


Agenda Date: July 31, 2000 as continued on August 7, 2000.  
Item Number: 4A

**Docket:** UE-991779  
**Company Name:** Puget Sound Energy

**Staff:** Doug Kilpatrick, Electric Industry Coordinator 

**Recommendation:**

Approve PSE's application to reorganize as a holding company, Puget Energy, Inc., with Puget Sound Energy as a subsidiary of the holding company, subject to the conditions enumerated in the Stipulation.

**Discussion:**

On November 16, 1999, Puget Sound Energy (PSE) filed an application requesting an order approving a corporate reorganization to create a holding company, Puget Energy, Inc. The stated purpose of the holding company structure is to allow PSE to insulate its utility business from its non-utility businesses. Another stated goal is to permit greater financing flexibility to respond to the changing business environment in the utility industry. PSE plans to operate new business opportunities as Puget Energy subsidiaries, maintaining and enhancing a separation between PSE and those businesses.

PSE states that under its current corporate structure all business activities must either be part of the utility itself or be conducted in entities owned by the utility. This creates potential volatility in utility earnings due to profits or losses in the non-utility activities. Under the holding company structure the revenues and expenses of the non-regulated subsidiaries will not be reflected in the utility's financial records. Therefore, unfavorable financial results or liabilities of these companies generally will not adversely affect PSE's equity capital.

Puget Energy, Inc. will be a "public utility holding company" under the Public Utility Holding Company Act of 1935, or PUHCA. Most utilities are organized as PSE is currently.

After the November filing, Staff, Public Counsel, and the industrial customers expressed to PSE several concerns over the holding company structure. PSE and the other parties discussed these concerns and collectively adopted the attached Stipulation resolving the issues.

The main concerns revolved around the issues of record keeping and access to records, adverse consequences from non-regulated subsidiaries, allocation of overhead costs, rate making treatment of affiliate transactions, and the costs of the reorganization itself. PSE addressed these concerns by accepting the following conditions:

- No transaction costs associated with the corporate reorganization will be included in rate making proposals.
- PSE will provide Staff and Public Counsel access to books and records required to verify



- or examine transactions affecting the regulated utility. PSE will maintain the necessary books and records to provide an audit trail for all corporate, affiliate, or subsidiary transactions that impact the regulated utility operations.
- PSE's regulated customers will be held harmless from the liabilities of any non-regulated activity of PSE or Puget Energy, Inc. The Parties agree that the fair rate of return for the regulated utility will be determined without regard to any adverse consequences attributable to the corporate reorganization.
- PSE will notify the Commission within thirty days of any newly created subsidiaries of Puget Energy. Puget Energy will also notify the Commission of any acquisition of a regulated or non-regulated business representing five percent or more of the market capitalization of Puget Energy.
- Property transfers, affiliate transactions, and securities transactions continue to be governed by existing RCWs, WACs, and Commission practices.
- PSE bears the burden to prove that any corporate and affiliate cost allocation methodology it proposes is reasonable for retail rate making purposes. PSE and Puget Energy recognize the Commission's authority to disallow, for retail rate making purposes, unsupported, unreasonable, or misallocated costs from non-regulated or affiliate businesses to PSE's regulated utility operations, or vice versa.

### Summary

The proposed reorganization of Puget Sound Energy into a holding company named Puget Energy, Inc. is consistent with the public interest given the conditions agreed to in the stipulation. The transaction should be invisible to the utility's customers and satisfies a "no harm" standard. The holding company structure will not affect the ability of the Commission to regulate PSE. Any specific transactions between PSE and other subsidiaries of Puget Energy are subject to the filing requirements of Chapter 80.16 RCW and WAC 480-146.

### Conclusion:

Staff recommends the Commission approve PSE's request to reorganize as a public utility holding company with the conditions set forth in the Stipulation.