

**EXHIBIT NO. \_\_\_\_ (RG-17)**  
**DOCKET NO. UE-07 \_\_\_\_**  
**2007 PSE PCORC**  
**WITNESS: ROGER GARRATT**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-07 \_\_\_\_**

**SIXTEENTH EXHIBIT (NONCONFIDENTIAL) TO THE  
PREFILED DIRECT TESTIMONY OF  
ROGER GARRATT  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**MARCH 20, 2007**

UNITED STATES OF AMERICA 118 FERC ¶ 62, 101  
FEDERAL ENERGY REGULATORY COMMISSIONGoldendale Energy Center, LLC  
Puget Sound Energy, Inc.

Docket No. EC07-31-000

ORDER AUTHORIZING DISPOSITION  
OF JURISDICTIONAL FACILITIES  
AND ACQUISITION OF GENERATING FACILITIES

(Issued February 1, 2007)

On December 1, 2006, as amended on January 17, 2007, Goldendale Energy Center, LLC (Goldendale) and Puget Sound Energy, Inc. (Puget) (together Applicants) submitted an application pursuant to section 203 of the Federal Power Act (FPA)<sup>1</sup> requesting Commission authorization for a disposition of jurisdictional facilities associated with the transfer to Puget of Goldendale's existing electric generating facility (the transaction). The jurisdictional facilities associated with the transaction consist of interconnection equipment, and various books, records, and contracts associated with Goldendale's existing natural-gas fired combined cycle electric generating facility, including the reactive power rate schedule. The transaction will result in the acquisition by Puget, a public utility, of an existing generation facility. Therefore, Applicants seek Commission authorization for the transaction under section 203(a)(1) of the FPA. In addition, Applicants seek Commission authorization for the transaction under section 203(a)(2) of the FPA, because the transaction will result in the consolidation of Puget, a holding company in a holding company system that includes an electric utility, with New LLC, an electric utility company.

Goldendale is a limited liability company and an indirect, wholly-owned subsidiary of Calpine Corporation (Calpine). Goldendale owns an approximately 255.6 megawatt (MW) generating facility located in Goldendale, Washington (Goldendale Facility). The Goldendale Facility is interconnected to the transmission system of Bonneville Power Administration (BPA) via a transmission line owned by the Public Utility District No. 1 of Klickitat County, Washington and is in BPA's control area. The Commission Determined that Goldendale is an exempt wholesale generator under section 32 of the Public Utility Holding Company Act of 1935, which is incorporated by reference into the Public Utility Holding Company Act of 2005. Goldendale is

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<sup>1</sup> 16 U.S.C. § 824b (2000), as amended by the Energy Policy Act of 2005, Pub. L. No. 109-58, § 1289, 119 Stat. 594 (2005).

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authorized to sell capacity, energy, and ancillary services at market-based rates. In addition, Goldendale has a rate schedule (Reactive Power Rate Schedule) on file with the Commission pursuant to which it is compensated for reactive power provided to BPA.

Calpine is a corporation engaged through subsidiaries in the development, financing, acquisition, ownership, and operation of independent power production facilities and the wholesale marketing of electricity in the United States and abroad. Commencing on December 20, 2005, Calpine, Goldendale, and certain of their affiliates initiated proceedings under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (Bankruptcy Court). In those bankruptcy proceedings, Calpine is working to restructure its operations by, among other things, divesting non-core assets, such as the Goldendale Facility.

Puget is a wholly-owned subsidiary of Puget Energy, Inc. (Puget Energy) and is a vertically-integrated utility that provides retail electric and natural gas service in the Puget Sound region of the State of Washington. Puget owns facilities used for the sale and transmission of electricity in interstate commerce and owns natural gas distribution facilities located within the State of Washington. Puget is authorized to sell electricity at market-based rates and operates its transmission system pursuant to an Open Access Transmission Tariff on file with the Commission.

Subject to the satisfaction of certain conditions precedent, including Bankruptcy Court and Commission approval of the transaction, Goldendale will contribute the Goldendale Facility and certain associated equipment, assets, and contracts, including the Reactive Power Rate Schedule, to a newly formed, wholly-owned subsidiary (New LLC). Puget will then acquire all of the membership interests in New LLC, which will immediately or shortly thereafter merge into Puget or dissolve. The details of the transaction are set forth in the Membership Interests Purchase Agreement by and between Puget and Goldendale.

Applicants state that the transaction is consistent with the public interest and will not adversely affect competition, rates or regulation. With respect to competition, Applicants state that the proposed transfer does not raise any horizontal market power issues. They state that Puget has some available economic capacity (AEC) in only two of the ten time periods in their study, and during those periods, the change in AEC is *de minimis*. Applicants note that there are Herfindahl-Hirschman Index violations in two of the time periods studied, but these violations do not raise competitive concerns because Puget has a market share of zero in these periods. Applicants state that the transaction does not have any adverse vertical competitive impact. The transaction does not involve any transmission facilities, except for the limited interconnection equipment associated with the Goldendale Facility. Further, there are no wholesale customers in Puget's control area, except for Puget's *de minimis* requirement customers and BPA's power customers. Therefore, Puget cannot impair the access of wholesale competitors or

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customers to other customers or suppliers. Finally, the transaction does not involve any gas transportation asset or other inputs to gas generation facilities.

Applicants state that the transaction will have no adverse effect on rates. They state that Puget's market-based rates will not be affected by the transaction. Similarly the transaction will not affect Puget's cost-based rates for the sale of electricity at wholesale or the rates set forth in the Reactive Power Rate Schedule, because those rates will not be modified unless Puget were to file for Commission approval of a tariff amendment.

Applicants state that the transfer will not impair the effectiveness of regulation. Both Goldendale and Puget will continue to be subject to Commission regulation, thus the transaction will not affect the extent to which the Commission or any state authority can regulate their rates.

Applicants state that the transaction will not result in, at the time of the proposed transaction or in the future, cross-subsidization of a non-utility associate company or the pledge or encumbrance of utility assets for the benefit of an associate company. Applicants further state that the transaction will not result in: (1) transfers of facilities between a traditional utility associate company with wholesale or retail customers served under cost-based regulation and an associate company; (2) new issuances of securities by traditional utility associate companies with wholesale or retail customers served under cost-based regulation for the benefit of an associate company; (3) new pledges or encumbrances of assets of a traditional utility associate company with wholesale or retail customers served under cost-based regulation for the benefit of an associate company; or (4) new affiliate contracts between non-utility associate companies and traditional utility associate companies with wholesale or retail customers served under cost-based regulation, other than non-power goods and services agreements subject to review under sections 205 and 206 of the FPA.

### **Analysis of Proposed Accounting**

The application includes proposed accounting entries recording Puget's acquisition of the Goldendale facility and related assets. Puget proposes to record the acquisition in Account 101, Electric Plant in Service, at the purchase price of approximately \$100 million to better reflect the true value of the facility. This amount represents a value significantly below Goldendale's net book value. Puget's proposal to record the acquisition in Account 101 at the purchase price is not consistent with the Commission's regulations.

The Commission's regulations require plant assets acquired as an operating unit or

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system to be recorded at the depreciated original cost if they have previously been devoted to utility service (original cost rules).<sup>2</sup> The Goldendale Facility is an operating unit or system, and wholesale sales of electric energy were made from the facility pursuant to a Commission approved market-based rate tariff.<sup>3</sup> Consequently, the Goldendale Facility was previously devoted to public service, and the accounting for the transaction should follow the Commission's original cost rules. The difference between the purchase price and the net book value of the facilities acquired should be recorded as a negative acquisition adjustment of approximately \$215,000,000 in Account 114, Electric Plant Acquisition Adjustments.<sup>4</sup> Further, the Commission has held that negative acquisition adjustments should be cleared to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant.<sup>5</sup> Accordingly, Puget must clear the negative acquisition adjustment by debiting Account 114 and crediting Account 108.

Order No. 652 requires that sellers with market based rate authorization timely report to the Commission any change in status that would reflect a departure from the characteristics the Commission relied upon in granting market-based rate authority.<sup>6</sup> The foregoing authorization may result in a change in status. Accordingly, Applicants are advised that they must comply with the requirements of Order No. 652. In addition, Applicants shall make appropriate filings under section 205 of the FPA, to implement the transaction.

This filing was noticed on December 6, 2006, with comments, protests or interventions due on or before December 22, 2006. The Official Committee of Unsecured Creditors of Calpine Corporation issued a timely motion to intervene. On

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<sup>2</sup> Electric Plant Instruction No. 2, Electric Plant to be Recorded at Cost, 18 C.F.R. Part 101 (2006).

<sup>3</sup> Goldendale was granted market-based rate authority by Letter Order issued in Docket No. ER04-1038-000, issued September 16, 2004 (Unreported).

<sup>4</sup> Electric Plant Instruction No. 5, Electric Plant Purchased or Sold, 18 C.F.R. Part 101 (2006).

<sup>5</sup> Southwestern Public Service Company and New Mexico Electric Service Company, 23 FERC ¶ 61,153 (1983).

<sup>6</sup> *Reporting Requirement for Changes in Status for Public Utilities with Market-Based Rate Authority*, Order No. 652, 70 Fed. Reg. 8,253 (Feb. 18, 2005), FERC Stats. & Regs. ¶ 31,175, *order on reh'g*, 111 FERC ¶ 61,413 (2005).

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January 17, 2007, Applicants amended the application by submitting additional information requested by the Commission Staff regarding the accounting entries for the transaction. Notices of intervention and unopposed timely filed motions to intervene are granted pursuant to the operation of Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.214). Any opposed or untimely filed motion to intervene is governed by the provision of Rule 214.

After consideration, it is concluded that the proposed transaction is consistent with the public interest and is hereby authorized, subject to the following conditions:

- (1) The proposed transaction is authorized upon the terms and conditions and for the purposes set forth in the application;
- (2) The foregoing authorization is without prejudice to the authority of the Commission or any other regulatory body with respect to rates, service, accounts, valuation, estimates or determination of cost or any other matter whatsoever now pending or which may come before the Commission;
- (3) Nothing in this order shall be construed to imply acquiescence in any estimate or determination of cost or any valuation of property claimed or asserted;
- (4) The Commission retains authority under sections 203(b) and 309 of the FPA, to issue supplemental orders as appropriate;
- (5) If the transaction results in changes in the status or the upstream ownership of Applicants' affiliated Qualifying Facilities, if any, an appropriate filing for recertification pursuant to 18 C.F.R. § 292.207 shall be made;
- (6) Puget shall account for the transaction in accordance with Electric Plant Instruction No. 5 and Account 102, Electric Plant Purchased or Sold, of the Uniform System of Accounts. Puget shall submit its final accounting entries within six months of the date of that the transfer is consummated, and the accounting submissions shall provide all the accounting entries related to the transfer along with narrative explanations describing the basis for the entries.
- (7) Applicants shall make appropriate filings under section 205 of the FPA, as necessary, to implement the transactions; and
- (8) Applicants shall notify the Commission within 10 days of the date that the disposition of the jurisdictional facilities has been consummated.

This action is taken pursuant to the authority delegated to the Director, Division of Tariffs and Market Development – West under 18 C.F.R. § 375.307. This order

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constitutes final agency action. Requests for rehearing by the Commission may be filed within 30 days of the date of issuance of this order pursuant to 18 C.F.R. § 385.713.

Steve P. Rodgers  
Director  
Division of Tariffs and Market Development - West