

**REDACTED
VERSION**

**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-____

PETITION OF
PUGET SOUND ENERGY, INC.
FOR AN ACCOUNTING ORDER

I. INTRODUCTION

1. In accordance with WAC 480-07-370(1)(b), Puget Sound Energy, Inc. (“PSE”) respectfully petitions the Commission for an order that authorizes the cost deferral accounting treatment detailed in this Petition 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. BPA will return to PSE the prepayments related to the Network Upgrade facilities, plus interest, by providing a monthly credit to PSE’s

¹ "Network Upgrades" are defined in paragraph 11 *infra*.

future transmission bill in an amount equal to the point-to-point transmission tariff expenses associated with the use of the Interconnection Facilities² and Network Upgrades. PSE requests that the Commission issue the requested order authorizing the deferred accounting treatment requested herein commencing as of the date of this filing.

2. PSE requests in this 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. The required payment to BPA for the Interconnection Facilities and Network Upgrades is similar to the Network Upgrade prepayments PSE made to BPA on PSE's Hopkins Ridge Wind Project, which was allowed for recovery in WUTC Docket No. UE-050870. 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 does not request in this 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.

3. PSE is engaged in the business of providing electric and gas service within the State of Washington as a public service company, and is subject to the regulatory authority of the

² "Interconnection Facilities" are defined in paragraph 11 *infra*.

Commission as to its retail rates, service, facilities and practices. Its full name and mailing address are:

Puget Sound Energy, Inc.
Attn: John Story
Director Cost and Regulation
P.O. Box 97034
Bellevue, Washington 98009-9734

PSE's representatives for purposes of this proceeding are:

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4. Rules and statutes that may be at issue in this Petition include RCW 80.01.040, RCW 80.28.020, and WAC 480-07-370(1)(b).

II. BACKGROUND

A. Lower Snake River Wind Project Phase 1

5. Lower Snake River Wind Project Phase 1 is 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 has targeted a Commercial Operation Date of April 2012 for Phase 1. Additional project elements include 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. 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

6. To interconnect the Lower Snake River Wind Project, BPA will construct, operate, and maintain a new substation, referred to as the Central Ferry Substation, 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. The substation will occupy approximately 25 acres of a 60-acre parcel of land immediately adjacent to the existing right-of-way for the Little Goose-Lower Monumental transmission lines. These transmission lines will be looped into the new Central Ferry Substation. 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

7. The BPA Central Ferry Substation will be 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

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)

PSE for communication with centralized system operations. BPA will own all substation facilities.⁴

C. The Little Goose Area Reinforcement Project

8. 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 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 The West of Garrison remedial action scheme was subsequently dropped from BPA's list of projects.

9. The Little Goose Area Reinforcement project will be a new 500 kV transmission line, approximately 40 miles long, beginning at the new Central Ferry Substation and running to the existing Lower Monumental Substation. BPA states that the construction of this 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:

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 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).

- 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

D. The Standard Large Generator Interconnection Agreement

10. On May 11, 2010, PSE executed a Standard Large Generator Interconnection Agreement, BPA Contract No. 10TX-14570, which sets forth the parties' respective rights and obligations. BPA executed the Standard Large Generator Interconnection Agreement on May 13, 2010. In accordance with the terms of the Standard Large Generator Interconnection Agreement, PSE 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. Attached as Exhibit A to this Petition is a copy of the payment schedule under the Standard Large Generator Interconnection Agreement. 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.

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

E. Network Upgrades Under the Standard Large Generator Interconnection Agreement

11. The pricing methodology established by FERC⁸ in Order No. 2003⁹ 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 facilities (labeled “Interconnection Facilities”) are located before the point of interconnection and allow generators to connect to the transmission grid. The second type of facilities (labeled “Network Upgrades”) are located on the grid (i.e., “at or beyond” the point of interconnection) and improve the transmission system for the benefit of all users.

12. Although the interconnecting generator prepays for both Interconnection Facilities and Network Upgrades, the treatment of prepayments vary by the type of facilities. 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. 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. 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. The

⁸ Although BPA is not subject to FERC jurisdiction, BPA has elected to follow the open access transmission tariff to ensure that BPA 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*, 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).

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

13. 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. Consistent with Order No. 2003, 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. Payments made by PSE to BPA prior to the execution of the Standard Large Generator Interconnection Agreement have accrued interest receivable from BPA at the annual FERC interest rate, which rate is updated quarterly. Subsequent to the execution of the Standard Large Generator Interconnection Agreement, BPA uses a fixed Bloomberg 10-year Treasury bond rate to accumulate interest on all prepayments, whether those prepayments were made prior to or subsequent to the execution of the Standard Large Generator Interconnection Agreement. BPA has classified the remaining \$2.5 million of the \$102.2 million cost as Interconnection Facilities, which, as discussed above, are directly assigned to PSE. PSE 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

14. PSE will allocate a prepayment cost of \$[REDACTED] to the Lower Snake River Wind Project Phase 1, which costs will consist of: (i) [REDACTED] % of the \$99.7 million prepaid

¹⁰ See generally Order No. 2003.

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Network Upgrades, and (ii) 100% 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. During development of the Lower Snake River Wind Project, PSE established a 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, which may consist of five phases. At the time of the purchase of the initial 50% 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. Subsequent to PSE’s acquisition of the first 50% 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.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

15. PSE has plans for future development that will utilize the entire transmission capacity made possible by the construction of the Central Ferry Substation and related network facilities. As stated earlier, [REDACTED] % of such Network Upgrades will be allocated to this future generation project development; however, for refund purposes, BPA will not be tracking this portion of its Network Upgrades separately. 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.

III. PROPOSED ACCOUNTING AND RATEMAKING TREATMENT

16. PSE proposes 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 will accrue interest on the total of PSE's deposits and such BPA interest accrual will be credited back to PSE customers as a reduction to future transmission point-to-point expense.

17. Once transmission service for the Lower Snake River Wind Project Phase 1 begins, PSE 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. 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 will then allocate the credit between monthly interest and principal. 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.

18. 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 this Accounting Petition will be allocated to PSE, and all BPA interest accrued after the

filing date of this Accounting Petition will be allocated to PSE's customers. The customer's portion of the BPA interest will be used to reduce transmission expense. Interest allocated to PSE will be reported as below-the-line interest income. The portion of the BPA credit allocated to principal will 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 will be reflected in the Power Cost Adjustment mechanism.

19. 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. This accounting treatment will 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. 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.

20. The Interconnection Facilities and Network Upgrades described above are required to deliver the electric generation from the Lower Snake River Wind Project Phase 1 to serve PSE's system and to enhance regional transmission availability. Such investment is an integral part of, and essential to, a fully functional generating facility that incorporates in rate base other construction costs essential to a functioning electric production asset. Accordingly, the proposed accounting treatment is appropriate.

IV. PRAYER FOR RELIEF

21. Based on the foregoing, PSE respectfully requests that the Commission issue an Accounting Order in the form attached as **Exhibit B**.

DATED this 19th day of May, 2010.

PUGET SOUND ENERGY, INC.



John Story
Director, Cost and Regulation

VERIFICATION

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)


John Story, being first duly sworn, on oath deposes and says:

That he is Director of Cost and Regulation with Puget Sound Energy, Inc., that he has read the foregoing Petition of Puget Sound Energy, Inc. for An Accounting Order, that he knows the contents thereof, and that he believes the same to be true to the best of his knowledge and belief.



John Story

SUBSCRIBED and SWORN to before me this 19th day of May, 2010.


Print Name: CYNTHIA MAIN
Notary Public in and for the State of Washington,
residing at Kirkland, WA
My commission expires: 9-29-2011

