

**BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of	)	DOCKET NO. UG-060019
	)	
PUGET SOUND ENERGY, INC.,	)	ORDER NO. 01
	)	
Petitioner,	)	
	)	
For an Accounting Order	)	
Authorizing Accounting Treatment	)	
and Amortization Related to	)	
Payments Received by PSE for	)	
Taking Assignment of Westcoast and	)	ORDER APPROVING
Northwest Pipeline Capacity	)	ACCOUNTING PETITION
.....	)	

**BACKGROUND**

1 On January 4, 2006, Puget Sound Energy, Inc., (“PSE” or “Company”) filed a petition for an Accounting Order and ratemaking treatment (“Petition”) under WAC 480-07-370(b)(i) related to PSE's receipt of funds from Duke Energy Trading and Marketing (“DETM”) in exchange for PSE's assumption of additional natural gas transportation capacity on the Westcoast Energy Inc., and Northwest Pipelines that was formerly held by DETM.

2 PSE is not requesting in this Petition that the Commission address the prudence of the assumption of the additional pipeline capacity from DETM. The Company will present its case on that issue in its next general rate case to be filed by mid-February 2006.

3 PSE's Petition states that DETM was the holder of natural gas pipeline capacity on both the Westcoast Energy Inc. (“Westcoast”) Pipeline and Northwest Pipeline that had originally been acquired by a Duke Energy (“Duke”) affiliate to provide a portion of the supply for the proposed (and partially built) Grays Harbor gas-fired generating plant. Duke's affiliate subsequently disposed of its

interest in the plant. In 2004, DETM transferred the majority of its transportation position and “book” to an unaffiliated marketer. DETM retained only selected pipeline capacity in the Pacific Northwest and intended to develop and maintain a smaller marketing presence. Subsequently, in the fall of 2005 Duke announced that it would discontinue its entire operations of DETM and liquidate its pipeline capacity holdings.

4 PSE's Petition further states that because of DETM's decision to liquidate its pipeline capacity holdings, and through subsequent negotiations with DETM, PSE had the opportunity to take permanent release of DETM's 54,450 Mcf/day of Westcoast Pipeline capacity and 55,000 MMBtu/day of Northwest Pipeline capacity in exchange for one-time payments from DETM to PSE of \$13 million for the Westcoast Pipeline release and \$42 million for the Northwest Pipeline release. The transactions necessary to complete the Northwest Pipeline release were completed on December 22, 2005, and PSE received DETM's payment of \$42 million from escrow on December 23, 2005. The transactions necessary to complete the Westcoast Pipeline release were completed on December 28, 2005, and PSE received DETM's payment of \$13 million from escrow on December 29, 2005.

5 The Westcoast Pipeline contract that PSE assumed has a remaining primary term through October 31, 2017. The Northwest Pipeline contract PSE assumed has a remaining primary term through September 30, 2018.

6 Through analysis performed in conjunction with PSE's 2005 Least Cost Plan, PSE identified a strategic need for the Westcoast Pipeline capacity obtained in the DETM transaction from the winter of 2005-06 for the foreseeable future at Station 2. PSE also identified expanded Northwest Pipeline capacity as the least cost resource for continued natural gas service reliability, even if acquired at the full tariffed rate, starting in 2011. According to PSE, subsequent updating of these

analyses indicated that acquisition of the DETM capacity can reasonably be expected to be the lowest cost resource addition to PSE's gas portfolio, based on reasonably available resource alternatives.

- 7 PSE states that its tax department has determined that the \$55 million that PSE received from DETM should be treated as taxable income for Federal Income Tax purposes. Consistent with that conclusion, \$19.25 million (35% of the \$55 million) will be remitted to the Internal Revenue Service in PSE's mid-March 2006 quarterly tax payment. While this \$55 million is taxable at the time of receipt, PSE is proposing to normalize those taxes over the time period proposed in this Petition for amortization of the \$55 million.
- 8 PSE states that its underlying intent with respect to acquisition of the Westcoast Pipeline DETM capacity release was to obtain gas transportation capacity that is immediately needed (and will be needed in the future) at a discount to prices that PSE's natural gas customers would otherwise have to pay for such transportation. \$13 million of the payment from DETM represents payment for PSE's assumption of the Westcoast Pipeline capacity. PSE seeks in this filing to obtain approval for deferred accounting treatment and amortization of this \$13 million such that the payment and related deferred tax receivable asset can be used to offset the capacity costs that will flow to PSE's natural gas customers over the remaining life of the Westcoast Pipeline contract assumed by PSE as the additional capacity is utilized within PSE's core gas portfolio.
- 9 The remaining \$42 million of the DETM payment represents payment to PSE for its assumption of the Northwest Pipeline capacity. PSE states that its underlying intent with respect to acquisition of the DETM Northwest Pipeline capacity release was to obtain gas transportation capacity that will be needed in the future – likely beginning in the years 2010-11 -- at a discount to prices that PSE's natural gas customers would otherwise have to pay in the future for such transportation,

while holding current customers harmless from the costs of capacity that may not be needed until 2010-11. In order to implement this intent, PSE seeks through its Petition to obtain approval for deferred accounting treatment and amortization of the \$42 million payment from DETM and related deferred tax receivables associated with the Northwest Pipeline capacity such that current customers are not impacted by the Northwest Pipeline capacity that is not needed between now and 2010-11.

- 10 PSE, therefore, seeks in its Petition approval of the following accounting and ratemaking treatment. For the Northwest Pipeline ("NWP") capacity from Sumas to the Grays Harbor metering station near Olympia, the Company proposes: (1) to defer the \$42 million payment from DETM as a regulatory liability together with deferred federal income taxes to offset the associated current income tax liability arising from the payment of the \$42 million; and (2) to amortize the deferred amounts against the NWP pipeline capacity payments through January 2011. Such deferral and amortization are intended to assure that there is no impact to customers associated with the capacity charges until the capacity is needed in 2010-2011. The details of the proposed accounting are shown for the original deferral and first month's amortization in Exhibit A to PSE's Petition.
- 11 For the Westcoast ("WEI") capacity from Station 2 to Sumas, the Company proposes to similarly defer and amortize: (1) \$6.4 million to reflect a 10% reduction in the effective cost of capacity from January 2006 through October 2017; and (2) \$6.6 million to smooth and mitigate anticipated higher tariff rates from January 2006 through December 2010. The details of the proposed accounting are shown for the original deferral of this \$13 million and the first month's amortization as Exhibit B to this Petition.

## FINDINGS AND CONCLUSIONS

- 12 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, accounts, securities, and transfers of public service companies, including electric and gas companies. *RCW 80.01.040; Chapter 80.04 RCW and Chapter 80.28 RCW.*
- 13 (2) PSE is an electric and gas company and is a public service company subject to the jurisdiction of the Commission.
- 14 (3) WAC 480-07-370(b)(i), allows companies to file a petition including that for which PSE seeks approval.
- 15 (4) PSE is not requesting in this Petition the prudence of PSE's acquisition of the DETM capacity. PSE will present its case on that issue in the Company's next general rate case, to be filed by mid-February 2006.
- 16 (5) Staff has reviewed the petition in Docket UG-060019 including related workpapers. Staff believes the proposed accounting petition requested by PSE is reasonable and should be approved.
- 17 (6) This matter was brought before the Commission at its regularly scheduled meeting on January 25, 2006.
- 18 (7) After examination of the petition filed in Docket UG-060019 by PSE on January 4, 2006, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the Petition filed should be approved.

## ORDER

### THE COMMISSION ORDERS:

- 19 (1) Puget Sound Energy, Inc.'s petition for accounting order authorizing accounting treatment and amortization with respect to funds received by Puget Sound Energy, Inc., from DETM in exchange for Puget Sound Energy, Inc.'s assumption of additional natural gas transportation capacity on the Westcoast Energy Inc., and Northwest Pipelines that was formerly held by DETM is approved. The prudence of Puget Sound Energy Inc.'s acquisition of the DETM capacity is to be addressed in the Company's next general rate case.
- 20 (2) This Order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of costs on any matters whatsoever that may come before it, nor shall anything herein be construed as acquiescence in any estimate or determination of costs claimed or asserted.
- 21 (3) The Commission retains jurisdiction over the subject matter and Puget Sound Energy, Inc., to effectuate the provisions of this Order.

The Commissioners, having determined this Order to be consistent with the public interest, directed the Secretary to enter this Order.

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DATED at Olympia, Washington, and effective this 25<sup>th</sup> day of January, 2006.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

CAROLE J. WASHBURN, Secretary