

Agenda Date: May 14, 2009  
Item Number: A1

**Docket:** UE-090399  
Company: Puget Sound Energy, Inc.

Staff: Roland Martin, Regulatory Analyst

### **Recommendation**

1. Issue an order granting Puget Sound Energy, Inc.'s application for authorization to transfer certain assets related to the Company's White River Hydroelectric Project to the Cascade Water Alliance.
2. Deny Puget Sound Energy, Inc.'s application for waiver of RCW 80.12.020 and WAC 480-143-120 with regard to the Surplus Property.

### **Discussion**

On March 13, 2009, Puget Sound Energy, Inc. (PSE or company), filed with the Washington Utilities and Transportation Commission (commission) an application pursuant to RCW 80.12 and WAC 480-143, for authority to sell and transfer certain assets related to the company's White River Hydroelectric Project (the Project) to the Cascade Water Alliance (CWA). PSE also requested in its application that the commission waive RCW 80.12.020 and WAC 480-143-120 with regard to certain surplus property (Surplus Property) related to the Project, which PSE expects to sell in the near future but which is not part of the CWA transaction. PSE stated that it will bring the issue of the application of proceeds from the sale and disposition of all Project proceeds—including the sale of surplus property—to the commission for consideration in PSE's next general rate case after the sale of all the Project assets and Surplus Property is completed.<sup>1</sup> Likewise, PSE will address the reasonableness of the sale and transfer of the Surplus Property in a future general rate proceeding after the sale of the Surplus Property is completed.

PSE operated the Project without a federal license from 1911 to 1983. After the Federal Energy Regulatory Commission (FERC) made a jurisdictional determination, it required the company to apply for a license. In November 1983, PSE filed an Application for License with FERC. In December 1997, FERC issued an Original License to the Project, and PSE appealed based on economic consequences associated with implementing the License. In December 2003, PSE notified FERC that it intended to reject the 1997 license; and on January 15, 2004, PSE ceased hydropower operations at White River.<sup>2</sup>

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<sup>1</sup>See *In the Matter of the Petition of Puget Sound Energy, Inc., For an Accounting Order Authorizing Deferral and Recovery of Investment and Costs Related to the White River Hydroelectric Project*, Docket UE-032043 (consolidated), Order 06 at ¶¶ 251-253.

<sup>2</sup> See *id.* at ¶ 251.

### **Sale of the Project Assets**

On April 23, 2008, PSE and CWA executed an Asset Purchase Agreement (Agreement), in which PSE agreed to sell Project assets to CWA in exchange for \$30,000,000. PSE anticipates closing of the transaction will occur no later than the third quarter of 2009, 45 business days following satisfaction of all conditions to closing. Commission approval of the sale of the Project assets to CWA is one of several conditions to closing.

Commission staff reviewed the property transfer application and related exhibits. In addition, commission staff reviewed additional information provided by PSE including valuation studies and appraisals supporting the fairness of the sale price of the Project assets sold and company determinations of related assets to be retained for ongoing and future utility operations. Based on this review, commission staff believes the request for authorization to transfer those Project assets is reasonable and consistent with the public interest.

### **The Surplus Property**

The Surplus Property consists of approximately 2,400 acres of undeveloped real property along the White River, real property that PSE held during the pendency of the FERC licensing proceeding as wildlife mitigation lands. PSE states that it has identified at least two interested parties, and it anticipates executing purchase and sale agreements for the Surplus Property in 2009. PSE requests a waiver of prior approval of the sale of the Surplus Property because it can be more flexible and move more quickly to finalize a transaction if it is not required to obtain commission approval before the transaction can close. Because the commission cannot waive the requirements of a statute, PSE must file an application to transfer the Surplus Property.

PSE's proposal to bring the issue of the application of proceeds from the sale and disposition of all Project and Surplus Property for consideration in a general rate case after completion of the sale is consistent with the commission's order in Docket UE-032043. In that proceeding, the commission denied PSE's request to begin amortization of White River regulatory assets because of a pending assets sale but agreed to consider the application of proceeds from the sale and disposition of any remaining balances in a future proceeding. The commission ordered PSE to book the proceeds from the sale to a separate FERC Account 182.3 -Other Regulatory Assets, and treat the return on this credit balance account through the Power Cost Adjustment mechanism as a variable cost item.

### **Conclusion**

Staff recommends the commission issue an order granting Puget Sound Energy, Inc.'s application for authorization to transfer certain assets related to the Company's White River Hydroelectric Project to the Cascade Water Alliance. Also, staff recommends the commission

Docket UE-090399  
May 14, 2009  
Page 3

deny PSE's application for waiver of RCW 80.12.020 and WAC 480-143-120 with regard to the Surplus Property.