

EXHIBIT NO. ___(RG-31)
DOCKET NO. UE-07___/UG-07___
2007 PSE GENERAL RATE CASE
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___
Docket No. UG-07___

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

DECEMBER 3, 2007

UNITED STATES OF AMERICA 117 FERC ¶ 62, 102
FEDERAL ENERGY REGULATORY COMMISSION

Puget Sound Energy, Inc.

Docket No. EC06-161-000

ORDER AUTHORIZING ACQUISITION OF GENERATION FACILITY
AND MERGER

(Issued November 1, 2006)

On September 11, 2006, as supplemented on October 4, 2006, and October 19, 2006, Puget Sound Energy, Inc. (PSE or Applicant) filed an application pursuant to section 203 of the Federal Power Act (FPA)¹ requesting authorization for the acquisition of a merger and an acquisition of a generation facility. The generation facility that is the subject of the transaction is currently owned by Public Service Resources Corporation (Resources) and U.S. Bank National Association (U.S. Bank) (together, Sellers).

The Whitehorn 2 and 3 Combustion Turbine Electric Generating Facility (Facility), located in the state of Washington, is a gas-fired peaking generator of approximately 178 megawatts (MWs) in capacity. The Sellers currently lease the Facility to PSE, which owns the associated interconnection facilities. Resources, which holds the beneficial ownership interests in the Facility, is an investment subsidiary of Public Service Enterprise Group Incorporated, a holding company that has regulated and unregulated energy subsidiaries. U.S. Bank, which holds the legal title interests in the Facility as trustee for the benefit of Resources, is a subsidiary of U.S. Bancorp., a financial services holding company based in Minneapolis.

PSE, a public utility, is a wholly-owned subsidiary of Puget Energy, Inc. PSE owns and operates facilities used for the sale and transmission of electricity in interstate commerce. PSE also is authorized to sell electric power at market-based rates. PSE indirectly owns Black Creek Hydro, Inc. (Black Creek), which owns a small (3.7 MW) hydro electric generating facility. PSE directly owns WNG CAP I, Inc., which markets surplus pipeline capacity on behalf of PSE. Additionally, PSE provides electric and natural gas service at retail in the Puget Sound region of the state of Washington.

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

Under the proposed transaction, Resources will cause U.S. Bank to convey all of its rights, title, and interest in the Facility to a special purpose entity wholly-owned by Resources. PSE will acquire all of the interests in the special purpose entity, which will then merge with PSE. As a result of the transaction, PSE will acquire all of the rights and interests in the Facility currently held by U.S. Bank and any beneficial interest of Resources in the Facility will be expunged. Applicant states that the transaction will close no later than the termination of PSE's leasehold interest in the Facility, which expires in February 2009.

Applicant states that the proposed transaction is consistent with the public interest because it will not adversely affect competition, rates, or regulation and will not result in cross subsidization. With respect to competition, Applicant states that the transaction will not adversely affect competition. Under the current circumstances, PSE leases the Facility, while controlling and operating the Facility. After the transaction closes, PSE will continue to exercise control over the Facility—only as an owner, not as a lessee. Thus, the transaction does not raise horizontal market power concerns because there will be no change in PSE's control of generation and market share in the relevant market. Further, no vertical market power concerns are raised because the transaction does not affect PSE's control of transmission facilities or other inputs into generation.

Applicant states that the transaction will have no adverse affect on rates. PSE sells electricity at market-based rates and those rates will not be affected by the transaction. Additionally, Applicant states that the transaction will not affect PSE's cost-based rates for the sale of electricity at wholesale because those rates will not be modified by the transaction. Lastly, the transaction does not affect transmission rates, because the transaction does not involve transmission facilities. Applicant also notes that PSE's retail rates are subject to the jurisdiction of the Washington Utilities and Transportation Commission's (Washington Commission) oversight.

Applicant states that the transaction will have no affect on regulation. The Commission and the Washington Commission will continue to exercise the same regulatory authority over PSE after the transaction.

Applicant further states that the proposed transaction will not result in, at the time of the transaction or in the future, cross-subsidization or the pledge or encumbrance of utility assets for the benefit of an associate company. With regard specifically to each of the four prongs of the cross-subsidization rule, Applicant specifically states that the transaction will not result in: (1) any transfer of facilities between a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities; (2) any new issuance of securities by a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, for the benefit of an associate company; (3) any new pledge or encumbrance of assets of a

traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, for the benefit of an associate company; (4) any new affiliate contract between a non-utility associate company and a traditional utility associate company that has captive customers or that own or provide transmission service over jurisdictional transmission facilities, other than non-power goods and services agreements as a result of this transaction.

This filing was noticed on September 25, 2006, with comments, protests or interventions due on or before October 2, 2006. None were received. 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 provisions of Rule 214.

After consideration, it is concluded that the proposed transaction is consistent with the public interest and is 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 determinations of cost, or any other matter whatsoever now pending or which may become 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 an Applicant's affiliated Qualifying Facilities, if any, an appropriate filing for recertification pursuant to 18 C.F.R. § 292.207 shall be made;
- (6) Applicant shall make appropriate filings under section 205 of the FPA, as necessary, to implement the transaction;
- (7) PSE 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; PSE shall submit its final accounting within six months of the date that the transfer is consummated and shall provide all the accounting entries related to the transaction along with narrative explanations describing the basis for

the entries; and

- (8) Applicant shall notify the Commission within 10 days of the date that the acquisition of the generation facility and merger 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 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