

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of

PUGET SOUND ENERGY, INC.

For an Order Authorizing the Sale of the Water Rights and Associated Assets of the Electron Hydroelectric Project in Accordance with WAC 480-143 and RCW 80.12

Docket No. UE-13 _____

APPLICATION

1. Puget Sound Energy, Inc. (“PSE”) has entered into an Asset Purchase and Sale Agreement to sell certain assets related to PSE’s Electron Hydroelectric Project (the “Electron Project”) to Electron Hydro LLC (“Electron Hydro”). The proposed sale is pursuant to the Asset Purchase Agreement executed by and between PSE and Electron Hydro on May 30, 2013. The parties anticipate closing the transaction no later than August 14, 2013; therefore, PSE respectfully requests the Commission issue an order authorizing the transfer of these Electron Project assets to Electron Hydro on or before August 9, 2013.

2. In this Application, PSE respectfully requests that the Commission issue an order
- (i) finding that the Electron Project is not necessary or useful pursuant to RCW 80.12.020 and WAC 480-143-180, or in the alternative approving the transfer of the Electron Project pursuant to WAC 480-143-120; and
 - (ii) approving the accounting and ratemaking treatment proposed by PSE in this Application.

II. THE TRANSACTION

A. The Parties

1. The Applicant: PSE

3. PSE is an investor-owned electric and gas utility serving over 1,000,000 electric customers and 765,000 natural gas customers primarily in Western Washington. The full and correct name and business address for PSE are as follows:

Puget Sound Energy, Inc.
The PSE Building
10885 N.E. Fourth Street
Bellevue, WA 98004-5579

PSE requests that all notices, correspondence and pleadings be sent to:

For PSE:

Katherine J. Barnard
Director, Revenue Requirements and Regulatory Compliance
Puget Sound Energy, Inc.
The PSE Building
10885 N.E. Fourth Street, Suite 800
Bellevue, WA 98004-5579
Phone: (425) 462-3716
Facsimile: (425) 462-3414
Email: katherine.barnard@pse.com

With a copy to:

Jason Kuzma
Donna Barnett
Perkins Coie LLP
The PSE Building
10885 N.E. Fourth Street, Suite 700
Bellevue, WA 98004-5579
Phone: (425) 635-1400
Facsimile: (425) 635-2400
Email: jkuzma@perkinscoie.com
dbarnett@perkinscoie.com

2. The Purchaser: Electron Hydro

4. Electron Hydro is a Delaware limited liability company. The full and correct name and business address for PSE are as follows:

Electron Hydro, LLC
3633 Alderwood Avenue
Bellingham, WA 98225

B. Background

1. Background on the Electron Project

5. The Electron Project was built by a predecessor of PSE and began generating electricity on April 12, 1904. The Electron Project is located on the Puyallup River in Pierce County, Washington, approximately 23 miles southeast of Tacoma.

6. Drainage from 91 square miles of the Puyallup and Mowich glaciers on the western slopes of Mount Rainier provide water to a diversion dam near Orting. Water is there diverted into a ten-mile long wooden flume that feeds a man-made reservoir. Four steel penstocks supply water from the reservoir down to the powerhouse. Inside the powerhouse, eight Pelton impulse-type horizontal turbines are connected in pairs to four generators—three rated at 6 MW and one at 7.5 MW, for a total plant nameplate rating of 25.5 MW.

7. PSE added downstream fish passage in 1998 in the form of a trap-and-haul facility and barrier net. PSE added upstream fish passage in 2000 in the form of a fish ladder.

8. The ten-mile wooden flume is a unique feature of the Electron Project. It includes 281 curves and a topside railroad for crew access due to limited roads along the steep river valleys of the area. Because the flume is made of wood, it has required periodic replacement. The flume was first replaced in 1938 and then replaced again in 1984-1985. In 1998, PSE installed a new plywood liner on the entire flume.

9. The wood flume of the Electron Project needs to be replaced. Energy production at the Electron Project is restricted by the amount of water that can be channeled through the flume to the powerhouse. Deterioration of the flume floor and sidewalls make the flume prone to leaks and blowouts, which necessitate regular repairs by plant crews. PSE has limited the amount of water allowed to enter the flume to prevent more frequent failures, but this, in turn, has limited plant output to less than 8 MW, or one-third of full operating capacity.

10. In addition to the flume, the original 1904 penstocks are also in need of repair or replacement. PSE engineers and contractors provided a condition assessment in 2009 indicating that the penstocks should be repaired or replaced as soon as feasible to reduce the risk of failure.

11. Due to the condition of the flume and penstocks, the Electron Project will not be able to continue to operate without significant capital investment.

12. The Electron Project is not a hydroelectric project licensed by the Federal Energy Regulatory Commission under Part 11 of the Federal Power Act. Operations at the plant are governed primarily by an agreement with the Puyallup Tribe of Indians (the “Puyallup Tribe”), along with various state and local permits.

13. In 1997, PSE and the Puyallup Tribe agreed to settle a long-standing dispute over the Electron Project and formalized the terms of this settlement in the Resource Enhancement Agreement between PSE and the Puyallup Tribe. The Resource Enhancement Agreement provides for a series of resource enhancement measures to benefit fisheries resources.

Specifically, the Resource Enhancement Agreement includes provisions for:

- Minimum in-stream flows below the Electron Project dam;
- Ramping rate targets below the Electron Project powerhouse;

- Capital contributions toward the Puyallup Tribe’s construction of rearing ponds and a fish ladder;
- Annual O&M contributions related to rearing ponds, a fish ladder, downstream trap and haul facilities, and activities performed by the Puyallup Tribe related to upstream fish passage; and
- Maximum water diversion of 400 cubic feet per second (“CFS”).

14. The Resource Enhancement Agreement expires on December 31, 2026. Under the terms of the agreement, PSE must notify the Puyallup Tribe no later than 2018 of PSE’s decision either to upgrade or retire the Electron Project by 2026. The Resource Enhancement Agreement defines upgrades to the Electron Project as construction or major modification that increases the Electron Project’s head, generating capacity, or otherwise significantly modifies the project’s pre-1935 design and operation. The Resource Enhancement Agreement defines retiring the Electron Project to mean permanently discontinuing the generation of electricity at the project and removing the Electron Project dam from the Puyallup River.

15. A Habitat Conservation Plan (“HCP”) is being prepared in support of the application for an Incidental Take Permit (“ITP”) to cover the continued operation and maintenance of the Electron Project. It has been prepared in accordance with section 10(a)(2)(A) of the federal Endangered Species Act (“ESA”), which allows for the approval of incidental take of threatened and endangered fish species during the performance of otherwise lawful activities, provided certain conditions are met. One of those conditions is the preparation of a conservation plan that specifies:

- (i) The impact which will likely result from such taking.
- (ii) What steps the applicant will take to minimize and mitigate such impacts and the funding that will be available to implement the steps.

- (iii) What alternative actions to such taking the applicant considered and the reasons why such alternatives are not being utilized.
- (iv) Such other measures that the Secretaries of Interior and Commerce may require as being necessary or appropriate for purposes of the plan.

16. The HCP is being developed in coordination with the National Marine Fisheries Service (“NMFS”) and the US Fish and Wildlife Service (“USFWS”), the federal agencies responsible for implementation and enforcement of the ESA. The plan is also being developed with consultation and coordination with the Puyallup Tribe and the Washington Department of Fish and Wildlife (“WDFW”).

17. The HCP is being developed with a planned permit period through 2026, which aligns with PSE’s Resource Enhancement Agreement with the Puyallup Tribe. Expansion of the permit period to cover the Electron Project beyond 2026 could add to the cost and schedule of the HCP due to potential revisiting of conservation measures to reflect the extended coverage period (e.g., fish passage requirements and in-stream flows). Further progress on the HCP is dependent on a decision on the Electron Project.

2. Alternatives Considered by PSE with Respect to the Redevelopment, Retirement, or Sale of the Electron Project

18. At an Energy Management Committee (“EMC”) meeting, dated April 20, 2012, PSE presented an evaluation of three alternatives for the future of the Electron Project:

- (i) PSE could make capital expenditures necessary to extend the life of the Electron Project;
- (ii) PSE could retire the Electron Project including demolition and removal of the flume and other project infrastructure; or
- (iii) PSE could sell the Electron Project.

PSE's analysis of each of the three alternatives is discussed further below and in detail in Exhibit A to this Application.

a. Alternative 1: Extension of the life of the Electron Project

19. An evaluation team representing various PSE departments developed alternatives for redeveloping and extending the life of the Electron Project. The team analyzed variations of redevelopment options for both a short-term life extension (retirement in 2026) and a long-term life extension (retirement in 2062). All of the alternatives considered included investments to repair, replace, or upgrade each of four key project features:

- (i) the flume;
- (ii) the penstocks;
- (iii) downstream fish passage at the diversion dam; and
- (iv) the Pelton turbines.

20. PSE defined short-term life extension as extending the life of the Electron Project through 2026 (the end of the term of the current Resource Enhancement Agreement). As discussed in Exhibit A to this Application, PSE determined that the most likely option for short term life extension would include

- (i) replacing the wood flume liner with Alaska yellow cedar,
- (ii) replacing the penstocks,
- (iii) installing an engineered, in-river screen (Coanda screen) at the diversion dam, and
- (iv) upgrading the wheels and nozzles of the Pelton turbines.

21. PSE estimated the cost of this short-term redevelopment option to be approximately \$69 million. Due to uncertainty around minimum in-stream flows that would be

required under the HCP/ITP, PSE modeled the costs and benefits of the short term life extension with varying minimum in-stream flow requirements of 100 CFS, 130 CFS, and 160 CFS.

22. PSE defined long-term life extension as extending the life of the Electron Project through 2062. An approximately 50 year life extension was assumed for long-term redevelopment because this period corresponds with the anticipated life of a flume liner rebuilt with Alaska yellow cedar. The primary scope of work associated with the most likely long-term redevelopment option is the same as short-term redevelopment with the addition of replacing components of the flume's support structure to improve its stability.

23. PSE estimated the cost of this long-term redevelopment option to be approximately \$75 million. Due to uncertainty around minimum in-stream flows that would be required under the HCP/ITP, PSE modeled the costs and benefits of the long-term life extension with varying minimum in-stream flow requirements of 100 CFS, 130 CFS, and 160 CFS. Any extension of the life of the Electron Project beyond 2026 would also require an agreement with the Puyallup Tribe that extends beyond the term of the existing Resource Enhancement Agreement. It is uncertain whether such an agreement is feasible.

b. Alternative 2: Retirement of the Electron Project

24. As stated above, the Resource Enhancement Agreement primarily defines PSE's obligations as owner and operator of the Electron Project. The Resource Enhancement Agreement requires PSE to notify the Puyallup Tribe by 2018 of PSE's intent to either upgrade or retire the Electron Project at the end of the agreement term in 2026. Additionally, the Resource Enhancement Agreement contains an early termination provision in the event PSE must "Retire the Project" prior to 2026. The Resource Enhancement Agreement defines "Retire the Project" as "such actions as Puget shall deem necessary for purposes of permanently

discontinuing the generation of electricity at the project and, for such purposes, the removal of the Electron dam from the channel of the Puyallup River.” Upon completion of dam removal and subsequent notice to the Puyallup Tribe, the Resource Enhancement Agreement and associated obligations terminate.

25. As further described in Exhibit A to this Application, although the Resource Enhancement Agreement requires removal of only the diversion dam, permanent retirement of the Electron Project would necessarily entail the removal or alteration of additional structures located at the project site to comply with state and local regulations while managing PSE’s risk of environmental and public safety liability. PSE identified five project areas that would need to be addressed in the scope of work for retirement of the Electron Project:

- (i) the diversion dam and headworks;
- (ii) the flume and settling basin;
- (iii) the forebay and surrounding area;
- (iv) the penstocks; and
- (v) the powerhouse and river-front area.

PSE projected total costs associated with retirement of the Electron Project of approximately \$28.9 million

c. Alternative 3: Sale of the Electron Project

26. Under the sale alternative, PSE would sell the Electron Project on an “as-is, where is” basis and purchase the power produced by the Electron Project through a power purchase agreement (“PPA”) at competitive market prices. Additionally, PSE evaluated retaining title and/or rights to certain parcels of the Electron Project. PSE assumed that the existing liabilities

related to the Resource Enhancement Agreement and HCP/ITP processes would transfer to the buyer.

27. PSE identified several benefits of a sale of the Electron Project, including the following:

- sale avoids operational risks and retirement costs;
- sale mitigates potential economic loss of retirement;
- sale transfers HCP/ITP uncertainty and costs to buyer;
- sale transfers Resource Enhancement Agreement obligations to buyer;
- sale transfers debris removal obligations to buyer; and
- if a sale is unsuccessful, other options remain available.

3. Request for Proposal Process for the Sale of the Electron Project

28. At the meeting, dated April 20, 2012, the EMC approved the recommendation to solicit offers for the purchase of the Electron Project. PSE solicited offers from potential buyers through a competitive bidding process with selected buyers. In the Electron RFP, PSE notified prospective buyers of the bid process and expected timeline. PSE gave potential bidders a specific amount of time to perform initial due diligence and complete their valuations. PSE also established a data room that provided all potential bidders with access to the same information and materials. After the initial due diligence phase was complete, PSE asked potential bidders to submit their best offers based on PSE's preferred commercial terms and conditions. PSE evaluated submitted offers on both qualitative and quantitative selection criteria.

29. As a result of negotiations, PSE agreed to sell and Electron Hydro agreed to purchase the Electron Project at a purchase price of \$13.7 million, with a twenty-year PPA in

which Electron Hydro sells the output of the project to PSE. On March 21, 2013, the EMC authorized the sale of the Electron Project to Electron Hydro.

C. Payments to PSE

30. At closing, Electron Hydro will pay PSE an amount equal to \$13.7 million.

D. Closing Date

31. The closing date is proposed for August 14, 2013.

III. JURISDICTION AND AUTHORITY REGARDING SALE

A. Applicable Statutes and Regulations

32. Under RCW 80.12.020 and WAC 480-143-120, a public service company must secure Commission approval prior to completing the sale of a property necessary or useful in the performance of its duties to the public. WAC 480-143-120 requires that applications include details of the sale as well as the company's current financial statements and copies of all transfer instruments. Pursuant to WAC 480-143-170, the Commission shall approve the application for the sale of necessary and useful property if the transaction is in the public interest.

33. WAC 480-143-180 allows a public service company to dispose of certain property that is not necessary or useful, after filing an application with the Commission and obtaining a commission determination that the property is no longer necessary or useful. WAC 480-143-180 defines property necessary or useful for a public service company to perform its public duties as follows:

Necessary or useful includes all property except items that:

- (1) Are substituted with or replaced by items of equal or greater value or usefulness;
- (2) Are surplus and unneeded assets for which full value is received;

(3) Are obsolete; or

(4) Are excluded from the public service company's rate base by commission order, or otherwise.

The public service company must file an application for commission determination that the property is not necessary or useful, prior to disposing of such property, if the property to be disposed of has a market value that exceeds the greater of .1% of the public service company's rate base (for the applicable utility service) last established by commission order, or \$20,000.

WAC 480-143-180.

B. The Commission Should Authorize the Sale of the Electron Project

34. The Electron Project is not necessary or useful under WAC 480-143-180(1). PSE has entered into a power purchase agreement with Electron Hydro, pursuant to which PSE will purchase the entire net electrical output of the Electron Project (i.e., the total electrical energy output of the Electron Project reduced by any amounts of electric power and energy used in connection with the operation of the Electron Project and losses, if any, from the Point of Delivery to the meters) during the operating period. PSE has substituted the Electron Project with an item of equal or greater value by executing the power purchase agreement for the entire net electrical output of the Electron Project, recovering some of the costs of the Electron Project through its sale, and avoiding the costs associated with the upgrade to or retirement of the project. Therefore, the Electron Project is not necessary or useful in the performance of PSE's service to its customers and the Commission should authorize the sale of the Electron Project.

35. PSE is filing a request for a determination by the Commission that the Electron Project is not necessary or useful. As described above, PSE will receive a closing payment in an amount equal to \$13.7 million. This amount will likely exceed "the greater of 0.1% of the public service company's rate base (for the applicable utility service) last established by commission

order, or \$20,000.” WAC 480-143-180. PSE’s rate base for electric and gas are as set forth below:

Plant	Rate Base	1/10% Auth.	1/100% FMV Filing	Docket No.
Electric	\$4,853,248,427	> \$4,853,248	< > \$485,329	UE-111048
Gas	\$1,633,228,479	> \$1,633,228	< > \$164,323	UG-111049
Common	\$6,486,476,906	> \$6,486,477	< > \$648,648	UE-111048/ UG-111049

36. In the alternative, if the Commission finds that the Electron Project is necessary and useful, PSE requests that the Commission approve the sale of the Electron Project pursuant to RCW 80.12.020 and WAC 480-143-120. For the reasons discussed above, the sale of the Electron Project is consistent with the public interest.

IV. ACCOUNTING AND RATEMAKING TREATMENT

37. As described above, PSE will receive a closing payment in an amount equal to \$13,700,000. PSE’s net book value for the Electron Project is approximately \$26,157,523. PSE projects that the sale of the Electron Project will result in an after-tax loss. PSE proposes to defer the unrecovered plant cost in FERC account 182.2 Unrecovered plant and regulatory study costs. As depreciation expense for the Electron Project will continue to be included in PSE’s rates, even after closing, PSE requests that such monthly depreciation expense is applied against the deferred unrecovered plant balance beginning from the date of closing until rates become effective in PSE’s power cost only rate case in Docket No. UE-130167.

V. TIMING

38. As stated above, the closing date is scheduled for August 14, 2013. Accordingly, PSE respectfully requests that the Commission conduct its proceedings and issue its Order as expeditiously as possible, and prior to the scheduled closing date.

VI. EXHIBITS

39. The exhibits that accompany this Application are:
- (a) Exhibit A – Alternatives considered with respect to the redevelopment, retirement, or sale of the Electron Project
 - (b) Exhibit B – PSE’s Financial Statements from the Year-Ended December 31, 2012, and the Quarter-Ended March 31, 2013;
 - (c) Exhibit C – Copies of all contracts related to the sale of the Electron Project; and
 - (d) Exhibit D – Proposed journal entries for recording the event of sale.


VII. REQUEST

40. For the reasons stated above, PSE requests a Commission order:
- (i) finding that the Electron Project is not necessary or useful pursuant to RCW 80.12.020 and WAC 480-143-180;
 - (ii) in the alternative, authorizing the sale of the Electron Project pursuant to RCW 80.12.020 and WAC 480-143-120;
 - (ii) approving the accounting and ratemaking treatment proposed by PSE in this Application; and
 - (iii) granting such other relief as the Commission deems necessary and proper.

Dated: June 6, 2013

Respectfully submitted,

PERKINS COIE LLP

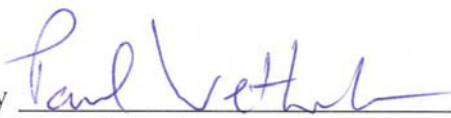
By 

Jason Kuzma
Donna Barnett
Perkins Coie LLP
The PSE Building
10885 N.E. Fourth Street, Suite 700
Bellevue, WA 98004-5579
Phone: (425) 635-1400
Facsimile: (425) 635-2400
Email: jkuzma@perkinscoie.com
dbarnett@perkinscoie.com

VERIFICATION

The undersigned hereby certifies that the information set forth in the foregoing Application is true and correct to the best of the signer's information and belief under penalty of perjury under the laws of the State of Washington.

Dated: June 6, 2013 in Bellevue, Washington

By 
Paul Wetherbee