

1. Puget Sound Energy, Inc. (“PSE”) has entered into an Asset Purchase and Sale Agreement to sell certain assets related to PSE’s Electron Hydroelectric Project (the “Electron Project”) to Electron Hydro LLC (“Electron Hydro”). The proposed sale is pursuant to the Asset Purchase Agreement executed by and between PSE and Electron Hydro on May 30, 2013, as amended by Amendment No. 1 dated August 5, 2013, Amendment No. 2 dated December 31, 2013, Amendment No. 3 dated March 31, 2014, and Amendment No. 4 dated June 4, 2014. The parties anticipate closing the transaction no later than July 31, 2014; therefore, PSE respectfully requests the Commission issue an order authorizing the transfer of these Electron Project assets to Electron Hydro on or before July 25, 2014.

2. In this Application, PSE respectfully requests that the Commission issue an order
- (i) finding that the Electron Project is not necessary or useful pursuant to RCW 80.12.020 and WAC 480-143-180, or in the alternative approving the transfer of the Electron Project pursuant to WAC 480-143-120; and
 - (ii) approving the accounting and ratemaking treatment proposed by PSE in this Application.

II. THE TRANSACTION

A. The Parties

1. The Applicant: PSE

3. PSE is an investor-owned electric and gas utility serving over 1,000,000 electric customers and 765,000 natural gas customers primarily in Western Washington. The full and correct name and business address for PSE are as follows:

Puget Sound Energy, Inc.
The PSE Building
10885 N.E. Fourth Street
Bellevue, WA 98004-5579

PSE requests that all notices, correspondence and pleadings be sent to:

For PSE:

Katherine J. Barnard
Director, Revenue Requirements and Regulatory Compliance
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With a copy to:

Jason Kuzma
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2. The Purchaser: Electron Hydro

4. Electron Hydro is a Delaware limited liability company. The full and correct name and business address for Electron Hydro are as follows:

Electron Hydro, LLC
3633 Alderwood Avenue
Bellingham, WA 98225

B. Background

5. As stated above, PSE and Electron Hydro have entered into an Asset Purchase and Sale Agreement to sell certain assets related to the Electron Project. The proposed sale is pursuant to the Asset Purchase Agreement executed by and between PSE and Electron Hydro on May 30, 2013, as amended by Amendment No. 1 dated August 5, 2013, Amendment No. 2 dated

December 31, 2013, Amendment No. 3 dated March 31, 2014, and Amendment No. 4 dated June 4, 2014. Please see the Prefiled Direct Testimony of Mr. Paul K. Wetherbee, Exhibit No. ___(PKW-1CT), in Docket Nos. UE-130583, *et al.*, and several supporting exhibits thereto, Exhibit No. ___(PKW-8C) through Exhibit No. ___(PKW-13C), copies of which are attached as Exhibit A to this Amended Application, and the Prefiled Direct Testimony of Mr. Michael Mullally, Exhibit No. ___(MM-1HCT), in Docket Nos. UE-130583, *et al.*, a copy of which is attached as Exhibit B to this Amended Application, for a discussion of the background of the Electron Project and actions taken leading to the execution of the Asset Purchase Agreement on May 30, 2013. Please see Exhibit F-1 to this Amended Application for a copy of the Asset Purchase Agreement, dated May 30, 2013.

6. On June 6, 2013, PSE filed an application with the Commission in Docket No. UE-131099 for an order authorizing the sale of the water rights and associated assets of the Electron Project in accordance with WAC 480-143 and RCW 80.12. In Order 01 in that docket, the Commission granted a motion by Commission regulatory staff to consolidate Docket No. UE-131099 with Docket No. UE-130583 (involving an accounting petition requesting authority to defer and amortize major maintenance expenses related to the Mint Farm Combined Cycle Generating Station) and Docket No. UE-130617 (involving an application for a power cost only rate case). On August 9, 2013, the Commission also consolidated Docket No. UE-131230 (involving an application for, among other things, Commission approval of a proposed accounting and ratemaking treatment associated with the sale of the development rights and assets related to Phase II of the Lower Snake River Wind Facility, including the Bonneville Power Administration Transferred Transmission Credits) with Docket No. UE-130617.

7. In Order 02 in Docket No. UE-131099, the Commission conditionally found the sale of the Electron Project to Electron Hydro to be in the public interest provided there are no material changes to the Asset Purchase Agreement as filed:

The Commission finds the sale of the Electron Project to Electron Hydro LLC is in the public interest provided there are no material changes to the Asset Purchase Agreement as filed. If material changes occur, the Company must re-file its application for approval of the sale.

In the Matter of the Petition of Puget Sound Energy, Inc. for an Order Authorizing the Sale of the Water Rights and Associated Assets of the Electron Hydroelectric Project in Accordance with WAC 480-143 and RCW 80.12, Docket No. UE-131099, Order 02 at ¶ 25 (Oct. 23, 2013); see also id. at ¶¶ 63, 77.

8. Concurrent with and subsequent to the Commission process that resulted in conditional approval of the sale of the Electron Project to Electron Hydro in Docket No. UE-131099, Electron Hydro continued to negotiate with the Puyallup Tribe for an agreement to replace the Resource Enhancement Agreement (a condition precedent to the Asset Purchase Agreement), and PSE and Electron Hydro anticipated that such a replacement agreement could be consummated before the end of calendar year 2013. In that regard, PSE and Electron entered into Amendment No. 1 to the Asset Purchase Agreement, dated August 5, 2013, which extended the date by which parties must satisfy the conditions precedent in the Asset Purchase Agreement from October 31, 2013, to December 31, 2013. Please see Exhibit F-2 to this Amended Application for a copy of Amendment No. 1 to the Asset Purchase Agreement, dated August 5, 2013.

9. By the end of December in 2013, it became apparent that Electron Hydro and the Puyallup Tribe would not be able to enter into an agreement to replace the Resource

Enhancement Agreement before the end of calendar year 2013. PSE and Electron entered into Amendment No. 2 to the Asset Purchase Agreement, dated December 31, 2013, which extended the date by which parties must satisfy the conditions precedent in the Asset Purchase Agreement from December 31, 2013, to March 31, 2014. Please see Exhibit F-3 to this Amended Application for a copy of Amendment No. 2 to the Asset Purchase Agreement, dated December 31, 2013. Subsequently, PSE and Electron entered into Amendment No. 3 to the Asset Purchase Agreement, dated March 31, 2014, which extended the date by which parties must satisfy the conditions precedent in the Asset Purchase Agreement from March 31, 2014, to May 31, 2014. Please see Exhibit F-4 to this Amended Application for a copy of Amendment No. 3 to the Asset Purchase Agreement, dated March 31, 2014.

10. In early spring of 2014, PSE and Electron Hydro began considering alternative arrangements that would not require Electron Hydro and the Puyallup Tribe to enter into an agreement to replace the Resource Enhancement Agreement. Electron Hydro proposed that the parties agree to waive the condition precedent in the Asset Purchase Agreement that would require Electron Hydro and the Puyallup Tribe to enter into an agreement to replace the Resource Enhancement Agreement.

11. Under the alternative proposed by Electron Hydro, PSE would remain a party to the Resource Enhancement Agreement with the Puyallup Tribe until such time as the Puyallup Tribe would consent to an assignment or enter into a new operating agreement with Electron Hydro. In turn, PSE and Electron Hydro would enter into a Facility Operation Agreement that would require Electron Hydro to operate the Electron Project in compliance with Resource Enhancement Agreement requirements and to make required payments to the Puyallup Tribe

(through PSE). Late payments may be offset against amounts owed by PSE under the Electron PPA.

12. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] PSE and Electron Hydro agreed to reduce the sales price for the sale of the Electron Project from \$13.7 million to \$8.4 million. [REDACTED]

[REDACTED]

[REDACTED] PSE and Electron Hydro agreed to shorten the term of the Electron PPA (originally, a twenty-year term) so that it expires on December 31, 2026, concurrent with the expiration of the Resource Enhancement Agreement.

13. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Please see Exhibit C for a summary of PSE's quantitative analysis of the Electron Hydro proposal for a reduced purchase price and Electron PPA term with the Portfolio Screening Model.

14. On May 15, 2014, the EMC authorized PSE staff to enter into a fourth amendment to the Asset Purchase Agreement that

- reduces the purchase price in the Asset Purchase Agreement from \$13.7 million to \$8.4 million;

- extends the date by which the parties must satisfy conditions precedent in the Asset Purchase Agreement from May 31, 2014 to July 31, 2014;
- shortens the term of the Electron PPA from a 20-year term to a term expiring on December 31, 2026; and
- establishes a Facility Operation Agreement that requires Electron Hydro to operate the Electron Project in compliance with the Resource Enhancement Agreement through December 31, 2026.

Please see Exhibit D to this Amended Application for a copy of the presentation made to the EMC on May 15, 2014.

15. PSE and Electron Hydro entered into Amendment No. 4 to the Asset Purchase Agreement, dated June 4, 2014, that reflects the changes authorized by the EMC on May 15, 2014. Please see Exhibit F-5 to this Amended Application for a copy of Amendment No. 4 to the Asset Purchase Agreement, dated June 4, 2014. Please note that a form of Facility Operation Agreement is attached as Exhibit 2 to Amendment No. 4 to the Asset Purchase Agreement.

C. Payments to PSE

16. At closing, Electron Hydro will pay PSE an amount equal to \$8.4 million.

D. Closing Date

17. The closing date is proposed for July 31, 2014.

III. JURISDICTION AND AUTHORITY REGARDING SALE

A. Applicable Statutes and Regulations

18. Under RCW 80.12.020 and WAC 480-143-120, a public service company must secure Commission approval prior to completing the sale of a property necessary or useful in the performance of its duties to the public. WAC 480-143-120 requires that applications include details of the sale as well as the company's current financial statements and copies of all transfer

instruments. Pursuant to WAC 480-143-170, the Commission shall approve the application for the sale of necessary and useful property if the transaction is in the public interest.

19. WAC 480-143-180 allows a public service company to dispose of certain property that is not necessary or useful, after filing an application with the Commission and obtaining a commission determination that the property is no longer necessary or useful.

WAC 480-143-180 defines property necessary or useful for a public service company to perform its public duties as follows:

Necessary or useful includes all property except items that:

- (1) Are substituted with or replaced by items of equal or greater value or usefulness;
- (2) Are surplus and unneeded assets for which full value is received;
- (3) Are obsolete; or
- (4) Are excluded from the public service company's rate base by commission order, or otherwise.

The public service company must file an application for commission determination that the property is not necessary or useful, prior to disposing of such property, if the property to be disposed of has a market value that exceeds the greater of .1% of the public service company's rate base (for the applicable utility service) last established by commission order, or \$20,000.

WAC 480-143-180.

B. The Commission Should Authorize the Sale of the Electron Project

20. The Electron Project is not necessary or useful under WAC 480-143-180(1). PSE has entered into a power purchase agreement with Electron Hydro, pursuant to which PSE will purchase the entire net electrical output of the Electron Project (i.e., the total electrical energy output of the Electron Project reduced by any amounts of electric power and energy used in

connection with the operation of the Electron Project and losses, if any, from the Point of Delivery to the meters) during the operating period. PSE has substituted the Electron Project with an item of equal or greater value by executing the power purchase agreement for the entire net electrical output of the Electron Project, recovering some of the costs of the Electron Project through its sale, and avoiding the costs associated with the upgrade to or retirement of the project. Therefore, the Electron Project is not necessary or useful in the performance of PSE's service to its customers and the Commission should authorize the sale of the Electron Project.

21. PSE is filing a request for a determination by the Commission that the Electron Project is not necessary or useful. As described above, PSE will receive a closing payment in an amount equal to \$8.4 million. This amount will likely exceed “the greater of 0.1% of the public service company’s rate base (for the applicable utility service) last established by commission order, or \$20,000.” WAC 480-143-180. PSE’s rate base for electric and gas are as set forth below:

Plant	Rate Base	1/10% Auth.	1/100% FMV Filing	Docket No.
Electric	\$5,390,943,405	> \$5,390,943	< > \$539,094	UE-141023
Gas	\$1,667,478,606	> \$1,667,479	< > \$166,748	UG-141022
Total	\$7,058,422,011	> \$7,058,422	< > \$705,842	UE-141023/ UG-141022

22. In the alternative, if the Commission finds that the Electron Project is necessary and useful, PSE requests that the Commission approve the sale of the Electron Project pursuant to RCW 80.12.020 and WAC 480-143-120. As discussed in the Prefiled Direct Testimony of Mr. Paul K. Wetherbee, Exhibit No. ___(PKW-1CT), in Docket Nos. UE-130583, *et al.*, and several supporting exhibits thereto, Exhibit No. ___(PKW-8C) through Exhibit No. ___(PKW-13C), copies of which are attached as Exhibit A to this Amended Application, the Electron Project is now 110 years old, and various portions of the plant date back to the original

construction in 1904 and are in great need of repair or replacement. As a result, continued ownership of the Electron Project would require significant capital investment by PSE. Likewise, retirement of the facility would have also necessitated significant expense given “the complete demolition and removal of each of the diversion dam, intake gate, rock chutes, and fish ladder” required for retirement. PSE’s decision to sell the plant obviates the need for either option’s capital outlay. For the reasons discussed above, the sale of the Electron Project is consistent with the public interest.

IV. ACCOUNTING AND RATEMAKING TREATMENT

23. As described above, PSE will receive a closing payment in an amount equal to \$8,400,000. PSE’s net book value for the Electron Project is approximately \$20,594,487. PSE projects that the sale of the Electron Project will result in an after-tax loss. PSE proposes to defer the unrecovered plant cost in FERC account 182.2 Unrecovered plant and regulatory study costs. As depreciation expense for the Electron Project will continue to be included in PSE’s rates, even after closing, PSE requests that such monthly depreciation expense is applied against the deferred unrecovered plant balance beginning from the date of closing until rates become effective in PSE’s power cost only rate case in Docket No. UE-141141.

V. TIMING

24. As stated above, the closing date is scheduled for July 31, 2014. Accordingly, PSE respectfully requests that the Commission conduct its proceedings and issue its Order as expeditiously as possible, and prior to the scheduled closing date.

VI. EXHIBITS

25. The exhibits that accompany this Application are:
- (a) Exhibit A – Prefiled Direct Testimony of Mr. Paul K. Wetherbee, Exhibit No. ____ (PKW-1CT), in Docket Nos. UE-130583, *et al.*, and several supporting exhibits thereto, Exhibit No. ____ (PKW-8C) through Exhibit No. ____ (PKW-13C);
 - (b) Exhibit B – Prefiled Direct Testimony of Mr. Michael Mullally, Exhibit No. ____ (MM-1HCT), in Docket Nos. UE-130583, *et al.*;
 - (c) Exhibit C – Summary of PSE’s quantitative analysis of the Electron Hydro proposal for a reduced purchase price and Electron PPA term with the Portfolio Screening Model;
 - (d) Exhibit D – Presentation to the Energy Management Committee, dated May 15, 2014;
 - (e) Exhibit E – PSE’s Financial Statements from the Year-Ended December 31, 2013, and the Quarter-Ended March 31, 2014;
 - (f) Exhibit F – Copies of all contracts related to the sale of the Electron Project;
 - (g) Exhibit G – Proposed journal entries for recording the event of sale; and
 - (h) Exhibit H – Proposed draft Final Order Approving Amended Application.

VII. REQUEST


26. For the reasons stated above, PSE requests a Commission order:
- (i) finding that the Electron Project is not necessary or useful pursuant to RCW 80.12.020 and WAC 480-143-180;
 - (ii) in the alternative, authorizing the sale of the Electron Project pursuant to RCW 80.12.020 and WAC 480-143-120;
 - (ii) approving the accounting and ratemaking treatment proposed by PSE in this Application; and

- (iii) granting such other relief as the Commission deems necessary and proper.

Dated: June 25, 2014

Respectfully submitted,

PERKINS COIE LLP

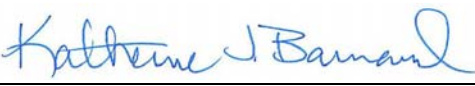
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VERIFICATION

The undersigned hereby certifies that the information set forth in the foregoing Application is true and correct to the best of the signer's information and belief under penalty of perjury under the laws of the State of Washington.

Dated: June 25, 2014 in Bellevue, Washington

By 
Katherine J. Barnard