

**BEFORE THE FLORIDA PUBLIC SERVICE
COMMISSION**

**DOCKET NO. 090172-EI
FLORIDA POWER & LIGHT COMPANY**

**IN RE: FLORIDA POWER & LIGHT COMPANY'S
PETITION TO DETERMINE NEED FOR
FLORIDA ENERGY SECURE LINE**

**SUPPLEMENTAL TESTIMONY & EXHIBITS
OF**

JAMES K. GUEST

EXHIBIT NUMBER-DATE

05377 MAY 29 8

FPSC-COMMISSION CLERK

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **SUPPLEMENTAL TESTIMONY OF JAMES K. GUEST**

4 **DOCKET NO. 090172-EI**

5 **MAY 29, 2009**

6

7 **Q. Please state your name and business address.**

8 A. My name is James K. Guest. My business address is 1155 15th Street, NW,
9 Suite 400, Washington, DC 20005.

10 **Q. On whose behalf are you testifying in this proceeding?**

11 A. I am testifying on behalf of Florida Power & Light Company (FPL).

12 **Q. By whom are you employed and what is your position?**

13 A. I am an Associate with the firm of Brown, Williams, Moorhead & Quinn, Inc.

14 **Q. What services does the firm offer?**

15 A. Brown, Williams, Moorhead & Quinn, Inc. provides technical and policy
16 assistance to various segments of the natural gas, electric and oil industries on
17 business and regulatory matters.

18 **Q. Please describe your educational background and professional
19 experience.**

20 A. I received a Bachelor of Science degree in Accounting from Indiana
21 University of Pennsylvania in 1974. Shortly after graduating, I accepted a
22 position with the Federal Energy Regulatory Commission (FERC) as a field
23 auditor in the FERC's Office of Chief Accountant. I was employed by the

1 FERC for the next 32 years accepting positions of increasing responsibility in
2 the area of financial accounting and reporting requirements for the electric
3 utility, natural gas pipeline and oil pipeline industries.

4
5 During this period, I served in a number of different positions including
6 Deputy Director of the Division of Audits in the Office of Chief Accountant;
7 Director, Division of Regulatory Accounting Policy; Deputy Chief
8 Accountant; and Chief Accountant before retiring from Federal service in
9 September 2007. In those positions, I was responsible for determining
10 individual companies' compliance with FERC's Uniform Systems of
11 Accounts (USoA) and related reporting requirements, developing and
12 directing rulemaking proposals for needed changes in those requirements,
13 providing broad policy guidance to the electric, natural gas and oil pipeline
14 industries on emerging financial accounting matters of significant import,
15 acting on industry requests for interpretive ruling on FERC USoA
16 requirements and providing counsel and advice on accounting matters to
17 senior FERC staff, the Commissioners and the Chairman.

18
19 I have spoken frequently at meetings of senior industry accounting executives,
20 state public utility commission, and staff and partners from national public
21 accounting firms to explain FERC accounting initiatives and financial
22 reporting requirements. I have also provided expert testimony on accounting
23 and utility cost-of-service matters in a number of administrative proceedings

1 before the FERC. Most recently I testified in the United States Tax Court on
2 the background and purpose of FERC's USoA and the accounting
3 classification for street lighting assets under FERC's USoA.

4

5 I am a Certified Public Accountant and a member of the American Institute of
6 Certified Public Accountants.

7 **Q. Are you sponsoring any exhibits in this case?**

8 A. Yes. I am sponsoring the following exhibits which are attached to my
9 testimony:

- 10 • JKG-1 Letter from Portland General Electric Company to FERC
11 dated March 12, 1993;
- 12 • JKG-2 Letter from FERC to Portland General Electric Company
13 dated April 14, 1993 regarding Docket No. AC93-8600;
- 14 • JKG-3 Letter from counsel for Portland General Electric Company
15 to FERC dated December 3, 2003; and
- 16 • JKG-4 Letter from FERC to counsel for Portland General Electric
17 Company dated March 4, 2004 regarding Docket
18 No. AC04-07-000.

19 **Q. What is the purpose of your testimony in this proceeding?**

20 A. I was asked by FPL to comment on the appropriate accounting requirements
21 for costs related to FPL's proposed Florida EnergySecure Line (sometimes
22 referred to as the Line) under FERC's USoA for Public Utilities and
23 Licensees, which is codified at 18 C.F.R. Part 101.

1 **Q. Please summarize your supplemental testimony.**

2 A. My testimony focuses on the proper accounting classification for the costs
3 associated with FPL's proposed Florida EnergySecure Line under FERC's
4 USoA. I conclude that the cost of the proposed Florida EnergySecure Line
5 should be classified as electric utility plant and that such classification is
6 consistent with the appropriate rate treatment that should be afforded these
7 costs.

8 **Q. Does FPL follow the FERC's USoA for financial accounting and**
9 **reporting purposes?**

10 A. Yes. FPL is a public utility under the Federal Power Act (FPA). Under the
11 provisions of the FPA, FPL must follow the accounting requirements FERC
12 has prescribed in its USoA for all of its business activities, including the costs
13 related to the Florida EnergySecure Line. The Florida Public Service
14 Commission, which also regulates the accounting practices of FPL, has
15 adopted FERC's USoA with certain minor modifications considered necessary
16 to meet its regulatory needs.

17 **Q. Can you please summarize your understanding of the Florida**
18 **EnergySecure Line?**

19 A. Yes. The Florida EnergySecure Line will consist of approximately 280 miles
20 of mainline pipe, and approximately 23 miles of lateral and branch lines. The
21 mainline will begin at or near Florida Gas Transmission Company, LLC
22 (FGT) Compressor Station 16 (FGT Station 16) located in Bradford County,
23 Florida and terminate at FPL's Martin plant site, where, with FERC approval,

1 it could interconnect with other pipelines and facilitate delivery of gas for
2 FPL's gas-fired fleet of electric generating units. The Line includes two
3 laterals that will serve FPL's new Cape Canaveral Next Generation Clean
4 Energy Center and Riviera Beach Next Generation Clean Energy Center
5 (collectively, "the Modernization Projects"). The Line also includes upgrades
6 at FPL's 45th Street Terminal near the Riviera Beach Plant in Palm Beach
7 County, including an upgrade of the existing interconnection with FGT, and
8 installation of permanent compression. As initially constructed, the Florida
9 EnergySecure Line will have a capacity of 600 million cubic feet per day
10 (MMcf/d), which can be increased as required up to 1.25 billion cubic feet per
11 day (Bcf/d) with the addition of relatively inexpensive gas compression
12 upgrades.

13
14 As explained by FPL witness Sharra, initially the Line will serve primarily the
15 natural gas transportation needs of FPL's Modernization Projects, with these
16 facilities requiring approximately 400 MMcf/d in total, or nearly two-thirds of
17 the pipeline's initial capacity. The remaining 200 MMcf/d will be delivered
18 to FPL's Martin Plant for reliability purposes, but will also be offered to other
19 entities within the state in the interim until the full capacity is needed by FPL.
20 The 200 MMcf/d delivered to FPL's Martin Plant can displace deliveries from
21 FGT or Gulfstream Natural Gas System, LLC (Gulfstream) to that site, which
22 can then be redirected to other FPL facilities or to other entities within the
23 state (Sharra at Page 10).

1 **Q. Under FERC's USoA how should FPL account for the costs related to the**
2 **proposed Florida EnergySecure Line?**

3 A. Under FERC's USoA, FPL should classify the cost to construct the Line as
4 Electric Utility Plant, accumulating the costs of construction in a construction
5 work order in Account 107, Construction Work in Process – Electric, and
6 ultimately recording the costs in Account 101, Electric Plant in Service, when
7 the Line is placed in commercial operation. The depreciation, operation and
8 maintenance expenses related to the Line after it has been placed in service
9 should be charged to electric utility operating expense accounts.

10 **Q. Is it unusual to classify a gas pipeline as electric utility plant?**

11 A. No. Where a pipeline is owned by an electric utility and used to supply fuel to
12 an electric generating station, it is an asset serving the electric production
13 function and therefore should be classified as electric utility plant.

14 **Q. Does FPL's ability to potentially use the Line to provide gas**
15 **transportation service to others disqualify it from classification as electric**
16 **plant under the FERC's USoA?**

17 A. No. Based on my review of the proposed Line, as described in the testimony
18 of FPL's witnesses, the overwhelming primary purpose of the Line is to meet
19 the gas transportation needs of FPL's gas-fueled generating stations. Public
20 utilities often classify assets on the basis of their primary purpose even though
21 the assets may be used at times for other purposes. This is sometimes referred
22 to as the primary function approach to classifying costs.

1 **Q. Can you please explain the primary function approach to classifying**
2 **costs?**

3 A. Yes. Under the primary function approach, the cost of an asset shared by two
4 or more departments or functions is classified according to its primary or
5 major function. The depreciation, operation and maintenance costs of the
6 asset are likewise classified according to the asset's primary or major function
7 and any revenue received from third parties from the asset's secondary use are
8 recognized as revenue or a reduction in the costs of the primary function.
9 This approach is typically used when the revenue from secondary use of the
10 asset is incidental to its primary use and/or the secondary use of the asset is
11 not a separate profit center line of business of the accounting entity.
12 Typically, the primary function approach carries minimal administrative
13 burden to implement.

14 **Q. Are any costs allocated to the secondary function when costs are classified**
15 **using the primary function approach?**

16 A. No. Instead of allocating costs, any revenues received from third parties from
17 its secondary use are assigned to the primary function. This recognizes that
18 the revenues, while providing an economic benefit, are really ancillary to the
19 primary use of the asset, which, for the Line, is providing gas to the FPL
20 planned gas-fired units. Similar to off-system sales of power from temporary
21 surplus capacity, the revenues serve to reduce the cost of supplying gas to the
22 gas-fired units.

1 **Q. Does the FERC’s USoA contain references to this practice?**

2 A. Yes. The FERC’s USoA contains Electric Plant Instructions that specify how
3 public utilities should initially recognize and account for the cost of electric
4 utility plant, how public utilities should recognize and account for changes in
5 those costs through additions, retirements and transfers, and how public
6 utilities should classify electric plant costs among the various accounts,
7 functions and categories of electric plant. Electric Plant Instruction No. 8 sets
8 forth the costs that should be included in the category, “Structures and
9 Improvements.” Paragraph D of Electric Plant Instruction No. 8 refers to
10 certain plant assets that can be used to provide steam for electricity production
11 and also for heating buildings. Paragraph D of Gas Plant Instruction No. 8
12 requires all of the cost of these type assets to be classified as electric
13 production plant because that is the primary purpose for which the assets are
14 used. Similarly, Paragraph E of Electric Plant Instruction No. 14 of the USoA
15 provides that the cost of land and structures used jointly for transmission and
16 distribution are to be classified as either transmission or distribution according
17 to the major use of the asset.

18
19 Classifying revenue received from third party use of electric property based
20 on the property’s primary use is addressed in the USoA instructions for
21 Account 454, Rent from Electric Property, and Account 456, Other Electric
22 Revenues. Both of these accounts are electric operating revenue accounts.
23 The instructions to Account 454 provide that it is to include rent received for

1 the use by others of property devoted to electric operations. One example is
2 the rent paid by communications companies for use of an electric distribution
3 pole to carry their communication cable. Similarly, the instructions to
4 Account 456 provide that it is to include revenue from the sale of steam to
5 third parties.

6 **Q. Are you aware of any instances in which a public utility was authorized to**
7 **classify a gas transmission line as electric utility plant?**

8 A. Yes. Portland General Electric (PGE) constructed a 17-mile gas pipeline
9 (Kelso-Beaver Pipeline) to serve its Beaver Combined Cycle Combustion
10 turbine generation facility. At or near the completion of construction, PGE
11 filed a letter with the FERC requesting "concurrence or clarification" on
12 whether or not PGE was required to file a Form 2 or Form 2-A for its pipeline
13 and whether or not PGE could report its investment in the pipeline to electric
14 utility plant Account 342, a subaccount under Account 101 - Electric Plant in
15 Service. The FERC Form 2 and 2-A are Annual Reports that major and non-
16 major interstate gas pipelines must file with the FERC under the Natural Gas
17 Act. The Annual Reports contain a basic set of financial statements (Income
18 Statement, Balance Sheet, Statement of Retained Earnings and Statement of
19 Cash Flows) together with a number of supporting schedules. They are
20 similar to an Annual Report to Stockholders but with a much greater level of
21 detail. FERC had authorized PGE to use the pipeline to transport gas only for
22 its use in Docket No. CP91-1607-000. In its response to PGE, FERC, through
23 its Chief Accountant, waived the requirement to file a Form 2 or 2-A, and

1 authorized the use of plant Account 342 - Fuel Holders, Producers and
2 Accessories. Copies of PGE's letter and FERC's response are attached to my
3 testimony as Exhibits JKG-1 and JKG-2, respectively.

4
5 In October 2003, FERC issued PGE a "blanket certificate of public
6 convenience and necessity, and approved pro-forma tariff provisions, and
7 initial rates." FERC also established PGE's share of the pipeline as an open
8 access gas pipeline. In light of that development, PGE filed another letter
9 with FERC dated December 3, 2003 requesting clarification of the proper
10 accounting for the cost related to the Kelso-Beaver Pipeline stating in
11 pertinent part:

12 "Portland believes that it would be most appropriate to grant Portland
13 a waiver of use of the gas accounts of the US of A since its portion of
14 the Kelso-Beaver Pipeline continues to service Portland's Beaver
15 generation plant. At most the pipeline would provide minimal
16 interruptible service if requested by a new shipper."

17

18 In a letter dated March 4, 2004, FERC responded stating:

19 "Under the circumstances described above, Portland should continue
20 to account for its investment in the Kelso-Beaver Pipeline and its
21 related operations and maintenance in accordance with the Uniform
22 System of Accounts' requirements for public utilities and licenses.
23 This determination, however, is subject to Portland maintaining

1 accounting records related to the pipeline so as to readily permit
2 identification of the depreciation, operations and maintenance expense
3 and all other elements necessary for the development of a cost of
4 service applicable to the pipeline.”

5

6 Copies of PGE’s letter and FERC’s response are attached to my testimony as
7 Exhibits JKG-3 and JKG-4, respectively.

8 **Q. You stated earlier that the overwhelming primary purpose of the Line**
9 **was to meet the gas transportation needs of FPL's gas-fired generating**
10 **stations. On what did you base that conclusion?**

11 A. I based my conclusion on the direct testimony that the FPL witnesses filed in
12 this proceeding. I believe that testimony strongly supports the conclusion that
13 the proposed Florida EnergySecure Line has been designed to meet the gas
14 transportation needs of FPL’s gas-fired electric generation stations and is
15 intended for the benefit of its electric utility operations and the customers that
16 take electric service. For example:

- 17 • The intent of FPL's solicitation of transportation proposals was to
18 meet the initial needs of its Cape Canaveral and Riviera Beach
19 Modernization Projects, to increase reliability and supply diversity,
20 and to allow for future generation growth (Stubblefield - Page 4,
21 Lines 4 – 23 and Page 5, Line 5).
- 22 • In 2008 approximately 53% of all energy produced by FPL came
23 from gas-fired generation and that percentage is expected to increase

1 to almost 70% in 2030 and 84% by 2040 (Enjamio - Page 4,
2 Lines 14-16). As a result, under FPL's base case, FPL's incremental
3 gas transportation needs will increase to 1.6 Bcf/d by 2030 and
4 2.8 Bcf/d by 2040 (Enjamio - Page 16, Lines 3-4). Therefore all of
5 the capacity in the Florida EnergySecure Line will eventually be
6 needed to meet FPL's electric utility operations.

7 • Attempts were made to consider proposals that were more in line
8 with the immediate needs of the Modernization Projects, but those
9 proposals were not cost-effective compared to the Florida
10 EnergySecure Line/Upstream Pipeline proposal, and did not provide
11 the ability to cost-effectively expand capacity to meet the longer-
12 term needs of FPL's generating units (Stubblefield - Page 7, Lines 7-
13 11).

14 • FPL determined the size of the proposed Line to meet FPL's current
15 transportation capacity requirements for the Modernization Projects,
16 to economically increase capacity over time through addition of
17 compression as additional natural gas-fired generation is needed, and
18 to minimize the cost impact on FPL customers (Sharra - Page 15,
19 Line 18). This also indicates that the Line is intended to meet FPL
20 electric generation needs.

21 • The remaining 200 MMcf/d above the 400 MMCF/d needed to meet
22 the immediate needs of the Modernization Projects may be delivered
23 to the Martin Plant for reliability purposes, which would displace

1 deliveries from FGT or Gulfstream (Sharra - Page10, Lines 12-19).
2 In that situation, the entire capacity of the Florida EnergySecure line
3 would be utilized for the production of electricity.

- 4 • FPL intends to pass on any proceeds it receives from the sales of
5 excess capacity to its electric customers (Sharra – Page 11, Lines
6 12 - 14). This again demonstrates that the Florida EnergySecure
7 Line is intended to be an integral part of FPL's electric production
8 operation and not a separate business segment selling gas
9 transportation services for investor profit.

10 **Q. Is the accounting classification of the costs of the Florida EnergySecure**
11 **Line as electric utility plant consistent with how the costs should be**
12 **recovered in the rates charged to FPL customers?**

13 A. Yes. Typically amounts recorded in the accounts as electric utility plant are
14 included in rate base and the return on, recovery of and the related operation
15 and maintenance expenses of the property to which those costs relate are
16 recovered in rates charged to electric customers. The proposed Florida
17 EnergySecure Line, if approved, will be used to meet the gas transportation
18 needs of its electric generation resources, the output from which will be used
19 to provide electric service to FPL's electric customers. Therefore, it is both
20 *appropriate and reasonable for the cost of the Florida EnergySecure Line to be*
21 *afforded the same rate treatment classified as electric utility plant.*

1 **Q. Considering the nature of the Line, do you see any need to identify and**
2 **assign to other functions or customer classes for ratemaking purposes,**
3 **costs associated with the 200 MMcf/d of capacity in excess of the**
4 **immediate needs of the modernization projects that may not be recovered**
5 **through third-party sales of that capacity?**

6 A. No I do not. FPL is proposing to undertake the Florida EnergySecure Line to
7 meet the gas transportation needs of its electric generating stations for the
8 benefit of its electric customers. As with many large capital projects and base
9 load generating stations, future growth is almost always anticipated in order to
10 take advantage of economies of scale. But in doing so, there is often excess
11 capacity involved initially. That is the case with the Florida EnergySecure
12 Line as well. However, that does not change the fact that the Line is an
13 integral part of FPL's electric production function and will be utilized, if
14 approved, for the benefit of FPL's electric customers and, by virtue of its
15 crediting of any revenues from third party use of the 200 MMcf/d to electric
16 customers, will not be a separate profit center or segment of business for FPL.
17 Under these circumstances, assignment of a portion of the costs of the Florida
18 EnergySecure Line that might be deemed above the related revenue from third
19 party sales of excess capacity to other functions or customer classes is not
20 warranted.

21 **Q. Does this conclude your testimony?**

22 A. Yes.

MAY-18-2009 10:23

Docket No. 090172-EI
Letter from Portland General Electric Co. to
FERC dated March 12, 1993
Exhibit JKG-1 Page 1 of 1

March 12, 1993

Mr. Russell E. Faudree, Jr.
Chief Accountant
Federal Energy Regulatory Commission
825 N. Capitol Street, N.E.
Washington, D.C. 20426

Dear Mr. Faudree:

In order to properly prepare our year-end reports, Portland General Electric (PGE) Company respectfully request your concurrence or clarification regarding the need to file a FERC Form 2 for Gas Utilities for the PGE's Beaver/Kelso gas pipeline. This seventeen mile pipeline was constructed to assure PGE a more reliable means to move gas to its Beaver Combined Cycle Combustion Turbine generating facility.

Under the "Order Issuing Certificates" (Docket No. CP91-1607-000) issued October 24, 1991, it states in the Discussion:

"It is unnecessary for Portland General Electric to demonstrate a separate market for the capacity it will own on the new facilities, since it will transport gas only for its' own use. In this regard, we note that if Portland Electric desires to transport gas on behalf of third parties, it will require authorization from the commission to do so. Likewise, Portland Electric cannot assign its capacity without authorization from the commission".

Also, Exhibit "D" of PGE's application states:

"Applicant, PGE, intends to classify its investment in the proposed project, (90% of \$14,600,000), as Other Production, Account 342, "Fuel holders, producers, and accessories". The investment will consequently be in an appropriate Electric Utility Balance Sheet account."

Based on this information as we understand it, we would not be required to file the Form 2. Information related to PGE's investment in the pipeline will be reported in our Form 1 for Electric Utilities as appropriate. However since this is a jointly owned pipeline and the other owner (KB Pipeline) is a gas transmission company, we would appreciate your concurrence or clarification in this matter.

If you need additional information or have any questions, please contact me at (503) 464-7132 or Kirk Stevens at (503) 464-7121

Sincerely,


Joseph E. Fertz
Assistant Controller

COPY

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

In Reply Refer to:
OCA-DAS
Docket No. AC93-86-000

APR 14 1993

Portland General Electric Company
Attention: Mr. Joseph E. Feltz
Assistant Controller
121 S.W. Salmon Street
Portland, OR 97204

Ladies and Gentlemen:

This is in response to your letter dated March 12, 1993 requesting concurrence or clarification whether Portland General Electric Company (PGE) is required to file a FERC Form No. 2 (Form 2) for its Beaver/Kelso gas pipeline. Also, you request concurrence or clarification whether it is appropriate for PGE to report its investment in the gas pipeline in electric utility plant Account 342, Fuel Holders, Producers and Accessories.

You state that the 17-mile pipeline was constructed to assure PGE a more reliable means to move gas to its Beaver Combined Cycle Combustion Turbine generating facility. In an order issued October 24, 1991 in Docket No. CP91-1607-000, the Commission authorized PGE to use the pipeline to transport gas only for its own use.

This is to confirm that PGE is not required to file either a Form 2 or a FERC Form No. 2-A (Form 2-A) for 1992. Only Nonmajor natural gas companies 1/ having total annual gas sales or volume transactions 2/ exceeding 200,000 Mcf 3/ psia (60°F) must submit a Form 2-A. The 200,000 Mcf threshold does not

- 1/ See General Instruction No. 1 of the Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act, 18 C.F.R. Part 201 (1992).
- 2/ Gas of other companies which is transported, compressed or delivered to storage.
- 3/ The Form 2 has a sales and volume transaction threshold of 50,000,000 Mcf.

FERC-DIVISION 5
mlm
APR 14 1993

9304200350

Portland General Electric Company

pertain to the transportation of gas for PGE's use. Because PGE is only transporting natural gas for its own use, it does not meet the Form 2-A reporting threshold.

PGE's proposal to record its investment in the gas pipeline in electric utility plant Account 342 is approved since the pipeline transports gas used in PGE's electric production operations.

Authority to act on this matter is delegated to the Chief Accountant pursuant to § 375.303 of the Commission's regulations. This letter order constitutes final agency action. Requests for rehearing by the Commission may be filed within 30 days of the date of issuance of this letter order, pursuant to 18 C.F.R. § 385.713.

On June 28, 1991, the Commission issued a "Notice Designating New Docket Prefixes for Letters Issued by the Chief Accountant". As part of this notice, the Commission informed applicants to file an original and seven copies of each request for an approval or an interpretation from the Chief Accountant. Accordingly for all future filings, please submit an original and seven copies of your request.

Sincerely,

Russell E. Faudree, Jr.
Russell E. Faudree, Jr.
Chief Accountant

AC 04-7-001

FILED SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
OFFICE OF THE SECRETARY

1440 NEW YORK AVENUE, N.W.
WASHINGTON, D.C. 20005-2111

2003 DEC -3 P 4 32

FEDERAL ENERGY
REGULATORY COMMISSION

TEL: (202) 371-7000
FAX: (202) 393-5760
www.skadden.com

INTERNATIONAL OFFICES

- BOSTON
- CHICAGO
- HOUSTON
- LOS ANGELES
- NEWARK
- NEW YORK
- PALO ALTO
- RESTON
- SAN FRANCISCO
- WILMINGTON
- BEIJING
- BRUSSELS
- FRANKFURT
- HONG KONG
- LONDON
- MOSCOW
- PARIS
- SINGAPORE
- SYDNEY
- TOKYO
- TORONTO
- VIENNA

December 3, 2003

Ms. Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

ORIGINAL

RE: Portland General Electric Company, Docket No. _____

Dear Ms. Salas:

Portland General Electric Company ("Portland") hereby requests a waiver of certain Federal Energy Regulatory Commission ("FERC" or "Commission") regulations related to the accounting requirements of the Commission's Uniform System of Accounts ("US of A") applicable to non-major gas pipelines pursuant to 18 C.F.R. Part 201 (2003). In the alternative, Portland requests an extension of time to comply with the requirements of the US of A and the FERC's requirements for filing the FERC Form No. 2-A in 2004.

The Commission issued Portland a blanket certificate of public convenience and necessity pursuant to 18 C.F.R. Part 284, Subpart G (2003) on October 3, 2003 ("October 3 Order"), and approved *pro forma* tariff provisions and initial rates, thereby establishing Portland's share of the Kelso-Beaver Pipeline as an open access gas pipeline. *Portland General Electric Co.*, 105 FERC ¶ 61,023 (2003). The application for open-access blanket certificate authority was required by a 1999 FERC order which mandated that Portland and a co-owner of Kelso Beaver Pipeline, B-R Pipeline, each apply for blanket certificates within 30 days of a potential customer's request for firm or interruptible transportation service on the Kelso-Beaver Pipeline.¹ Portland made its compliance filing to the October 3 Order on November 3, 2003 to implement its *pro forma* tariff sheets and to make revisions to its rates and tariff language as required by the October 3 Order. On December 2, 2003, the Commission, by letter order issued pursuant to delegated authority, accepted the tariff sheets effective December 3, 2003 subject to Portland making certain specified changes.

¹ *B-R Pipeline Co., Portland General Electric Co.*, 89 FERC ¶ 61,312 (2003). As required by the 1999 order, B-R Pipeline also filed for a blanket certificate for its share of the Kelso-Beaver Pipeline, which was granted by the Commission in another order issued on October 3, 2003, *B-R Pipeline Co.*, 105 FERC ¶ 61,025 (2003).

Ms. Magalie R. Salas
December 3, 2003
Page 2

accepted the tariff sheets effective December 3, 2003 subject to Portland making certain specified changes.

Currently, the share of the Kelso-Beaver Pipeline assets owned by Portland are accounted for by Portland under the US of A for Public Utilities under 18 C.F.R. Part 101 (2003) in Account 342, since the pipeline was built and used to transport gas used in Portland's electric production operations.² Portland is not sure whether it can continue to utilize its current accounting treatment for its pipeline assets or whether it must now separate its pipeline assets from its utility assets and account for each in the applicable gas or utility US of A accounts.

Portland has contacted staff of the Chief Accountant and will be working with the staff to determine what accounting is appropriate for its system under the US of A and under the FERC's rate making requirements.

Portland believes that it would be most appropriate to grant Portland a waiver of use of the gas accounts of the US of A since its portion of the Kelso-Beaver Pipeline continues to be used to service Portland's Beaver generation plant. At most the pipeline would provide minimal interruptible service if requested by a new shipper. Only when and if additional assets are built would Portland be able to offer any firm transportation service. Even when additional assets are built, the additional assets may be lateral facilities on the system that may not warrant overall separate accounting for all of the pipeline assets since the vast majority would continue to serve the pipeline owners facilities. Thus, Portland hereby requests a waiver of the FERC's regulations related to the accounting requirements of the Commission's US of A applicable to non-major gas pipelines as specified above. Alternatively, Portland requests an extension of time to comply with the gas accounting requirements of the US of A. The time frame for an extension of time for compliance would be until 180 days after it is determined both that Portland must change its accounting from its current use of utility company US of A accounts to gas pipeline US of A accounts and the method that Portland should use to make such a conversion.

In conjunction with this request for a waiver or an extension of time for compliance, Portland also requests that if it must convert to gas pipeline accounting under the US of A, that it be permitted to forgo filing of a Form 2-A for non-major gas pipelines in 2004 for calendar year 2003, since it would not have any records for its gas pipeline assets under the gas accounting of the US of A. Rather, for calendar year 2003, Portland would report its pipeline assets as part of its Form 1 filing as it does currently.

² By letter dated April 14, 1993, Docket No. AC93-86-000, Russell E. Faudree, Jr., Chief Account approved PGE's proposal to record its investment in the gas pipeline in electric utility plant Account 342 since the pipeline transports gas used in PGE's electric production operations.

Ms. Magalie R. Salas
December 3, 2003
Page 3

Portland will continue to work with the staff of the FERC to determine the best way for Portland to provide necessary accounting information to the Commission and the public so that its financial situation is clear to the users of its FERC financial reports.

In accordance with the Commission's regulations, included herewith are: (1) a Notice in typed form suitable for publication in the Federal Register; and (2) an electronic version of the Notice on a 3.5 inch diskette with the file name "Notice of Filing". Copies of this filing are being mailed to interested parties and applicable state commissions. If you should have any questions regarding this filing, please contact Sherri Booye at (434) 591-0018 or Benga Farina at (202) 371-7056.

Sincerely,



Benga Farina
Sherri Booye
Skadden, Arps, Slate, Meagher
& Flom LLP
1440 New York Avenue, N.W.
Washington, D.C. 20005
Counsel for Portland General
Electric Company

cc: John Delaware
Chief Accountant

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D. C. 20426

Docket No. 090172-EI
Letter from FERC to counsel for Portland
General Electric Co. dated March 4, 2004
re: Docket No. AC04--7-000
Exhibit JKG-4 Page 1 of 2

In Reply Refer To:
OED-DRAP
Docket No. AC04-07-000

MAR 4 2004

Skadden, Arps, Slate, Meagher & Flom, LLP
Attention: Benga Farina
Counsel for Portland General Electric Company
1440 New York Avenue, N.W.
Washington, D.C. 20005-2111

Thank you for your letter dated December 3, 2003, filed on behalf of Portland General Electric Company (Portland), requesting a waiver of the Uniform System of Accounts applicable to non-major gas pipelines pursuant to 18 C.F.R. Part 201 (Part 201). In the alternative, Portland requests an extension of time to comply with the requirements of the Uniform System of Accounts and for filing a FERC Form No. 2-A.

Notice of your request was published in the Federal Register, 68 Fed. Reg. 59 (2004), with protests or interventions due January 5, 2004. No protests or interventions were filed.

Portland's request for waiver of the accounting requirements applicable to Part 201 of the Commission's regulations is conditionally granted, as discussed more fully below.

On October 3, 2003, the Commission issued Portland a blanket certificate of public convenience and necessity and approved pro forma tariff provisions and initial rates, establishing Portland's share of the Kelso-Beaver Pipeline¹ as an open access gas pipeline.²

Currently, Portland accounts for its share of the Kelso-Beaver Pipeline assets under the Uniform System of Accounts prescribed for Public Utilities under 18 C.F.R.

¹ Portland owns approximately 80 percent of the pipeline.

² 105 FERC ¶ 61,023 (2003).

AC04-7-000

2

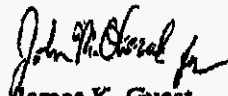
Part 101 in Account 342, Fuel Holders, Producers, and Accessories. Portland has used this accounting since the pipeline was built in the early 1990's, as the purpose of the pipeline is to transport gas used in Portland's electric production operations.³

Portland seeks a waiver of use of the gas accounts in accounting for its portion of the Kelso-Beaver Pipeline as it will continue to be used to service Portland's Beaver generation plant and expected usage by other shippers on the pipeline, if requested, is expected to be minimal.

Under the circumstances described above, Portland should continue to account for its investment in the Kelso-Beaver Pipeline and its related operations and maintenance in accordance with the Uniform System of Accounts' requirements for public utilities and licensees. This determination, however, is subject to Portland maintaining accounting records related to the pipeline so as to readily permit identification of the depreciation, operation and maintenance expense and all other elements necessary for the development of a cost of service applicable to the pipeline.

This letter order constitutes final agency action. To request that the Commission rehear your case, you must file a request within 30 days of the date of this letter order (see 18 C.F.R. § 385.713).

Sincerely,



James K. Guest
Director, Division of Regulatory
Accounting Policy

³ The Commission approved the accounting treatment on April 14, 1993 in Docket No. AC93-86-000.