

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

| | | |
|--------------------------------------|---|----------------------------|
| In the Matter of the Application of |) | DOCKET UE-131230 |
| |) | |
| PUGET SOUND ENERGY, INC. |) | ORDER 01 |
| |) | |
| For an Order Authorizing the Sale of |) | ORDER FINDING THAT |
| Interests in the Development Assets |) | DEVELOPMENT RIGHTS ARE NOT |
| Required for the Construction and |) | NECESSARY OR USEFUL, |
| Operation of Phase II of the Lower |) | APPROVING TRANSFER OF BPA |
| Snake River Wind Facility |) | TRANSMISSION CREDITS, AND |
| |) | SETTING ACCOUNTING AND |
| |) | RATEMAKING ISSUES FOR |
| |) | HEARING |
| |) | |

BACKGROUND

1 On June 27, 2013, Puget Sound Energy, Inc. (PSE or Company), filed with the Washington Utilities and Transportation Commission (Commission) an application pursuant to RCW 80.12 and WAC 480-143, for authority to sell and transfer certain interests in the development assets (Purchased Assets) and certain Bonneville Power Administration (BPA) transmission credits (BPA Transferred Transmission Credits), both of which are related to the construction of Phase II of the Company’s Lower Snake River Wind Facility (LSR II), to Portland General Electric Company (PGE). PSE did not request an accounting order in its application; rather PSE asked that it be allowed to amend its pending 2013 Power Cost Only Rate Case in Docket UE-130617 to incorporate the accounting and ratemaking issues associated with sale of the BPA Transferred Transmission Credits to PGE. PSE requested in its petition that the Commission take the following action:

- (a) Find that the Purchased Assets are not necessary or useful pursuant to RCW 80.12.120 and WAC 480-143-180, or in the alternative approve the transfer of the Purchased Assets pursuant to WAC 480-143-120;
- (b) Approve the transfer of BPA Transferred Transmission Credits pursuant to WAC 480-143-120; and
- (c) Approve the accounting and ratemaking treatment proposed by PSE in its Application.

- 2 LSR II is a fully permitted, shovel-ready utility-scale wind project located in Columbia County, Washington, in the immediate vicinity of over 700 megawatts (MW) of operational wind projects separately owned by PSE and PacifiCorp dba Pacific Power & Light Company. Once constructed, LSR II will have a nameplate capacity of 266.8 MW and an annual average capacity of 101 average megawatts (aMW). It is anticipated that LSR II will consist of the following components:
- 116 Siemens SWT-2.3-108 turbines erected on 80 meter towers;
 - approximately 280 miles of 34.5 kilovolt (kV) conductor to deliver the output of the turbines to one 34.5/230 kV substations for the Project;
 - approximately 18 miles of 230 kV overhead line to connect the Project substation to the Project`s point of interconnection at the Central Ferry substation, which includes an existing and operational 1250 megavolt amperes (MVA) 230/500 kV transformer;
 - approximately 28 miles of new roads; and
 - other ancillary facilities including, for example, turbine foundations and other civil works, a supervisory control and data acquisition (SCADA) system and operations and maintenance facilities, communication facilities, permanent meteorological towers, and spare parts.
- 3 PSE entered into a large-generator interconnection agreement (LGIA) with BPA for the Lower Snake River Wind Facility. As part of the LGIA, 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 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.
- 4 As of May 14, 2012, PSE ratepayers have been paying a return on the full \$99.7 million associated with the loan made to BPA for the substation. PSE ratepayers have also been paying a return on \$17 million in carrying costs that PSE accrued at its net of tax rate of return from May 20, 2010, through May 14, 2012. Customers are receiving monthly transmission credits from BPA and will continue to receive these credits for a 20-year period, until the \$99.7 million loan plus interest based on the FERC-interest rate is repaid to PSE's customers.
- 5 On October 1, 2012, PGE issued a request for proposals (RFP) seeking approximately 100 aMW of renewable power from renewable generation resources. On November 13,

2012, PSE and Renewable Energy Systems (RES) Americas Developments jointly submitted bids to the PGE Renewable RFP. On February 19, 2013, PGE selected the joint PSE and RES Developments proposals for the final short list in the RFP, after which the two parties successfully negotiated an agreement. 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 PGE.

DISCUSSION

- 6 Pursuant to the agreement, PGE will pay PSE \$16,008,000 for the Purchased Assets, which includes the development rights on a large amount of undeveloped land leased by PSE. The net book value for the Purchased Assets is approximately \$15,933,493. However, after factoring in transaction costs, PSE likely will not realize a gain on this transfer. The Commission has never included these Purchased Assets in either rate base or otherwise accounted for them in rates.
- 7 PGE will also pay PSE \$20,500,000 for LSR II's portion of the \$99.7 million substation loan. LSR II's assigned capacity of 270 MW in the substation is approximately 21 percent of the 1,250 MW substation capacity. The Commission determined in the Company's 2011 General Rate Case (Docket UE-111048) that it was appropriate to include this \$99.7 million substation loan in rates as a regulatory asset, instructing the parties to promptly propose a specific accounting mechanism (*see* Docket UE-100882).
- 8 In reviewing PSE's proposed transfer of LSR II to PGE, Staff generally supports the Company's application. Commission Staff acknowledges that PSE and PGE negotiated a sale of the BPA Transferred Transmission Credits in the amount of \$20,500,000 and acknowledges the methodology used to account for LSR II's pro rata share of available capacity at BPA's Central Ferry substation. However, Staff debates the proper accounting treatment and reduction in value to be applied to the current balance of the regulatory asset associated with the BPA substation loan. Staff contends that the most appropriate forum for resolving this issue is PSE's ongoing Power Cost Only Rate Case, Docket UE-130617.

FINDINGS AND CONCLUSIONS

- 9 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, accounts, securities, and transfers of public service companies, including electric companies.
- 10 (2) PSE is an electric company and is a public service company subject to Commission jurisdiction.

- 11 (3) RCW 80.12.020 and WAC 480-143-120 require public service companies to file an application or petition including that for which PSE seeks approval. However, under WAC 480-143-180, when the property transferred is not “necessary or useful,” Commission approval is unnecessary.¹
- 12 (4) Commission Staff concurs with PSE that the Purchased Assets are not necessary or useful to PSE, eliminating the need for the Commission to authorize or approve their transfer to PGE. Commission Staff also concurs with PSE’s request for the Commission to formally approve the Company’s request for authorization to transfer the BPA Transferred Transmission Credits to PGE for \$20,500,000, in accordance with the provisions of the Purchase and Sale Agreement.
- 13 (5) This matter was brought before the Commission at its regularly scheduled open meeting on July 26, 2013, which was recessed and reconvened on July 30, 2013.
- 14 (6) After reviewing the application PSE filed in Docket UE-131230 on June 27, 2013, and giving due consideration to all matters and for good cause shown, the Commission finds that:
- (a) PSE’s request to find the Purchased Assets neither necessary nor useful to the Company should be granted because PSE has no need for the LSR II project, which has yet to be constructed.
 - (b) PSE’s request for authorization to transfer the BPA Transferred Transmission Credits to PGE for \$20,500,000 should be approved.
 - (c) Accounting and ratemaking issues related to treatment of the BPA Transferred Transmission Credits should be set for hearing.²

ORDER

THE COMMISSION ORDERS:

¹ As relevant to this application, WAC 480-143-180 defines all public service company property to be “necessary or useful” except items that “are surplus and unneeded assets for which full value is received” or “are excluded from the public service company’s rate base by commission order, or otherwise.”

² The Commission will resolve any variances between Commission Staff and the Company regarding carrying costs associated with this regulatory asset in an adjudication. The two specific issues that the Commission addresses shall not prejudice the ability of the parties to resolve any such variances at hearing. These remaining accounting and ratemaking issues might be addressed most appropriately in the Company’s current Power Cost Only Rate Case, Docket UE-130617.

- 15 (1) The Purchased Assets are associated with the yet-to-be constructed LSR II project. PSE has no need for the LSR II project. Consequently, under WAC 480-143-180, the Commission determines that the Purchased Assets are not necessary or useful and that Commission approval is not required for PSE to transfer the Purchased Assets to PGE.
- 16 (2) The transfer of the BPA Transferred Transmission Credits from PSE to PGE for \$20,500,000 is approved pursuant to WAC 480-143-120.
- 17 (3) The Commission will set for hearing the accounting and ratemaking issues associated with the BPA Transferred Transmission credits.
- 18 (4) This 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 acquiescence in any estimate or determination of costs claimed or asserted.
- 19 (5) 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 July 31, 2013.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner

JEFFREY D. GOLTZ, Commissioner