Agenda Date: July 26, 2013

Item Number: A5

**Docket: UE-131099**

Company Name: Puget Sound Energy, Inc.

Staff: Dave Gomez, Assistant Power Supply Manager, Energy Regulation

**Recommendation**

Issue an order in Docket UE-131099:

1. Approving Puget Sound Energy, Inc.’s petition in part by approving the sale and transfer of the Electron Hydroelectric Project to Electron Hydro LLC with the following conditions:

* The Asset Purchase Agreement’s Article 4, Section 4.2; Conditions to Closing, remains unchanged from what is filed in this application and contained in Exhibit C; and
* That there are no material changes to the consideration received or obligation incurred by either party as a result of the sale and transfer of the Electron Hydroelectric Project not already described in the Asset Purchase Agreement filed in this application and contained in Exhibit C.

1. Setting the accounting and ratemaking issues contained in the petition for hearing, if they are not consolidated with Docket UE-130617.[[1]](#footnote-1)

**Background**

On June 6, 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 assets related to the company’s Electron Hydroelectric Project (Electron project) to Electron Hydro LLC (Electron Hydro). PSE is also requesting the commission approve its proposed accounting and ratemaking treatment that allows the company to earn a return on and of the unrecovered costs and amortization expense of the Electron project. PSE requested an order from the commission by August 9, 2013.

The consideration for the sale includes a $13.7 million payment to PSE from Electron Hydro. PSE also agrees to enter into a 20-year power purchase agreement (PPA) to buy power from the Electron project.

As an alternative to an order approving the sale, PSE is seeking a finding that the Electron project is not “necessary or useful,” alleging that, under WAC 480-143-180(1), the company is replacing the Electron project “with items of equal or greater value or usefulness.” If the commission makes that finding, the rule does not require an order approving the sale. In this regard, the company asserts that the consideration received from Electron Hydro for the sale,[[2]](#footnote-2) along with the avoidance of retirement or reconditioning costs, are of equal or greater value when compared to the property being proposed for disposal; in this case the Electron project.

On April 25, 2013, PSE filed a Power Cost Only Rate Case (PCORC)under Docket UE-130617 which, among other things, seeks recovery of the remaining costs of the Electron project based on the accounting and ratemaking treatment being sought in the transfer of property application in Docket UE-131099. In the PCORC, the company also is requesting from the commission a prudence determination for the PPA associated with the sale.

**Discussion**

The company’s application in this docket provides a summary of the current condition of the Electron project[[3]](#footnote-3) along with an appropriate and complete assessment of the alternatives explored by PSE for redevelopment, retirement or sale of the Electron project. Staff’s understanding of the Asset Purchase Agreement between Electron Hydro and PSE is that commission approval of the sale is one of many conditions that need to be satisfied before title for the Electron project passes from the company to Electron Hydro.[[4]](#footnote-4)

Staff’s examination of PSE’s application supports a recommendation that the sale of the Electron project is in the public interest and therefore staff recommends commission approval.[[5]](#footnote-5) The sale promotes the public interest. First, it relieves PSE of any need to incur future retirement or reconditioning costs which would be additions to current revenue requirement. Second, the sale promotes the public interest because Electron Hydro, using private capital resources, will assume the risk of reconditioning and upgrading the Electron project. Staff further recommends the commission make its approval contingent on the terms of the sale remaining unchanged from what is filed in this application, given the possibility that closing requirements like the Renewal Resource Agreement between Electron Hydro and the Puyallup Tribe[[6]](#footnote-6) may be significantly delayed or otherwise modified in such a way as to materially impact the economics and viability of the sale, and thereby result in an outcome that is not consistent with the public interest.

Staff does not support the company’s requested finding that the Electron project is no longer necessary or useful under WAC 480-143-180(1), because it is not clear that the Electron project is being “replaced by items of equal or greater value.” The value depends on whether and when Electron Hydro will bring the Electron project into service. There are uncertainties surrounding this, and therefore staff cannot reliably evaluate whether PSE is replacing the Electron project with items of equal or greater value.

While the company has proposed accounting and ratemaking treatment in this application, accounting and ratemaking issues are not appropriately included in an application under RCW 80.12. Staff therefore recommends the commission set those accounting and ratemaking issues for hearing, unless they are consolidated with Docket UE-130617 as requested by staff on July 17, 2013.

**Conclusion**

Issue an order as described in the Recommendation section above.

1. On July 17, 2013, staff filed a motion requesting consolidation of the proposed accounting and ratemaking issues contained in Docket UE-131099 with PSE’s Power Cost Only Rate Case in Docket UE-130617. [↑](#footnote-ref-1)
2. The “consideration” is the payment to PSE from Electron Hydro and the PPA between PSE and Electron Hydro. [↑](#footnote-ref-2)
3. Application of Puget Sound Energy, Inc., UE-131099, ¶11: “Due to the condition of the flume and penstocks, the Electron Project will not be able to continue to operate without significant capital investment.” [↑](#footnote-ref-3)
4. Petition Exhibit C − Copies of all contracts related to the sale of the Electron Project, Asset Purchase Agreement, Article 4. [↑](#footnote-ref-4)
5. WAC 480-143-170. [↑](#footnote-ref-5)
6. Petition Exhibit C − Copies of all contracts related to the sale of the Electron Project, Asset Purchase Agreement, Article 4, Section 4.2.2. [↑](#footnote-ref-6)