

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
COMMISSION

In the Matter of the Petition of	)	
	)	Docket No. UE-010010
	)	
PUGET SOUND ENERGY, INC.	)	
	)	DECLARATORY ORDER
for a Declaratory Order and	)	APPROVING PETITION AND
Accounting Order Regarding the	)	ADOPTING ACCOUNTING
Classification of Certain Facilities and	)	PROVISIONS
Accounting Treatment Consistent	)	
Therewith.	)	
	)	
.....	)	

1 On January 2, 2001, Puget Sound Energy, Inc. ("PSE") filed a petition for a declaratory order requesting that the Commission adopt PSE's proposed classification of transmission and distribution facilities, and for an accounting order authorizing PSE to reflect such classifications in its accounts. On February 16, 2001, the Commission noticed receipt of the petition for a declaratory order and noticed opportunities for the public to file written comments by February 28, 2001, and to comment orally on March 2, 2001. This schedule was disrupted by the occurrence of an earthquake in the Puget Sound area on February 28, 2001. Consequently, oral and written comments were received, instead, at an open public meeting on March 9, 2001.

**BACKGROUND**

2 PSE is a public service company engaged in the generation, transmission, distribution and sale at retail of electric energy in the state of Washington. As such, certain actions of PSE are subject to the authority of the Commission to regulate the same, in the public interest, pursuant to RCW 80.01.040, Chapter 80.28 RCW, and other applicable public service laws.

3 The Federal Energy Regulatory Commission ("FERC") regulates facilities used by PSE to transmit electric energy in interstate commerce, pursuant to applicable provisions of the Federal Power Act. *16 U.S.C. § 824*. FERC has, from time to time,

issued orders that bear upon the jurisdictional boundaries between its regulatory authority and that of the state. *See Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, F.E.R.C. Stats. & Regs. ¶ 31,036, at 31,770 (1996) ("Order 888")*. In Order 888, FERC acknowledged, among other things, that states have jurisdiction over local distribution facilities while the federal government exercises jurisdiction over the rates, terms, and conditions of unbundled retail transmission in interstate commerce by public utilities.

4 The classification of transmission and distribution facilities for various regulatory purposes may lead to uncertainty and potential conflicts regarding the boundaries of federal/state jurisdiction. To avoid these issues and concerns, FERC has held:

As a means of facilitating jurisdictional line-drawing, we will entertain proposals by public utilities, filed under section 205 of the FPA, containing classifications and/or cost allocations for transmission and local distribution facilities. However, *as a prerequisite to filing transmission/local distribution facility classifications and/or cost allocations with the Commission, utilities must consult with their state regulatory authorities. If the utility's classifications and/or cost allocations are supported by the state regulatory authorities and are consistent with the principles established by the Final Rule, the Commission will defer to such classifications and/or cost allocations.* We encourage public utilities and their state regulatory authorities to attempt to agree to utility-specific classifications and allocations that the utility may file at the Commission.

*Order 888, at 31,784 (emphasis added).*

5 To this end, PSE requests that the Commission issue a declaratory order confirming PSE's classification of transmission or distribution facilities, as PSE has proposed these classifications in Exhibit A to its Petition. These classifications are attached to this Order as Appendix A. As discussed below, PSE states that it classified these facilities by application of the seven indicators of local distribution promulgated by FERC for such purposes in Order 888. PSE states that, taken together, application of the seven-factor test leads to the conclusion that PSE's 230 kV (and above) facilities are transmission facilities. These facilities connect PSE's systems to bulk transmission grids and support transfers to regional markets. PSE also states that all of PSE's

facilities of 34 kV or lower are inherently distribution facilities. PSE states that application of the seven-factor test to its 115 kV facilities, confirmed by PSE's power flow analysis, demonstrates that these facilities are distribution facilities, with one exception discussed below. Principally, this is because PSE's 115 kV facilities function to serve local loads and rarely, if ever, serve to transfer power to other markets.

- 6 Further, as also discussed below, PSE requests that the Commission issue an accounting order authorizing the Company to apply its proposed classification of transmission and distribution facilities in PSE's accounts and reports to the Commission, under and in light of the seven-factor test promulgated by FERC in Order 888.

## MEMORANDUM

### A. Background: Facility Classification and Seven Factor Test

- 7 In its Petition, PSE represents that it has applied FERC's seven-factor test and proposes the classification of transmission and distribution facilities set forth in Appendix A.<sup>1</sup> An explanation of how PSE considered these factors and applied them to its facilities is set forth in the Affidavit of J. Chris Reese, PSE's System Planning Manager, which is attached to PSE's Petition ("Reese Affidavit"). The seven factors PSE applied to classify its facilities pursuant to Order 888 are:

- (1) Local distribution facilities are normally in close proximity to retail customers.

---

<sup>1</sup> PSE notes that the seven-factor test is not rigid and is intended by FERC to be a flexible test that can account for unique regional or local conditions:

The seven-factor test is intended to provide sufficient flexibility to take into account unique local characteristics and historical usage of facilities used to serve retail customers. We specifically stated in the Final Rule that we will consider jurisdictional recommendations by states that take into account other technical factors that states believe are appropriate in light of historical uses of particular facilities. Moreover, we will defer to facility classifications and/or cost allocations that are supported by state regulatory authorities.

- (2) Local distribution facilities are primarily radial in character.
- (3) Power flows into local distribution systems; it rarely, if ever, flows out.
- (4) When power enters a local distribution system, it is not reconsigned or transported on to some other market.
- (5) Power entering a local distribution system is consumed in a comparatively restricted geographical area.
- (6) Meters are based at the transmission/local distribution interface to measure flows into the local distribution system.
- (7) Local distribution systems will be of reduced voltage.

### 1. First Factor

8 Under FERC's seven-factor test, the first indicator of whether facilities are local distribution facilities is whether such facilities are normally in close proximity to retail customers. PSE states that this indicator was satisfied for each distribution facility so classified in Appendix A.

9 PSE applied this factor in the context of its electrical system. PSE assessed proximity with regard to population density, geographic, and electrical considerations. For example, geographic distances covered by distribution facilities to customers can be significant in rural areas, which have low customer densities. Given that PSE serves retail customers only in the greater Puget Sound area, which has both densely populated and sparsely populated areas, PSE applied the close proximity factor within the appropriate geographic, demographic and electrical contexts.<sup>2</sup> *Reese Affidavit*, ¶ 8.

---

<sup>2</sup> Sparse customer densities also have led to the use of higher distribution equipment voltages to serve loads within broader geographic areas, as compared to urban electric systems. Therefore, the interpretations of the first, fifth and seventh distribution indicators are also dependent on the characteristics of PSE's entire electric system.

## 2. Second Factor

10 The second indicator looks to whether the facilities in question are primarily radial in character. PSE states that with few exceptions, the distribution facilities listed in Exhibit A satisfy this criterion.

11 The phrase "primarily radial" means, in a distribution system context, that the end-use customer is served from a limited set of closely coupled electrical sources during a given period. PSE also considered the term "radial" to apply to open-looped systems where the end-use customer's load is normally served from a single source but can be physically switched to another source. PSE also considered radial facilities to be closed-looped systems constructed for the primary purpose of serving local loads. PSE asserts that such radial systems were constructed to serve local loads, not to move power between markets. *Reese Affidavit*, ¶ 7.

12 Additionally, PSE states that it considered all connection lines to distribution substations, including those that are locally looped, to be primarily radial in character. PSE's decision to provide more than one line to a distribution substation is driven by the retail customers' need for additional reliability. The presence of the loop does not meaningfully enhance the system's ability to move power to other markets. *Reese Affidavit*, ¶ 7.

## 3. Third Factor

13 The third indicator addresses power flows. PSE determined that, for each of the distribution facilities identified in Appendix A, power flows into, and rarely out of, its local distribution system. In this regard, PSE examined the third indicator (*i.e.*, power flows) in conjunction with the fourth indicator (*i.e.*, transfer to other markets). In other words, PSE considered these power flows in relation to whether the power was transferred to other markets (*i.e.*, the fourth indicator). PSE's local distribution system extends throughout the greater Puget Sound area. PSE's 230 kV lines serve to integrate PSE's local distribution system, but have been classified as transmission due to other factors in the seven-part test. *Reese Affidavit*, ¶¶ 7, 8 and 9.

14 The phrase "into local distribution systems" raises the question of whether the flow is uni-directional in nature, (*i.e.*, to PSE retail load rather than to another market). As determined by PSE's power flow analysis, PSE states that power on radial and locally looped facilities flows directly to local loads, without re-entering the transmission network at some other point to reach another market. In Whatcom County, for example, local generation can cause power to flow from one portion of PSE's local distribution system to another portion of PSE's local distribution system, but not to other markets. *Reese Affidavit, ¶¶ 8, 9 and 11.*

#### 4. Fourth Factor

15 The fourth indicator considers whether power that enters a local distribution system is reconsigned or transported on to some other market. In the case of the distribution facilities identified in Appendix A, the facilities PSE identifies as distribution facilities do not reassign or transport power to other markets.

16 "Other markets" in the context of the seven-factor test refer to wholesale bulk power locations where there are multiple wholesale buyers and sellers. PSE considered high voltage lines used to move power between markets, such as power system interties, to be transmission facilities. Powerflow studies were used to identify other system facilities that give meaningful support to wheeling transactions between markets. *Reese Affidavit, ¶¶ 6, 8 and 9.*

17 Applying this indicator, PSE states that, as determined by PSE's power flow analysis, PSE's 115 kV facilities were classified as facilities not providing meaningful support to wheeling transaction to other markets.<sup>3</sup> Therefore, as applied, PSE argues that this indicator supports PSE's classification of radial and locally looped systems as distribution. *Reese Affidavit, ¶¶ 6, 8 and 9.*

---

<sup>3</sup> An exception to this classification is PSE's 115 kV Anderson Canyon-Beverly Line. This line was classified as transmission because it is non-radial in nature, connects commercial markets, and has traditionally and contractually been used as part of PSE's cross-Cascade mountain range transmission capacity to provide access, for example, to the Mid-Columbia wholesale power market.

**5. Fifth Factor**

18 This indicator considers whether power entering a local distribution system is consumed in a comparatively restricted geographical area. The Petition states that all the distribution facilities listed in Exhibit A are distribution facilities in relation to this consideration. As with the first and seventh indicators, PSE viewed this indicator in the context of the Company's electrical system and retail load within the greater Puget Sound area. When power enters PSE's local distribution system, it is consumed within the corresponding geographic area. In contrast, PSE treated transmission facilities as lines that provide pathways for power that is not necessarily consumed within the geographical area served at retail by PSE and corresponding to PSE's local distribution system. *Reese Affidavit*, ¶ 8.

**6. Sixth Factor**

19 The sixth factor looks to whether meters are based at the transmission/local distribution interface to measure flows into the local distribution system. Various power metering devices are used throughout PSE's system, not exclusively limited to transmission-distribution interfaces. However, PSE states that each of the facilities identified as distribution facilities in Appendix A are distribution facilities under this factor because each of these facilities has such transmission-distribution interface metering. *Reese Affidavit*, ¶ 10.

**7. Seventh Factor**

20 The seventh factor addresses whether the facilities will be of reduced voltage. As a practical matter, PSE states that it classified facilities with an operating voltage of 230 kV and above as “transmission facilities,” because these facilities connect PSE's system to the bulk transmission grids of other utilities, and support transfers between regional markets. Similarly, PSE considered facilities operating at 34 kV or less as inherently distribution facilities and incapable of meaningful transmission between markets. Other facilities, primarily 115 kV facilities, merited a more *detailed study of such facilities' function and purpose*. *Reese Affidavit*, ¶¶ 6, 7 and 8.<sup>4</sup>

---

<sup>4</sup> See footnote 3 above.

21 In this regard, FERC Order 888, and more specifically the seven-factor test, provides a process to differentiate between the transmission and distribution facilities. PSE considered "reduced voltage" as a term relative to its system and customer load characteristics. In that respect, as distances between energy sources and loads increase, lower voltages are not efficient at distributing power to customers. The size of a customer's load, or other economic considerations, may drive the need for higher distribution line voltages. *Reese Affidavit, ¶¶ 6, 7 and 8.*

***Positions of the Parties***

22 Commission Staff submitted results of its review of the Company's petition, including a review of the Company's demarcation between transmission and distribution plant, at the Commission's March 9, 2001, Open Meeting. Commission Staff indicated that while the results of PSE's analysis are reasonable, Staff does not believe that the procedures utilized by PSE should be considered as the only means to determine this separation between transmission and distribution. Therefore, Commission Staff recommends that the Order state that the Commission's decision approving PSE's petition and adopting accounting provisions should not be considered precedential in future proceedings in which utility companies propose classification of transmission and distribution facilities, and seek an accounting order authorizing such classification.

23 On this point, Avista Corporation submitted comments in writing requesting that the Commission limit its action in this docket to the facts specific to PSE's facilities and PSE's proposed classification, and that this factual determination not serve as a precedent for any similar request concerning facility classification made by Avista at some time in the future.

24 The Commission also received written and oral comments from the Tenaska Washington Partners, L.P. (Tenaska), and the Cogeneration Coalition of Washington (CCW) at the March 9, 2001 Open Meeting. Among other issues, Tenaska and CCW raised the concern that the facility classification proposed by PSE could affect them adversely if it caused them to pay a "pancaked" rate to transmit on-site generation across distribution facilities to reach facilities classified as transmission. In view of this issue, the Commission allowed the parties to file supplemental comments by March 13, 2001. PSE, Tenaska, and CCW (together the "Joint Commenters") filed comments jointly on March 13, 2001, requesting the Commission to reflect in any order issued in

this docket a number of principles to address the concerns raised by Tenaska and CCW. The principles recommended by the Joint Commenters are:

- 1) The classification of facilities in this proceeding as transmission and distribution shall not predetermine which facilities are designated for RTO West operational control, nor would such classification predetermine the extent or nature of PSE's participation, if any, in an RTO.
- 2) Generators obtaining FERC-jurisdictional service using facilities that are classified in this proceeding as distribution will pay for the use of such distribution facilities at a rate or charge pursuant to the terms and conditions of the applicable Open Access Transmission Tariff accepted for filing by the Federal Energy Regulatory Commission ("FERC"); such generators will not be subject to any retail distribution rate imposed by the Washington Utilities and Transportation Commission.
- 3) The classification of a facility as distribution will not alter FERC's jurisdiction over such facility as it is used for the provision of FERC-jurisdictional services.
- 4) Any dispute resulting from FERC-jurisdictional generation integration or transmission service shall be subject to the terms and conditions of the applicable Open Access Transmission Tariff or RTO dispute resolution process.

*Joint Comments, Page 2.*

### ***Discussion and Decision***

25 The conditions recommended by Commission Staff and by Avista are well considered. Our decision to approve the facility classifications proposed by PSE, based on the factual circumstances of PSE's transmission and distribution systems, does not establish a precedent for future proposals by other utilities with different factual circumstances.

26 We will include in our approval of the facility classifications proposed by PSE the four principles recommended by the Joint Commenters. We understand these principles to mean that facilities classified as distribution may be subject to FERC jurisdiction, but only to the extent these facilities are used to provide services that are also FERC-jurisdictional. The inclusion of these principles does not affect our jurisdiction over facilities that are classified as either transmission or distribution and that are used to provide services properly subject to our jurisdiction.

## **B. ACCOUNTING TREATMENT**

27 If the Commission adopts PSE's proposed classification, the Company proposes to account for the classification by making adjustments to its Electric Plant Chart of Accounts. Under WAC 480-100-031, we use the "uniform system of accounts' applicable to Class A and B electric utilities published by [FERC]." Under FERC's Uniform System of Accounts, 18 C.F.R. Part 101, FERC requires utilities to classify and report the original cost of the utility's transmission and distribution plant. For transmission plant facilities, FERC requires the utility to report miscellaneous power plant equipment, land and land rights, structures and improvements, station equipment towers and structures, poles and fixtures, overhead conductors and devices, underground conduit, underground conductors and devices, and roads and trails, each of which is used in connection with transmission operations or purposes or is used primarily as transmission facilities. *See Sections 350-359 of Part 101.* Likewise, under FERC's Uniform System of Accounts, utilities are required to report distribution facilities such as land and land rights, structures and improvements, station equipment, storage battery equipment, poles, towers and fixtures, overhead conductors and devices, underground conduit, and underground conductors and devices, each of which is used in connection with distribution operations or distribution purposes. *See Sections 360-369 of Part 101.* PSE states that if PSE's proposed classification of transmission and distribution is adopted by the Commission, PSE will seek to report its transmission and distribution plant to FERC under, and in light of, such adoption by the Commission.

28 With regard to its reporting requirements to this Commission, PSE makes its reports concerning its transmission and distribution plant in its semiannual commission basis and annual reports. Pursuant to WAC 480-100-031(5), PSE's annual report to this Commission consists of PSE's FERC Form No. 1. If its proposed classification of

transmission and distribution facilities is adopted by the Commission, PSE will, commencing from the date of Commission's order, report its transmission and distribution plant in its annual report and PSE's semiannual commission basis reports under, and in light of, such adoption by the Commission.

29 Commission Staff supports the approval of the accounting treatment filed by PSE. Commission Staff contends, however, that while the reallocation of plant between transmission and distribution in PSE's books and records, and in its reports to this Commission, is appropriate, it is not appropriate for this reallocation to affect the rate of depreciation taken on any specific piece of property, class of property, or similar properties not yet purchased, without PSE first filing a depreciation study and a petition to change depreciation rates. We agree with Staff.

#### FINDINGS OF FACT

30 Having discussed above all matters material to our decision, and having stated general findings and conclusions, the Commission now makes the following summary findings of fact. Those portions of the preceding discussion that include findings pertaining to the ultimate decisions of the Commission are incorporated by this reference.

- 31 (1) Puget Sound Energy, Inc. (PSE) is a public service company furnishing electric and gas service primarily in the greater Puget Sound region of the state of Washington and is subject to the regulatory authority of the Commission as to its rates, services, facilities, and practices.
- 32 (2) On January 2, 2001, PSE filed with the Commission a Petition for a Declaratory Order and Accounting Order regarding the classification of certain facilities and accounting treatment consistent therewith.
- 33 (3) PSE's proposed classification of its facilities, as shown in Appendix A to this Order, and PSE's proposed accounting procedures that are clarified in this Order and that are consistent with such classification, are reasonable, and should be approved.

#### ORDER

34 THE COMMISSION ORDERS That Puget Sound Energy, Inc.'s proposed

classification of its facilities as shown in Appendix A is reasonable, and Puget Sound Energy, Inc., is authorized to reflect this classification in its accounts and reports to this Commission.<sup>5</sup>

35 THE COMMISSION ORDERS FURTHER That the classification of Puget Sound Energy, Inc.'s facilities approved by this Order is not determinative of the appropriate rate accounting or other treatment that should be afforded to particular facilities. Nor does this Order establish precedent with respect to how facilities owned by other utility companies should be classified.

36 THE COMMISSION ORDERS FURTHER That this change in classification will not affect the depreciation rates Puget Sound Energy, Inc., charges.

37 THE COMMISSION ORDERS FURTHER That the classification of Puget Sound Energy, Inc.'s facilities approved by this Order in no way alters or modifies the Commission's jurisdiction over facilities that are classified as either transmission or distribution and that are used to provide services properly subject to our jurisdiction.

38 The Commission retains jurisdiction to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this \_\_\_\_\_ day of April, 2001.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

---

<sup>5</sup> On February 26, 2001, the United States Supreme Court granted petitions for certiorari in Case Nos. CO-568 and CO-809. These petitions challenge certain determination by FERC in Order 888 concerning its jurisdiction over retail transmission. The Court's resolution of the petitions may require the Commission to revisit the Declaratory Order it issues today in this docket.