BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY, INC. for a Declaratory Order and Accounting Order Regarding the Classification of Certain Facilities and Accounting Treatment Consistent Therewith.	NO. _____ (PROPOSED) ORDER

On January 2, 2001, Puget Sound Energy, Inc. ("PSE") filed a petition for a declaratory order requesting the Commission adopt PSE's proposed classification of transmission and distribution facilities and for an accounting order authorizing PSE to reflect such classifications in its accounts.

PSE's Petition states that its proposed classification of transmission and distribution facilities, and the corresponding accounting treatment of such classifications in PSE's accounts, is an essential component to the demarcation of the boundaries of this Commission's jurisdiction and that of the Federal Energy Regulatory Commission ("FERC"). PSE states that such classifications serve the public interest by promoting greater certainty in regulation, and by avoiding regulatory conflicts. In that regard, PSE quotes FERC regarding this Commission's determination of its jurisdiction over local distribution facilities (i.e.,

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facilities other than facilities used in transmitting electric power in interstate commerce):

> [W]e intend to provide *broad deference to states in determining what facilities are Commission-jurisdictional transmission facilities and what facilities are state-jurisdictional local distribution facilities,* so long as our comparability principles are not compromised and we are able to fulfill our responsibilities under the statute.

Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, F.E.R.C. Stats. & Regs. ¶ 31,048, at 30,345 (1997) (emphasis added) ("Order 888-A").

I. BACKGROUND

PSE is a public service company engaged in the generation, transmission, distribution and sale at retail of electric energy in the State of Washington. As such, certain actions of PSE are subject to the authority of the Commission to regulate the same, in the public interest, pursuant to RCW 80.01.040 and other applicable public service laws.

FERC regulates facilities used by PSE in transmitting electric energy in interstate commerce, pursuant to applicable provisions of the Federal Power Act. See FPA § 201; 16 U.S.C. §824.

FERC has, from time to time, issued orders that bear upon the lines of demarcation between its regulatory authority and that of the state. See Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, F.E.R.C. Stats. & Regs. ¶ 31,036, at 31,770 (1996) ("Order 888"). In Order 888, FERC acknowledged, among other things, that states have jurisdiction over local distribution facilities while the federal government exercises jurisdiction over the rates, terms and conditions of unbundled retail

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transmission in interstate commerce by public utilities.

The classification of transmission and distribution facilities for various regulatory purposes may lead to uncertainty and potential conflicts regarding the boundaries of federal/state jurisdiction. To avoid these issues and concerns, FERC has held:

> As a means of facilitating jurisdictional line-drawing, we will entertain proposals by public utilities, filed under section 205 of the FPA, containing classifications and/or cost allocations for transmission and local distribution facilities. However, *as a prerequisite to filing transmission/local distribution facility classifications and/or cost allocations with the Commission, utilities must consult with their state regulatory authorities. If the utility's classifications and/or cost allocations are supported by the state regulatory authorities and are consistent with the principles established by the Final Rule, the Commission will defer to such classifications and/or cost allocations*. We encourage public utilities and their state regulatory authorities to attempt to agree to utility-specific classifications and allocations that the utility may file at the Commission.

Order 888, at 31,784 (emphasis added).

To this end, PSE requests that the Commission issue a declaratory order confirming PSE's classification of transmission or distribution facilities, as PSE has proposed such classifications in Exhibit A to its Petition. Such classifications are attached to this Order as Appendix A. As discussed below, PSE states that it classified these facilities by application of the seven indicators of local distribution promulgated by FERC for such purposes in Order 888. PSE states that, taken together, application of the seven-factor test leads to the conclusion that PSE's 230 kV (and above) facilities are transmission facilities. These facilities connect PSE's systems to bulk transmission grids and support transfers to regional markets. PSE also states that all of PSE's facilities of 34 kV or less are inherently distribution facilities. As to PSE's 115 kV facilities, PSE states that application of the seven-factor test, confirmed by PSE's power flow analysis,

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demonstrates that, with one exception discussed below, these facilities are distribution facilities, in that they function to serve local loads and rarely, if ever, serve to transfer power to other markets.

Further, as also discussed below, PSE requested that the Commission issue an accounting order authorizing the Company to apply such classification of transmission and distribution facilities in PSE's accounts and reports to the Commission, under and in light of the seven-factor test promulgated by FERC in Order 888.

On February 23, 2001, Commission Staff ("Staff") submitted comments on PSE's Petition. Staff recommended that the Commission issue a declaratory order adopting PSE's classification of transmission and distribution facilities, as PSE has proposed such classifications in Exhibit A to its Petition. Staff recommended that any such declaratory order note that such classification does not set a precedent for other utilities and that the facilities classification is unique to PSE. Staff also recommended that the Commission issue an accounting order authorizing PSE to apply such classification of transmission and distribution facilities in PSE's accounts and reports. Staff recommended that any such accounting order clarify that until a new depreciation study is approved by the Commission, the transmission and distribution classification, and its accounting treatment, should not result in revised depreciation rates for the items so classified.

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II. ANALYSIS

A. Seven-Factor Test

In its Petition, PSE applied FERC's seven-factor test and proposes the classification of transmission and distribution facilities set forth in Appendix A.[1] An explanation of how PSE considered these factors and applied was set forth in the Affidavit of J. Chris Reese, PSE's System Planning Manager, attached to the Petition ("Reese Affidavit"). The seven factors applied to so classify, pursuant to Order 888, are:

> (1) Local distribution facilities are normally in close proximity to retail customers.
>
> (2) Local distribution facilities are primarily radial in character.
>
> (3) Power flows into local distribution systems; it rarely, if ever, flows out.
>
> (4) When power enters a local distribution system, it is not reconsigned or transported on to some other market.
>
> (5) Power entering a local distribution system is consumed in a comparatively restricted geographical area.

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[1] PSE notes that the seven-factor test is not rigid and is intended by FERC to be a flexible test that can account for unique regional or local conditions:

> The seven-factor test is intended to provide sufficient flexibility to take into account unique local characteristics and historical usage of facilities used to serve retail customers. We specifically stated in the Final Rule that we will consider jurisdictional recommendations by states that take into account other technical factors that states believe are appropriate in light of historical uses of particular facilities. Moreover, we will defer to facility classifications and/or cost allocations that are supported by state regulatory authorities.

Order 888, at 30,342.

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(6) Meters are based at the transmission/local distribution interface to measure flows into the local distribution system.

(7) Local distribution systems will be of reduced voltage.

B. First Factor

Under FERC's seven-factor test, the first indicator of whether facilities are local distribution facilities is whether such facilities are normally in close proximity to retail customers. PSE states that this indicator was satisfied for each distribution facility so classified in Appendix A.

PSE applied this factor in the context of its electrical system. PSE assessed proximity with regard to population density, geographic and electrical considerations. For example, geographic distances covered by distribution facilities to customers can be significant in rural areas, which have low customer densities. Given that PSE serves retail customers only in the greater Puget Sound area, which has both densely populated and sparsely populated areas, PSE applied the close proximity factor within the appropriate geographic, demographic and electrical contexts.[2] Reese Affidavit, ¶ 8.

C. Second Factor

The second indicator looks to whether the facilities in question are primarily radial in character. PSE states that with few exceptions, the distribution facilities listed in Exhibit A satisfy this criteria.

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[2] Sparse customer densities have also led to the use of higher distribution equipment voltages to serve loads within broader geographic areas, as compared to urban electric systems. Therefore, the interpretations of the first, fifth and seventh distribution indicators are also dependent on the characteristics of PSE's entire electric system.

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The phrase "primarily radial" means, in a distribution system context, that the end-use customer is served from a limited set of closely coupled electrical sources during a given period. PSE also considered the term "radial" to apply to open-looped systems where the end-use customer's load is normally served from a single source but can be physically switched to another source. PSE also considered radial facilities to be closed-looped systems constructed for the primary purpose of serving local loads. PSE asserts that such radial systems were constructed to serve local loads, not to move power between markets. Reese Affidavit, ¶ 7.

Additionally, PSE states that it considered all connection lines to distribution substations, including those that are locally looped, to be primarily radial in character. PSE's decision to provide more than one line to a distribution substation is driven by the retail customers' need for additional reliability. The presence of the loop does not meaningfully enhance the system's ability to move power to other markets. Reese Affidavit, ¶ 7.

D. Third Factor

The third indicator addresses power flows. PSE determined that, for each of the distribution facilities identified in Appendix A, power flows into, and rarely out of, its local distribution system. In this regard, PSE examined the third indicator (power flows) in conjunction with the fourth indicator (transfer to other markets). In other words, PSE considered such power flows in relation to whether such power was transferred to other markets (i.e., the fourth indicator). PSE's local distribution system extends throughout the greater Puget Sound area. PSE's 230 kV lines serve to integrate PSE's local distribution system, but have been classified as transmission due to other factors in the seven-part test. Reese Affidavit, ¶¶ 7, 8 and 9.

The phrase "into local distribution systems" raises the question of whether the flow is

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unidirectional in nature, (i.e., to PSE retail load rather than to another market). As determined by PSE's power flow analysis, PSE states that power on radial and locally looped facilities flows directly to local loads, without re-entering the transmission network at some other point to reach another market. In Whatcom County, for example, local generation can cause power to flow from one portion of PSE's local distribution system to another portion of PSE's local distribution system, but not to other markets. Reese Affidavit, ¶¶ 8, 9 and 11.

E. Fourth Factor

The fourth indicator considers whether power that enters a local distribution system is reconsigned or transported on to some other market. In the case of the distribution facilities identified in Appendix A, the facilities PSE identifies as distribution facilities do not reconsign or transport power to other markets.

Other markets in the context of the seven-factor test refers to wholesale bulk power locations where there are multiple wholesale buyers and sellers. PSE considered high voltage lines used to move power between markets, such as power system interties, to be transmission facilities. Powerflow studies were used to identify other system facilities that give meaningful support to wheeling transactions between markets. Reese Affidavit, ¶¶ 6, 8 and 9.

Applying this indicator, PSE states that as determined by PSE's power flow analysis, PSE's 115 kV facilities were classified as facilities not providing meaningful support to wheeling transaction to other markets.[3] Therefore, as applied, PSE argues that this indicator

[3] An exception to this classification is PSE's 115 kV Anderson Canyon-Beverly Line. This line was classified as transmission because it is non-radial in nature, connects commercial markets and has traditionally and contractually been used as part of PSE's cross-Cascade mountain range transmission capacity to access, for example, the Mid-Columbia wholesale power market.

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supports PSE's classification of radial and locally looped systems as distribution. Reese Affidavit, ¶¶ 6, 8 and 9.

F. Fifth Factor

This indicator considers whether power entering a local distribution system is consumed in a comparatively restricted geographical area. The Petition states that all the distribution facilities listed in Exhibit A are distribution facilities in relation to this consideration. As with the first and seventh indicators, PSE viewed this indicator in the context of the Company's electrical system and retail load within the greater Puget Sound area. When power enters PSE's local distribution system, it is consumed within the corresponding geographic area. In contrast, PSE treated transmission facilities as lines that provide pathways for power that is not necessarily consumed within the geographical area served at retail by PSE and corresponding to PSE's local distribution system. Reese Affidavit, ¶ 8.

G. Sixth Factor

The sixth factor looks to whether meters are based at the transmission/local distribution interface to measure flows into the local distribution system. Various power metering devices are used throughout PSE's system, not exclusively limited to transmission-distribution interfaces. However, PSE states that each of the facilities identified as distribution facilities in Appendix A are distribution facilities under this factor because each of these facilities has such transmission-distribution interface metering. Reese Affidavit, ¶ 10.

H. The Seventh Factor

The seventh factor addresses whether the facilities will be of reduced voltage. As a practical matter, PSE states that it classified facilities with an

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operating voltage of 230 kV and above as transmission facilities, because such facilities connect PSE's system to the bulk transmission grids of other utilities, and support transfers between regional markets. Similarly, PSE considered facilities operating at 34 kV or less as inherently distribution facilities and incapable of meaningful transmission between markets. Other facilities, primarily 115 kV facilities, merited a more detailed study of such facilities' function and purpose. Reese Affidavit, ¶¶ 6, 7 and 8.[4]

In this regard, FERC Order 888, and more specifically the seven-factor test, provides a process to differentiate between the transmission and distribution facilities. PSE considered "reduced voltage" as a term relative to its system and customer load characteristics. In that respect, as distances between energy sources and loads increase, lower voltages are not efficient at distributing power to customers. The size of a customer's load, or other economic considerations, may drive the need for higher distribution line voltages. Reese Affidavit, ¶¶ 6, 7 and 8.

III. ACCOUNTING TREATMENT

PSE requests that, if the Commission adopts PSE's proposed classification, the Company would account for such classification by making adjustments to its Electric Plant Chart of Accounts. Under WAC 480-100-031, this Commission utilizes the "'uniform system of accounts'" applicable to Class A and B electric utilities published by [FERC]." Under the FERC's Uniform System of Accounts, 18 C.F.R. Part 101, FERC requires utilities to classify and report the original cost of the utility's transmission and distribution plant. For transmission plant facilities, FERC requires the utility to report miscellaneous power plant equipment, land and land rights, structures and improvements, station equipment towers and

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[4] See footnote three above.

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structures, poles and fixtures, overhead conductors and devices, underground conduit, underground conductors and devices and roads and trails, each of which is used in connection with transmission operations or purposes or is used primarily as transmission facilities. See Sections 350-359 of Part 101. Likewise, under FERC's Uniform System of Accounts, utilities are required to report distribution facilities such as land and land rights, structures and improvements, station equipment, storage battery equipment, poles, towers and fixtures, overhead conductors and devices, underground conduit, underground conductors and devices, each of which is used in connection with distribution operations or distribution purposes. See Sections 360-369 of Part 101. PSE states that if PSE's proposed classification of transmission and distribution was adopted by the Commission, PSE would seek to report its transmission and distribution plant to FERC under and in light of such adoption by the Commission.

With regard to its reporting requirements to this Commission, PSE makes its reports concerning its transmission and distribution plant to this Commission in its semiannual commission basis and annual reports. Pursuant to WAC 480-100-031(5), PSE's annual report to this Commission consists of PSE's FERC Form No. 1. PSE proposes that if its proposed classification of transmission and distribution facilities was adopted by the Commission, PSE would, commencing from the date of Commission's order, report its transmission and distribution plant in its annual report (and PSE's semiannual commission basis reports) under and in light of such adoption by the Commission.

The Commission finds that an accounting order authorizing PSE to reflect such classifications in its accounts and reports to the Commission is reasonable and in the public interest. In addition, as recommended by Staff, we hereby clarify that, until this Commission approves a new depreciation study for PSE's facilities, the transmission and distribution

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facility classifications, and their related accounting treatment, should not result in revised depreciation rates for facilities so classified.

IV. DECLARATORY ORDER

A declaratory order by the Commission adopting PSE's proposed classifications is appropriate in this case. The facilities so classified, however, are unique to PSE and this order should not be construed as setting precedent for any other utility.

By authority of WAC 480-09-230 and RCW 34.05.240(1), the Commission may enter a declaratory order upon a showing:

(a) That uncertainty necessitating resolution exists;

(b) That there is actual controversy arising from the uncertainty such that a declaratory order will not be merely an advisory opinion;

(c) That the uncertainty adversely affects the petitioner;

(d) That the adverse effect of uncertainty on the petitioner outweighs any adverse effects on others or on the general public that may likely arise from the order requested; and

(e) That the petition complies with any additional requirements established by the agency under subsection (2) of this section.

The declaratory order requested by PSE in its Petition meets these requirements, as set forth below.[5]

Uncertainty Necessitating Resolution: The uncertainty to be resolved by this Order is the precise demarcation between PSE transmission and distribution facilities to be applied

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[5] The Commission has not established additional requirements under RCW 34.05.240(1)(e), but rather requires that petitions for declaratory order comply with the remaining subsections of RCW 34.05.240(1). See RCW 34.05.240(2); WAC 480-09-230.

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in the future to reports to this Commission and to FERC. As to the jurisdictional significance of such distinctions, FERC invites proposals filed by public utilities under the Federal Power Act to classify transmission and distribution facilities, and cost allocations associated therewith. However, this Commission must first speak to the issue. Indeed, FERC recognized that state determination of its jurisdictional boundaries under and in light of the seven-factor test was a necessary prerequisite to federal consideration of such questions:

> [A]s a prerequisite to filing transmission/local distribution facility classifications and/or cost allocations with [FERC], utilities *must* consult with their state regulatory authorities.

Order 888-A, at 30,336 (emphasis added).

Actual Controversy Arising From the Uncertainty Such That a Declaratory Order Will Not Be Merely an Advisory Opinion: The controversy arises from uncertainty as to which of PSE's facilities are transmission facilities and which are distribution facilities under and in light of the seven-factor test promulgated by FERC in Order 888.

The Uncertainty Adversely Affects the Petitioner: The uncertainty adversely affects PSE in that, absent resolution thereof, there is uncertainty as to whom PSE owes certain regulatory responsibilities determined under and in light of the seven-factor test promulgated by FERC in Order 888. In this regard, FERC said:

> We also believe it is important to develop mechanisms to avoid regulatory conflict and to help provide certainty to utilities as to which regulator has jurisdiction over which facilities.

Order 888, at 31,783.

The Adverse Effect of Uncertainty on the Petitioner Outweighs any Adverse Effects on Others or on the General Public That May Likely Arise From the Order Requested: Resolution of the questions raised in this petition will not result in any adverse

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effect on others or the general public. The public interest is served by clarification of regulatory jurisdiction of the Commission, and of FERC, under and in light of the seven-factor test promulgated by FERC in Order 888.[6]

V. FINDINGS OF FACT

The Commission finds:

1. PSE is a public service company furnishing electric and gas service primarily in the greater Puget Sound region of the State of Washington and is subject to the regulatory authority of the Commission as to its rates, service, facility, and practices.

2. On January 2, 2001, PSE filed with the Commission a Petition for a Declaratory Order and Accounting Order regarding the classification of certain facilities and accounting treatment consistent therewith.

3. PSE's proposed classification of its facilities, as shown in Appendix A of this Order, and PSE's proposed accounting procedures consistent with such classification is reasonable, in the public interest and should be approved.

VI. ORDER

The Commission Orders:

1. THE COMMISSION DECLARES that PSE's proposed classifications of its facilities as shown in Appendix A are reasonable and in the public interest.

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[6] PSE further states that adoption of PSE's proposed classifications would have no effect on others or the general public during the period of rate stability set forth in the Merger Order. PSE proposes that at the time of PSE's next general rate case, and to the extent such classifications are addressed in such a proceeding, PSE would not propose that the different classes of customers experience any impacts that arise solely from any change in the methodology for classification of facilities resulting from this Petition.

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2. Authorization is hereby given to PSE to reflect such classifications in its accounts and reports to this Commission.

3. Such classifications, and the determinations upon which they are based, should not be construed to constitute precedent for any other utility.

4. The Commission retains jurisdiction to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this _____ day of _____.

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