sound Energy, Inc. for (i) Approval of a Special Contract for Liquefied Natural Gas Fuel Service with Totem Ocean Trailer Express, Inc. and (ii) a Declaratory Order Approving the Methodology for Allocating Costs Between Regulated and Non-regulated Liquefied Natural Gas Services*, Docket No. UG-151663  
Notice of the Formation of Puget LNG, LLC by Puget Energy, Inc.

On October 31, 2016, the Commission issued Order 10 (Final Order Approving and Adopting Settlement Stipulation; Reopening Record and Amending Order 08 in Docket U-072375) in Docket UG-151663 (“Order 10”). Among other things, the Commission approved in Order 10 the formation by Puget Energy of a wholly-owned subsidiary named Puget LNG, LLC (“Puget LNG”) and allocation of the capital costs of the Tacoma LNG Facility between Puget Sound Energy (“PSE”) and Puget LNG as well as several new ring-fencing provisions proposed by the Settling Parties[[1]](#footnote-1) to that proceeding and assigned these provisions numbers consistent with Appendix A to the settlement stipulation the Commission approved in Order 08 in Docket U-072375. Among the ring-fencing provisions approved by the Commission in Order 10 included new Commitment 64 which states as follows:

Commitment 64 Within thirty (30) days of issuance of an order by the Commission approving the Settlement Stipulation consistent with its terms and its conditions, Puget Energy will form or will cause to be formed a wholly-owned subsidiary of Puget Energy named Puget LNG, LLC (“Puget LNG”). Puget LNG will be a special purpose limited liability company formed by Puget Energy solely for the purposes of owning, developing, and financing the Tacoma LNG Facility as a tenant-in-common with PSE.

Order 10 at ¶ 74.

Included as Exhibit A to this letter is the Affidavit of Steve R. Secrist in Compliance with the Conditions of Order 10 Final Order Approving and Adopting Settlement Stipulation; Reopening Record and Amending Order 08 in Docket U-072375 (“Secrist Affidavit”). The Secrist Affidavit affirms that Puget Energy formed a wholly-owned subsidiary of Puget Energy named Puget LNG within thirty (30) days of issuance of the Final Order by the Commission. (Secrist Affidavit at ¶3.) In addition, on November 30, 2016, PSE submitted a compliance filing in Docket UG-151663 that provided confirmation that Puget Energy had filed a Certificate of Formation for the formation of Puget LNG with the Washington Secretary of State. On January 3, 2017, the Commission issued a notice stating that the Commission has examined PSE’s compliance filing and that it appears to comply with the terms of the Final Order, Paragraph 74, Commitment 64.

The Secrist Affidavit further affirms that (i) Puget Energy formed Puget LNG as a special purpose limited liability company solely for the purposes of owning, developing, and financing the Tacoma LNG Facility as a tenant-in-common with PSE and (ii) Puget LNG will remain a special purpose limited liability company formed solely for the purposes of owning, developing, and financing the Tacoma LNG Facility as a tenant-in-common with PSE for so long as Puget Energy, or any affiliate or subsidiary of Puget Energy, is a member of Puget LNG. (Secrist Affidavit at ¶4.)

The Commission also approved Commitment 65 in Order 10 which states, in part, as follows:

Commitment 65 Within sixty (60) days of the formation of Puget LNG, PSE will file a non-consolidation opinion with the Commission which concludes, consistent with customary assumptions and exceptions, that the ring-fencing provisions are sufficient that a bankruptcy court would not order the substantive consolidation of the assets and liabilities of PSE with those of Puget Energy or its affiliates or subsidiaries, including Puget LNG.

Order 10 at ¶ 76.

The Secrist Affidavit affirms that PSE is filing within sixty (60) days of the formation of Puget LNG, a non-consolidation opinion which concludes that the ring-fencing provisions are sufficient that a bankruptcy court would not order the substantive consolidation of the assets and liabilities of PSE with those of Puget Energy or its affiliates or subsidiaries, including Puget LNG. (Secrist Affidavit at ¶6.) The non-consolidation opinion is included as Exhibit B to this letter.

The Commission also approved new Commitment 66 in Order 10, which states as follows:

Commitment 66 PSE’s customers will be held harmless from the liabilities and financial losses of non-regulated activity of the Tacoma LNG Facility including any non-regulated activity of Puget LNG. Puget Energy guarantees and will hold PSE’s customers harmless from all liabilities and financial losses of Puget LNG resulting from:

(i) any non-regulated activity of the Tacoma LNG Facility, including the sale or assignment of the assets of Puget LNG to a third party; and

(ii) circumstances in which Puget LNG or any successor to Puget LNG (a) becomes insolvent or is unable to pay its debts when due, (b) files a petition in bankruptcy, reorganization or similar proceedings (and if filed against, such petition is not removed within 90 days), (c) discontinues its business, or (d) a receiver is appointed or there is an assignment for the benefit of creditors of Puget LNG.

Order 10 at ¶ 79.

The Secrist Affidavit affirms that Puget Energy will hold PSE’s customers harmless from the liabilities and financial losses of any non-regulated activity of the Tacoma LNG Facility, including any non-regulated activity of Puget LNG, for so long as Puget Energy, or any affiliate or subsidiary of Puget Energy, is a member of Puget LNG. (Secrist Affidavit at ¶8.) The Secrist Affidavit further affirms that Puget Energy will guarantee and hold PSE’s customers harmless from: (i) all liabilities and financial losses of Puget LNG resulting from any non-regulated activity of the Tacoma LNG Facility, including the sale or assignment of the assets of Puget LNG to a third party; and (ii) circumstances in which Puget LNG or any successor to Puget LNG (a) becomes insolvent or is unable to pay its debts when due, (b) files a petition in bankruptcy, reorganization or similar proceedings (and if filed against, such petition is not removed within 90 days), (c) discontinues its business, or (d) a receiver is appointed or there is an assignment for the benefit of creditors of Puget LNG, for so long as Puget Energy, or any affiliate or subsidiary of Puget Energy, is a member of Puget LNG. (Secrist Affidavit at ¶9):

The Commission also approved new Commitment 67 in Order 10, which states, in part:

Commitment 67 Within sixty (60) days of the formation of Puget LNG, PSE will file a Joint Ownership Agreement between Puget LNG and PSE for approval by the Commission pursuant to RCW 80.16.020. The terms and conditions of the Joint Ownership Agreement will reflect the terms and conditions set forth in Attachment B to this Settlement Stipulation.

Order 10 at ¶86. In addition, Commitment 67 in Order 10 includes specific details regarding the treatment of operating costs, liabilities, insurance requirements and usage fees under the Joint Ownership Agreement.

The Secrist Affidavit affirms that within sixty (60) days of the formation of Puget LNG, PSE is filing a Joint Ownership Agreement between Puget LNG and PSE for approval by the Commission pursuant to RCW 80.16.020. (Secrist Affidavit at ¶11). Included as Exhibit C to this letter is a copy of the Joint Ownership Agreement between Puget LNG and PSE which includes the terms and conditions set forth in Attachment B of the Settlement Stipulation approved in Order 10 and the specific details required by Commitment 67 in Order 10.

The Commission also approved new Commitment 68 in Order 10, which states:

Commitment 68 PSE will notify the Commission of any potential sale or transfer of all or substantially all of the assets of the Tacoma LNG Facility or the potential sale or transfer of Puget LNG’s non-regulated operations. PSE must give this notice as soon as practicable.

Final Order at ¶ 95.

The Secrist Affidavit affirms that (i) PSE will notify the Commission of any potential sale or transfer of all or substantially all of the assets of the Tacoma LNG Facility or the potential sale or transfer of Puget LNG’s non-regulated operations and (ii) PSE will give this notice as soon as practicable. (Secrist Affidavit at ¶13.)

In paragraph 141 of Order 10, the Commission addressed the governance structure and Board of Managers of Puget LNG. The Commission required that (i) two managers on the Board of Managers of Puget LNG should be independent and, therefore, not a member, stockholder, director, officer, or employee of Puget Holdings, LLC (“Puget Holdings”), Puget Energy, PSE, or any other affiliated businesses and (ii) ideally, these independent managers on the Board of Managers, or at least one of them, will have knowledge and experience with liquefied natural gas infrastructure, operations, marketing, or regulation. Order 10 at ¶ 141.

The Secrist Affidavit affirms that as of the date of commercial operations of the Tacoma LNG Facility and continuing thereafter, (i) two managers on the Board of Managers of Puget LNG will be independent and, therefore, not a member, stockholder, director, officer, or employee of Puget Holdings, Puget Energy, PSE, or any other affiliated businesses and (ii) at least one of the independent managers of the Board of Managers will have knowledge and experience with liquefied natural gas infrastructure, operations, marketing, or regulation. (Secrist Affidavit at ¶15.)

If you have any questions, please contact the undersigned at 425-635-1416 or [jkuzma@perkinscoie.com](mailto:jkuzma@perkinscoie.com).

Very truly yours,

*/s/ Jason Kuzma*

Jason Kuzma

JTK

Attachments

Cc: Service List in Docket UG-151663

**Exhibit A**

**Exhibit B**

**Exhibit C**

**Certificate of Service**

**CERTIFICATE OF SERVICE  
DOCKET NO. UG-151663  
(Re: LNG Petition)**

I hereby certify that I have this day caused the foregoing to be served, in accordance with WAC 480-07-150(6), to the following persons via email and overnight courier:

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Dated in Bellevue this 27th day of January, 2017.

*/s/ Jason Kuzma*   
Jason Kuzma

1. The Settling Parties are PSE, the Commission’s regulatory staff, the Public Counsel Unit of the Washington Attorney General’s Office, the Northwest Industrial Gas Users, and the Industrial Customers of Northwest Utilities. [↑](#footnote-ref-1)