



STATE OF WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION
1300 S. Evergreen Park Dr. S.W., P.O. Box 47250 • Olympia, Washington 98504-7250
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March 29, 2017

Re: *Petition of Puget Sound Energy 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 UG-151663 – Notice of the Formation of Puget LNG, LLC by Puget Energy, Inc.*

TO ALL PARTIES:

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 authorized 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). Order 10 required Puget Energy and its subsidiaries to take a series of actions, including making compliance filings, to implement its provisions and to keep the Commission apprised as it completed each step in the series. Commission acknowledgement of each of the compliance filings is contemplated by Order 10 and Commission approval of certain of the new commitments is required by Order 10.

On November 30, 2016, PSE made its initial compliance filing in this docket, confirming formation of Puget LNG. This initial compliance filing satisfied the ring fencing requirement set forth in Order 10 ¶ 74. On January 3, 2017, the Commission Secretary executed on behalf of the Commission, and caused to be filed, a Compliance Letter stating, among other things that “[t]he Commission has examined the filing, and it appears to comply with the terms of Order 10, Paragraph 74.”

On January 27, 2017, PSE made another compliance filing attaching the Affidavit of Steve R. Secrist, Senior Vice President, General Counsel, and Chief Ethics & Compliance Officer for each of Puget Energy and Puget Sound Energy, and two additional exhibits. Mr. Secrist’s Affidavit reaffirms that Puget Energy formed a wholly-owned subsidiary of Puget Energy named Puget LNG within thirty (30) days of issuance of Order 10 by the Commission. His Affidavit also 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.

PSE's January 27, 2017, filing also included as Exhibit B a non-consolidation opinion as required by Order 10 ¶ 76. Mr. Secrist affirms in his affidavit that the non-consolidation opinion 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.

Mr. Secrist's 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, as required by Order 10 ¶ 79. Mr. Secrist specifically 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.

PSE's January 27, 2017, filing also included as Exhibit C the required 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 Order 10 ¶¶ 86 and 87. Mr. Secrist affirms in his affidavit that PSE seeks approval of the Joint Ownership Agreement RCW 80.16.020 as required by Order 10.

Finally, the Secrist Affidavit affirms PSE's continuing obligations under Order 10 ¶¶ 95, 141 that concern, respectively:

- PSE's obligation to notify the Commission as soon as practicable, 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.
- The governance structure and Board of Managers of Puget LNG, including requirements 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.

On March 24, 2017, PSE made a third compliance filing, including the Affidavit of Daniel A. Doyle, Senior Vice President and Chief Financial Officer for both Puget Energy and PSE. Mr. Doyle affirms, that PSE, as required by Order 10 ¶ 61, (i) has assigned Puget LNG's Ownership Shares of the components of the Tacoma LNG Facility to Puget LNG and (ii) PSE has been reimbursed for Puget LNG's shares of the capital expenditures for the Tacoma LNG Facility. More specifically, PSE's March 24, 2017 compliance filing states that:

On December 5, 2016, PSE assigned Puget LNG's Ownership Shares of the components of the Tacoma LNG Facility to Puget LNG, and PSE was reimbursed \$12,479,146.83 for Puget LNG's pro rata share of the capital expenditures for the Tacoma LNG Facility as of such date.

Since December 5, 2016, PSE has been reimbursed for Puget LNG's pro rata share of the capital expenditures for the Tacoma LNG Facility as such capital expenditures have become payable by PSE. Specifically, PSE was reimbursed for Puget LNG's pro rata share of the capital expenditures for the Tacoma LNG Facility in the following amounts and on the following dates:

- (i) \$5,682,125.39 on February 6, 2017; and
- (ii) \$4,951,320.68 on March 6, 2017.

The Commission has examined the filings discussed in this letter, and finds that they each comply with the terms of Order 10, as discussed above. The Commission finds that the Joint Ownership Agreement included as part of PSE's January 27 compliance filing satisfies the requirements for affiliated interest transactions under Chapter 80.16 RCW and should be approved under RCW 80.16.020. The Joint Ownership Agreement accordingly is approved by this letter.

Sincerely,

STEVEN V. KING
Executive Director and Secretary