

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION

In the Matter of the Application of)	
)	
PUGET SOUND ENERGY, INC.,)	DOCKET UE-010824
)	
For Approval of Certain Property)	
Transfers in Connection with Master)	ORDER APPROVING
Service Agreements with Pilchuck)	TRANSFERS OF PROPERTY
Contractors, Inc., and Quanta Services,)	
Inc.)	
.....)	

BACKGROUND

1 On June 4, 2001, Puget Sound Energy, Inc. (“PSE” or “the Company”) filed an Application for an Order pursuant to RCW 80.12.020 and WAC 480-143-120 authorizing the Company to lease certain real property, to license the use of certain Company assets, and to transfer certain equipment and vehicles to Quanta Services, Inc. (“Quanta”) and Pilchuck Contractors, Inc. (“Pilchuck”). PSE entered into Master Service Agreements (“MSAs”) with Quanta and Pilchuck (together, “Service Providers”) whereby PSE outsourced certain of its utility construction, operations and maintenance services to the Service Providers.

2 The Application filed by the Company pertains to those aspects of the MSAs that require regulatory approval. Specifically, the Application requested Commission authorization to:

- (a) Transfer to Quanta the equipment, components, parts, and other items of tangible personal property described in the Agreement for Purchase and Sale of Personal Property, which is attached as Exhibit H to the Quanta MSA. The combined purchase price for the transferred personal property is \$3,480,271.
- (b) Lease to Quanta the real property described in the Lease Agreements, which is attached as Exhibit G to the Quanta MSA.
- (c) License to Quanta the use of certain PSE Assets, as described in Section 5.7 of the Quanta MSA and the Lease Agreements, which are attached as Exhibit G to the Quanta MSA.
- (d) Transfer to Pilchuck the equipment, components, parts, and other items of tangible personal property described in the Agreement for Purchase and Sale of Personal Property, which is attached as Exhibit I

to the Pilchuck MSA. The combined purchase price for the transferred personal property is \$931,165.

- (e) Lease to Pilchuck the real property described in the Lease Agreements, which is attached as Exhibit H to the Pilchuck MSA.
- (f) License to Pilchuck the use of certain PSE Assets, as described in Section 5.7 of the Pilchuck MSA and the Lease Agreements, which are attached as Exhibit H to the Pilchuck MSA.

3 PSE seeks a determination in its application that the personal property transferred [items (a) and (d) above] are *not* necessary or useful property; and therefore, no approval is required by the Commission. PSE also requests that if the Commission does determine that the personal property is necessary or useful, the Company requests authorization to transfer the personal property to Quanta and Pilchuck.

4 Commission approval is not required to dispose of property that is *not* necessary or useful. Under WAC 480-143-180, Transfers of Property, property is necessary or useful unless the property items are: (1) substituted with or replaced by items of equal or greater value or usefulness; (2) surplus and unneeded assets for which full value is received; (3) obsolete; or (4) excluded from the public service company's rate base by commission order, or otherwise. A utility claiming that property is not necessary or useful must obtain a determination from the Commission to that effect 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 last established by Commission order, or \$20,000.

5 PSE asserts in its application that the personal property is not necessary or useful because the transactions involve assets which are "surplus and unneeded and for which full value was received." The Company asserts that it will not have a use for the personal property after outsourcing its construction and maintenance activities to Quanta and Pilchuck.

6 The sale of personal property is an integral part of the MSAs. The outsourcing of construction and maintenance activities and the sale of personal property are inextricably linked. The personal property at issue was not "surplus and unneeded assets" at the time the MSAs were consummated and, therefore, the assets are "necessary or useful" property prior to the transfers.

Discussion of the MSAs:

7 The MSAs allow the Company to outsource certain of its utility construction, operations and maintenance service functions currently performed by the Company. According to the Application, PSE for decades has used union linemen from contractor firms to help restore electric service following severe storms. According to the Company, the response of these firms has been fast, thorough, and has met the

Company's requirements for meeting service benchmarks. PSE states that it is following a strategy of teaming up with unionized construction service providers that will allow the Company to continue to improve the quality of service at the lowest cost to customers.

- 8 Under the transactions, Pilchuck and Quanta each assume complete responsibility for utility construction, operation and maintenance services. Pilchuck will provide all services in connection with the maintenance, repair, replacement, improvement, extension, or operation of PSE's natural gas transmission and distribution system in Snohomish, King, Pierce, Thurston, Lewis, and Kittitas Counties. Pilchuck will also provide natural gas new customer construction services in Snohomish County, the greater Seattle area, and in the City of Tacoma. Quanta will provide natural gas and electric new customer construction services in Whatcom, Skagit Island, Jefferson, Kitsap, Kittitas, King (excluding greater Seattle), Pierce (excluding the City of Tacoma), Thurston, and Lewis Counties.
- 9 Pilchuck and Quanta will receive payment for the services according to unit pricing criteria established in the individual Service Contracts. This pricing is based on units of productivity and is pertinent to the vast majority of services to be rendered in the context of these agreements. A relatively small amount of the work that is difficult to define will be compensated through time rates and equipment charges as outlined in the MSAs under work orders and service contracts. Pilchuck and Quanta will be responsible for the payment of all taxes, excises, levies, duties, and assessments applicable to or incurred in connection with the performance of the services. Services must be performed in accordance with performance metrics, time related service quality indices and schedules set forth in service contracts, work orders and other requirements in order to receive payment.
- 10 To implement the program and ensure smooth transition, the transactions provide for the Company to lease its operating centers to Pilchuck and Quanta, and for Pilchuck and Quanta to pay nominal rent for the use of such facilities. Pilchuck and Quanta also will be responsible for their percentage portion of the variable costs at each location. The Company will license to the Service Providers its computer and telecommunications hardware and software at each facility leased by the service providers. Pilchuck and Quanta assume responsibility under the transactions to perform a number of activities formerly performed by PSE, and the Company proposes to transfer to Pilchuck and Quanta the trucks and other equipment, tools and parts to perform these activities.
- 11 PSE will retain oversight and ultimate control over the quality and performance standards for the services performed by the Service Providers. According to the Company as stated in its application, the transactions do not affect the relationship between the Company and its customers because the services performed by Pilchuck and Quanta are transparent to the Company's customers. PSE states that employees responsible for "first contact" with customers – access center agents – and employees responsible for "first-response" – servicemen who identify the nature and extent of

damage to company electric and natural gas equipment – will remain as PSE employees. According to the Company, it is merely outsourcing the provision of specific services to two entities that are devoted exclusively to the construction, operation and maintenance service of utility facilities.

Proposed Accounting Treatment:

- 12 The Company proposes the following accounting treatment with respect to the transactions:
- 13 Transfer of Company-owned vehicles and equipment to Service Providers: Upon transfer, the book value of vehicles and equipment will be debited to FERC Account No. 108-Accumulated Depreciation and retired (credited) from the appropriate FERC Plant Accounts. The accrual for receipt of proceeds will consist of a salvage credit to FERC Account No. 108-Accumulated Depreciation and a debit to FERC Account No. 143-Miscellaneous Accounts Receivable.
- 14 Transfer of leased vehicles to Service Providers: Upon transfer, the Company will pay the lessor, BLC, the remaining lease value of the vehicles. The entry for the payment will consist of a debit to FERC Account No. 184-Clearing Account (Transportation) and a credit to FERC Account No. 131-Cash. The accrual for receipt of proceeds from the Service Provider regarding the leased vehicles will be recorded by a debit to FERC Account No. 143-Miscellaneous Accounts Receivable and a credit to FERC Account No. 184-Clearing Account (Transportation). Approximately 50 percent of the amounts recorded to the Transportation Clearing Account are capitalized when cleared.
- 15 Transfer of tools to Service Providers: Market value is used for these assets because, according to the Company, it is not cost effective to inventory such tools and, as a result, the book value is not known. Upon transfer, market value will be used to record a debit to FERC Account No. 143-Miscellaneous Accounts Receivable and a credit to FERC Account No. 108-Accumulated Depreciation will be recorded to reflect the salvage and accrue for the receipt of proceeds.

Related Regulatory Issues:

- 16 Under the Commission's general ratemaking authority, the Commission will have the ability to evaluate the reasonableness of PSE's expenditures, and remuneration for contractor's use of certain PSE facilities and equipment, under the MSAs with the Service Providers. We make no determination on those matters here.

FINDINGS

- 17 (1) PSE is a public service company subject to the jurisdiction of the Commission.

- 18 (2) On June 4, 2001, PSE filed an application for an Order authorizing the Company to lease certain real property, to license the use of certain Company assets, and to transfer certain equipment and vehicles to Pilchuck Contractors, Inc. and Quanta Services, Inc.
- 19 (3) The tangible personal property proposed to be transferred to Pilchuck and Quanta is determined to be necessary or useful property for which Commission approval must be sought.
- 20 (4) The proposed transfers of property do not appear inconsistent with the public interest.
- 21 (5) The proposed accounting by Puget Sound Energy, Inc., for the transfers is reasonable and should be approved.

O R D E R

THE COMMISSION ORDERS:

- 22 (1) Authorization is hereby given for the Company to make the following property transfers:
- (a) Transfer to Quanta Services, Inc., the equipment, components, parts, and other items of tangible personal property described in the Agreement for Purchase and Sale of Personal Property, which is attached as Exhibit H to the Quanta MSA.
 - (b) Lease to Quanta Services, Inc., the real property described in the Lease Agreements, which is attached as Exhibit G to the Quanta MSA.
 - (c) License to Quanta Services, Inc., the use of certain Puget Sound Energy, Inc., assets, as described in Section 5.7 of the Quanta MSA and the Lease Agreements, which are attached as Exhibit G to the Quanta MSA.
 - (d) Transfer to Pilchuck Contractors, Inc., the equipment, components, parts, and other items of tangible personal property described in the Agreement for Purchase and Sale of Personal Property, which is attached as Exhibit I to the Pilchuck MSA.
 - (e) Lease to Pilchuck Contractors, Inc., the real property described in the Lease Agreements, which is attached as Exhibit H to the Pilchuck MSA.

- (f) License to Pilchuck Contractors, Inc., the use of certain Puget Sound Energy, Inc., assets, as described in Section 5.7 of the Pilchuck MSA and the Lease Agreements, which are attached as Exhibit H to the Pilchuck MSA.
- 23 (2) The accounting treatment proposed by Puget Sound Energy, Inc. for the property transfers is approved.
- 24 (3) The Order shall in no way affect the authority of the Commission over rates, services, accounts, evaluations, estimates, or determination of costs on any matters whatsoever that may come before it, nor shall anything herein be construed as an acquiescence in any estimate or determination of costs claimed or asserted.
- 25 (4) The Commission retains jurisdiction over the subject matter and Puget Sound Energy, Inc., to effectuate the provisions of this Order

DATED at Olympia, Washington, and effective this 10th day of April, 2002.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

PATRICK J. OSHIE, Commissioner