

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application of)
)
PUGET SOUND ENERGY, INC.,) DOCKET NO. UE-990267
for (1) Approval of the Proposed sale of the)
Colstrip Generating Units, and) SECOND SUPPLEMENTAL
(2) Authorization to Amortize Gain Over a) ORDER
Five-Year Period.) RE: EXEMPT WHOLESALE
) GENERATOR DETERMINATION
)
)
.....)

SUMMARY

PROCEEDINGS: On March 4, 1999, Puget Sound Energy, Inc. ("PSE") filed an Application for an Order under Chapter 80.12 RCW authorizing the proposed sale of PSE's ownership interest in the Colstrip Generating Units 1, 2, 3, and 4 to PP&L Global, Inc., together with associated transmission assets. The Application also seeks authorization for a five-year amortization of any gain realized from the proposed sale. The company also seeks a determination that PP&L Global, Inc. should be allowed to operate the Colstrip facilities as an Exempt Wholesale Generator ("EWG").

HEARINGS: The Commission held a prehearing conference in this matter beginning April 14, 1999, and continuing to April 28, 1999, and May 4, 1999. The Commission held a public hearing on July 15 and 16, 1999, before Chairwoman Marilyn Showalter, Commissioner Richard Hemstad, Commissioner William R. Gillis, and Administrative Law Judge Marjorie Schaer.

COMMISSION: The Commission conditionally approves treatment of PP&L Global, Inc.'s ownership of the Colstrip facilities as an EWG.

PARTIES: Matthew R. Harris, Summit Law Group, Seattle, and Kimberly J. Harris, Perkins Coie, Bellevue, represent PSE; Simon ffitich, Assistant Attorney General, Seattle, and Robert F. Manifold, Special Assistant Attorney General, Seattle, appear as Public Counsel; Robert Cedarbaum, Assistant Attorney General, Olympia, represents the staff of the Washington Utilities and Transportation Commission ("Commission Staff"); Michael Brooks and Brad Van Cleve, Duncan Weinberg Genzer and Pembroke, Portland, represent the Industrial Customers of Northwest Utilities ("ICNU").

MEMORANDUM

On March 4, 1999, Puget Sound Energy, Inc. ("PSE") filed an Application for an Order under chapter 80.12 RCW authorizing the proposed sale of PSE's ownership interest in the Colstrip Generating Units 1, 2, 3, and 4 to PP&L Global, Inc., together with associated transmission assets (the "Colstrip facilities"). The Application also seeks authorization for a five year amortization of any gain realized from the proposed sale.

As set forth in the Application, PP&L Global, Inc. intends to seek Federal Energy Regulatory Commission ("FERC") approval to own and operate the Colstrip facilities with exempt wholesale generator status. Because the Colstrip facilities are currently in PSE's rate base for its jurisdictional sales of electricity in this state, 15 U.S.C. § 79z-5a(c) requires that PP&L Global, Inc., include with its EWG application to FERC a statement that this Commission has determined that allowing the plant to be a wholesale facility operated by an EWG: "(1) will benefit consumers; (2) is in the public interest; and (3) does not violate State law."

This order addresses only the EWG determination. This order explicitly does not address any other issues; nor does it preclude the parties or the Commission from raising, addressing or resolving any other issues, including, without limitation, the standard to be applied in resolving whether to approve the proposed sale or the appropriate regulatory treatment for any gain realized as a result of the sale. This order has no precedential effect with respect to approval of the proposed sale, the standard to be applied in resolving whether to approve the proposed sale, or any issues other than the issue specifically addressed by the order, i.e., the Commission making an EWG determination conditioned upon final approval of the proposed sale.

DISCUSSION

A. Assets Proposed to Be Sold

The assets proposed to be sold by PSE are set forth in the Asset Purchase Agreement dated November 1, 1998, by and between PSE and PP&L Global, Inc. and include:

- PSE's 50% ownership interest in Colstrip Units 1 & 2 (net capacity 307 MW)
- PSE's 25% ownership interest in Colstrip Units 3 & 4 (net capacity 370 MW)
- PSE's ownership interest in the 500 kV line from Colstrip to

Broadview (746 MW) and from Broadview to Townsend (759 MW).

B. Description of the Purchaser

PP&L Global, Inc. is a Pennsylvania corporation engaged in the development, operation, and maintenance of electricity generation and distribution facilities and companies worldwide. PP&L Global, Inc. is a subsidiary of PP&L Resources, Inc., an exempt public utility holding company. PP&L Resources, Inc.'s subsidiaries include PP&L, Inc., an electric utility franchised to serve approximately 1.2 million homes and businesses in 29 counties of central and eastern Pennsylvania. PP&L, Inc. owns generation capacity in excess of 8,000 MW and markets and trades wholesale energy within the United States and Canada.

Although PP&L Global, Inc. negotiated and signed the agreements with PSE, PP&L Global, Inc.'s wholly owned subsidiary, PP&L Colstrip I will complete the transaction. PP&L Colstrip I was created for this purpose and will take title to the PSE facilities being sold.

C. Asset Purchase Agreement

The Asset Purchase Agreement, dated November 1, 1998, by and between PSE and PP&L Global provides for the sale of the above described Colstrip facilities. Pursuant to the Asset Purchase Agreement, PP&L Global must obtain all required regulatory approvals with respect to the Colstrip facilities, including a final order of FERC certifying PP&L Colstrip I as an exempt wholesale generator pursuant to section 32 of the Public Utility Holding Company Act of 1935 for both the generation and the transmission assets. In the event PP&L Global does not obtain such EWG certification with respect to the acquisition of the PSE transmission assets, then PP&L Global will not purchase such transmission assets. In no event will PP&L Global own or operate the Colstrip generation assets without obtaining EWG certification with respect to the acquisition of the PSE Colstrip generation assets.

To obtain FERC approval to own and operate the Colstrip facilities with exempt wholesale generator status, PP&L Global must file a copy of a determination from this Commission which states that allowing the facility to be an eligible facility: (1) will benefit consumers; (2) is in the public interest; and (3) does not violate state law.

FINDINGS OF FACT

1. PSE is engaged in the business of furnishing electric and gas service within the state of Washington as a public service company. PSE filed an Application on March 4, 1999, for an order under chapter 80.12 RCW authorizing the sale of PSE's ownership interests in the Colstrip Generating Units 1, 2, 3, and 4, to PP&L Global, together with the associated transmission assets. The application also sought a determination from the Commission that allowing these facilities to be operated by an exempt wholesale generator meets the requirements of 15 U.S.C. § 79z-5a(c).

2. On July 15, 1999, the parties submitted a Stipulation addressing the EWG determination. The parties recommend that the Commission grant the request for EWG determination, conditioned upon a Commission order approving the proposed sale of the Colstrip facilities. If the Commission does not ultimately approve the proposed sale, the EWG determination made by this Order will have no effect.

3. An EWG certificate is a material element of the proposed transaction. Absent an EWG certificate with respect to the Colstrip generation assets the purchaser will not complete the proposed purchase of the Colstrip facilities. In addition, PP&L Global, Inc. will not purchase the Colstrip transmission assets absent EWG certification with respect to those assets.

4. If the Commission eventually approves the proposed sale of the Colstrip facilities, allowing the purchaser to operate the Colstrip facilities as an EWG will benefit consumers and is in the public interest. Under these conditions, allowing the purchaser to operate the Colstrip facilities as an EWG would not violate state law.

CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction over the parties and subject matter of the proceeding.

2. The parties' Stipulation is approved. The Commission has made the necessary determination under 15 U.S.C. § 79z-5a(c), conditioned upon a Commission order approving the proposed sale of the Colstrip facilities. If the proposed transaction is ultimately approved, allowing the Colstrip facilities to be a wholesale facility operated by an EWG: (1) will benefit consumers; (2) is in the public interest; and (3) does not violate state law.

ORDER

THE COMMISSION ORDERS:

1. PSE's application for a determination under 15 U.S.C. §79z-5a(c) is granted, conditioned upon a Commission order approving the proposed sale of the Colstrip facilities. If the Commission does not ultimately issue an order approving the proposed sale, this EWG determination will be null and void.

2. The Commission retains jurisdiction over the subject matter and PSE to effectuate the provisions of this order.

DATED at Olympia, Washington, and effective this ____ day of September, 1999.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION