

Agenda Date: July 26, 2013
Item Number: A6

Docket: UE-131230
Company Name: Puget Sound Energy

Staff: Joanna Huang, Regulatory Analyst
E.J. Keating, Regulatory Analyst

Recommendation

Issue an Order in Docket UE-131230 that:

- a) Approves the sale of the Lower Snake River Wind Facility Phase II development rights and assets and approves the transfer of PSE's BPA Transferred Transmission Credits to Portland General Electric; but
- b) Set for hearing, Puget Sound Energy's proposed accounting and ratemaking treatment.

Background

On June 27, 2013, Puget Sound Energy (PSE or company) filed a petition requesting three actions. First, the petition requests a finding that the Purchased Assets are not necessary or useful pursuant to RCW 80.12.020 and WAC 480-143-180, or in the alternative permission to transfer its development assets related to Phase II of the Lower Snake River Wind Facility (LSR II) to Portland General Electric Company (Portland General). Second, PSE requests that the commission approve the transfer of its Bonneville Power Administration (BPA) Transferred Transmission Credits to Portland General pursuant to WAC 480-143-120. Third, PSE requests that the commission approve the proposed accounting and ratemaking treatment associated with the sale. PSE requested the commission act on its petition by July 29, 2013.

The Lower Snake River Wind Facility owned by PSE is a planned 1,250 megawatt installation of wind generation to be constructed in five consecutive phases located in southeast Washington. LSR I, with a nameplate capacity of approximately 350 megawatts, was completed in February of 2012. None of the other phases have started construction. LSR II, the subject of this petition, is proposed to have a nameplate capacity of approximately 270 megawatts.

In order to connect to the transmission needed for LSR's output, 1,250 megawatts of substation capacity was developed. To complete the interconnection with the transmission system, PSE loaned BPA \$99.7 million to construct the Central Ferry Substation. BPA operates, maintains, and owns the substation. BPA repays the loan to PSE for the substation through Transferred Transmission Credits plus the annual FERC interest rate in the form of additional Transferred Transmission Credits. In other words, PSE receives "transmission service credit" equal to the total cost of the substation plus interest in the form of future transmission service from BPA.

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As of May 14, 2012, PSE ratepayers have been paying PSE's authorized net of tax rate of return on the full \$99.7 million associated with the loan made to BPA for the substation, plus a return on the \$17 million in carrying costs that PSE accrued at its net of tax rate of return. The \$17 million in carrying costs were accrued from May 20, 2010, through May 14, 2012, at PSE's net of tax rate of return.

On June 2, 2013, PSE entered into the Asset Purchase and Sale Agreement to sell its interest in the development assets required for the construction and operation of LSR Phase II to Portland General for \$16,008,000. The net book value for LSR Phase II is approximately \$15,933,493. The LSR Phase II assets have never been included in rate base.

Portland General will also pay PSE \$20.5 million for LSR II's portion of the \$99.7 million substation loan. LSR II's assigned capacity of 270 megawatts in the substation is approximately 21 percent of the 1,250 megawatt substation capacity.

Discussion

Staff accepts the sale of the LSR II development rights and assets for \$16 million. However, the company's calculation of \$20.5 million as the appropriate allocation for LSR II of the substation's \$99.7 million regulatory asset is incomplete. Staff has determined that a greater reduction to the regulatory asset account of about \$23 million is fair and reasonable..

Staff was unable to resolve this issue within the roughly 30 days allowed by the company's filing. Therefore, staff recommends this petition be addressed in two parts: 1) approve the sale of the LSR II development rights and approve the transfer of the BPA Transferred Transmission Credits; and 2) set for hearing the portion of the petition that addresses accounting and ratemaking treatments.

Conclusion

Issue an Order as described in the Recommendation section above.