

March 5, 2001

**BY E-MAIL AND OVERNIGHT MAIL**

Office of the Secretary  
Washington Utilities and Transportation Commission  
P.O. Box 47250  
1300 S. Evergreen Park Drive S.W.  
Olympia, WA 98504-7250

**Re: Comments of Tenaska Washington Partners, L.P. (“Tenaska”) on Puget Sound Energy’s Request for a Declaratory Order Regarding the Classification of Certain Facilities; Docket No. UE-010010**

Dear Ms. Washburn:

Thank you for the opportunity to comment on the request of Puget Sound Energy, Inc. (“PSE”) for a declaratory order and accounting order in the above docket. Tenaska owns and operates a 245-megawatt cogeneration facility situated in Ferndale, Washington (the “Ferndale Plant”), the output of which is currently delivered over PSE’s facilities. We write today to question the proposal to classify as distribution PSE’s 115 kV lines located in Whatcom County (the “115 kV Whatcom lines”), and more particularly, the lines identified in the attached Exhibit A (the “Ferndale lines”). This matter, which has just come to our attention, is highly complex and may have serious repercussions for Tenaska and other interested persons. In light of the complexity and importance of issues involved in the proposed classifications, we request that the Commission delay its final order in this matter in order to afford interested persons the opportunity to review PSE’s power flow analysis and other relevant documents, and to provide further comments and evidence relevant to the proper classification of PSE’s facilities. A motion to intervene and affidavit in the form attached hereto as Exhibit B are being sent to the Commission by overnight mail in connection with this request.

Our remaining comments are divided into four categories. First, we further explain the need for an opportunity to review and comment on the power flow analysis on which PSE has based its proposed classifications. Second, we suggest that there is strong evidence that the 115 kV Whatcom lines are not currently functioning as distribution facilities. Third, we indicate that even if the Commission should determine that one or more of the 115 kV Whatcom lines are properly characterized as distribution facilities, changes in Tenaska’s use of those lines are likely to render that classification inappropriate. Finally, we argue that the national policy favoring the elimination of artificial barriers to wholesale competition for electric energy favors the classification of the 115 kV Whatcom lines as transmission facilities.

***Need for Further Review of the Assumptions Underlying PSE's Power Flow Analysis***

PSE has arrived at its proposed classifications by applying the seven-factor test for local distribution adopted by FERC in Order 888. In applying the third and fourth indicators of local distribution (power flows into the system and limited transfers to other markets), PSE has assumed that any facility that normally has more than 10% of the total incremental power transfer across boundaries to other markets should be classified as transmission. Petition, ¶¶ 16-20; Reese Affidavit, ¶ 9. Based on its power flow analysis, PSE has concluded that none of the PSE facilities of 115 kV or less meets this 10% threshold. However, because PSE does not state the assumptions underlying its power flow analysis, it is impossible to assess the soundness of that conclusion. Tenaska therefore requests that before the Commission issues its final order in this matter, interested parties be afforded the opportunity to review the power flow analysis and its underlying assumptions.

***The 115 kV Whatcom Lines Currently Function as Transmission***

We believe that there is sufficient evidence to conclude that the 115 kV Whatcom lines do not currently function as distribution. For example, FERC's second indicator of local distribution ("primarily radial" facilities) does not apply to the 115 kV Whatcom lines, since the 115 kV system runs parallel with the 500 kV system in Whatcom County, and power flows on Bonneville Power Administration's ("BPA's") 500 and 230 kV systems can and do spill over into the 115 kV system. The impact of the operation of BPA's 500 and 230 kV lines on the Ferndale lines is reflected in the fact that PSE has occasionally demanded that Tenaska curtail Ferndale generation for operational constraints on the parallel system.<sup>1</sup> Nor is the third indicator (infrequent power flows out of the local system) present. Power flows out of the 115 kV Whatcom lines onto the 230 kV system, and from there to the 500 kV system, as evidenced by the fact that the output from the Ferndale Plant frequently has an impact on flows over the Northern Intertie. In addition, because PSE's 115 kV system is connected to the 230 kV system at multiple points, power can flow from the 230 kV system down to the 115 kV system, while the Ferndale Plant's power can move up to the 230 kV system and be sold elsewhere. This indicates the absence of the fourth and fifth indicators in FERC's seven-factor test (infrequent reconsignment or transportation of power to other markets and consumption in a restricted geographical area). Finally, BPA's operating procedures for the Northern Intertie includes Tenaska, along with Whitehorn, Sumas, Enserch, and other generating facilities in its description "Puget's Whatcom and Skagit County Generation," and states that "[t]ransfer limits are very sensitive to the level of Puget's Whatcom County and Skagit County Generation," thus acknowledging the impact of Ferndale's generation on the regional transmission system.

***Reclassification Based on Change in Patterns of Use***

Pursuant to a power purchase agreement between Tenaska and PSE, Tenaska is committed through the year 2011 to delivering all of the electric power generated at the Ferndale Plant to PSE for resale to PSE's retail customers. After the term of the power purchase agreement expires, however, we

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<sup>1</sup> A contract between BPA and PSE, dated as of October 11, 1994, grants PSE scheduling rights for transmission over certain BPA facilities.

expect to obtain marketing authority to enter the U.S. wholesale bulk power market and to begin delivering the output of the Ferndale Plant to markets outside the PSE system.

We believe that even if the Commission determines that one or more the 115 kV Whatcom lines currently serve a distribution function, once Tenaska enters the wholesale power market, application of FERC's seven-factor test will indicate that the lines are appropriately classified as transmission. In particular, the third, fourth and fifth indicators of FERC's seven-part test will clearly no longer apply to those facilities, since power will regularly flow out of the PSE system to be transported to other markets, and will no longer be consumed in a "comparatively restricted geographical area." As a consequence, the second indicator ("primarily radial" facilities) will also be absent. As PSE explains in its Petition and supporting Affidavit, the phrase "primarily radial" describes systems that have "the primary purpose of serving local loads." Petition, ¶ 14; Affidavit ¶ 7. With the change in power flows resulting from Tenaska's entry into the wholesale power market, that description will no longer apply to the 115 kV Whatcom lines.

As FERC explained in Order 888, the seven-factor test is a "combination functional-technical test." From a technical standpoint, there is certainly nothing inherent in the structure of the facilities in question that suggests they should be regarded as distribution facilities. In fact, 115 kV lines are not typically characterized as distribution facilities. From a functional standpoint, the likely changes in Tenaska's use of the lines will make it even clearer than it is today that they serve a transmission function. Therefore, we request that should the Commission decide to classify one or more of the 115 kV Whatcom lines as distribution, it also include in its final order a statement that any such classification is subject to review in light of the future functioning of the lines in question.

### ***PSE's Classification of Facilities Should Not Result In Pancaked Rates***

Tenaska's Ferndale Plant is interconnected with the PSE system at its Lake Terrell Substation. As indicated above, Tenaska contends that the 115 kV lines leaving the Lake Terrell Substation and other 115 Kv Whatcom lines meet the definition of main grid transmission facilities because the facilities impact the transfer capability of regional grid paths. Because these facilities now provide an alternate path for bulk power flows and because Tenaska expects to use these paths to wheel electrical energy for resale in the wholesale bulk power market once its contract with PSE for sale of the output of the Ferndale Plant expires, they are properly categorized as transmission lines. As such, they should be part of the grid available for service under PSE's Open Access Tariff today and the RTO West transmission grid in the future.

PSE has not explained why it is in the public interest to categorize the Whatcom County 115 kV lines as distribution. If by categorizing the lines in question as distribution facilities, PSE intends to charge future purchasers of Ferndale generation for distribution facilities use separate from any charge for its (or RTO West's) main transmission grid, the resulting pancake rates would run counter to national policy favoring elimination of artificial barriers to wholesale competition for electric energy. Generation such as Tenaska's Ferndale Plant should not be subjected to pancaked rates when interconnected to facilities such as PSE's 115 kV lines that function as part of a transmission provider's main grid.

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Thank you for considering our comments. We hope they demonstrate why further proceedings on the issue of the appropriate classification of PSE's facilities are warranted and Tenaska's motion to intervene should accordingly be granted. Should you have any questions, please feel free to contact me at 402-691-9507.

Very truly yours,

TENASKA WASHINGTON PARTNERS, L.P.  
By: Tenaska Washington I, L.P., Managing Partner  
By: Tenaska Washington, Inc., Managing Partner

Thomas E. Hendricks  
Vice President

Enclosures