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WASH. UT. & TP. COMM

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

Subject: Gain on PSE sale to Jefferson County.

Dear Mark Johnson and Sally Brown:

I am writing to let you know that the decision concerning the gain in the sale of part of the PSE business to a new owner, Jefferson County, came to the wrong conclusion. The \$57.2 million gain on sale belonged to PSE and should not have been credited to customers. This was Decision 04, Docket UE-132027, dated 9/11/14 (Jefferson Decision). It is too late to change this decision, but I would like to discuss this issue with the Commission staff -- who is likely to have a different opinion on this issue.

Before I go on, I should say that I am a retired Vice President of PG&E and spent 15 years working on and managing PG&E's major rate cases. I have testified many times as an expert on various topics for PG&E. I spent some time doing further research on this issue and the purpose of this letter is to summarize my findings for you.

The Jefferson Decision relies on a decision of the US Court of Appeals for the D.C. Circuit, Democratic Central Committee, 485 F.2d 786 (Democratic Central). In addition, the Commission relied on one of the Commission's own decisions, the Centralia Decision (Docket UE-991409). Neither decision applies to the Jefferson sale. Both involve the sale of utility property no longer needed in the utility. Both cases are about retirements in an ongoing utility business. On the other hand, the Jefferson sale was the sale of a business. These are simply not the same and that is clear in the Democratic Central Decision.

The treatment of the purchase, sale, or merger of utility businesses has been long settled. But there have not been many transactions in recent years and the people who sorted this out are no longer around to help us understand.

PSE has more than 150 companies in its family tree -- my old company, PG&E, has 650 companies. There were many gains involved in the acquisition those businesses. In 1950 after at least 20 years of hard work by the FPC, by 21 state commissions (including WA), and by the

utility companies, the FPC issued its report July 17, 1950, "Report on the Reclassification and Original Cost of Electric Plant of Public Utilities and Licensees", on the adjustments required to bring all the utilities to the Original cost, that is "the cost to the person first devoting the plant to public service". The write-offs to record plant at Original Cost were enormous (in the 1940s), \$1.6 billion in total with 32% of that amount for the excess over Original Cost (the balance was for some historical accounting practices that were unacceptable even in the 1930s).

The excess paid by the purchasing utility over the Original Cost (which is the gain to the selling company) was written-off by the purchasing company. That was the settled policy of the FPC and various states (including WA) and supported by the courts in the 1930s and still is the policy today. The gain to the seller is a loss to the buyer -- and the customers continue to be served at the "cost to the person first devoting the plant to public service". That is how this works. Indeed after the adjustments referred to above, I think it is fair to say that this is the way this policy has worked since the earliest days of the utility business over 150 years ago -- 50 years before the first utility regulatory commission.

As James Bonbright put it, "...the old owner takes his cash and gets out". In his book (Principles of Public Utility Rates) and earlier in public testimony, he likens this ownership change to the purchase and sale of public utility securities on the stock market. These sales are completely different from the retirement of assets used in an ongoing business -- the subject in the Democratic Central case.

The next time a case like Jefferson comes to the Commission; this issue should be fully developed on the record.

As I said at the beginning, the Jefferson Decision cannot be changed. However, I am interested in meeting with the staff in Olympia to discuss.

Thank you.



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