

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

In the Matter of the Petition of)	DOCKET NO. UE-041570
)	
PUGET SOUND ENERGY, INC.,)	ORDER NO. 01
)	
)	ORDER REJECTING PSE's 2004
)	POWER COST ADJUSTMENT
)	MECHANISM REPORT,
)	AUTHORIZING REILING AND
)	PARTIALLY GRANTING PSE's
For Approval of its 2004 Power Cost)	PETITION FOR ADDITIONAL
Adjustment Mechanism Report)	ALLOWED POWER COSTS
.....)	

BACKGROUND

- 1 On August 31, 2004, Puget Sound Energy, Inc., (PSE or Company) filed a petition requesting the Commission's approval of its 2004 Power Cost Adjustment Mechanism Report (2004 PCA Report). PSE filed the report consistent with the Commission's Twelfth Supplemental Order approving the settlement in Docket Nos. UE-011570 and UG-011571, in which the Commission approved a power cost adjustment (PCA) mechanism for PSE. On February 8, 2005, the Company filed revisions to the 2004 PCA Report to correct errors found during the Commission Staff's audit process.

- 2 One feature of the PSE PCA is a deferral mechanism that accounts for differences in the Company's modified actual power costs relative to a power cost baseline and provides for a sharing of power costs between the Company and ratepayers.¹

¹ *WUTC v. Puget Sound Energy, Inc.*, Docket Nos. UE-011570 and UG-011571, Settlement Stipulation, Exhibit A, ¶ 2 (June 4, 2004), approved by *WUTC v. Puget Sound Energy, Inc.*, Docket Nos. UE-011570 and UG-011571, 12th Supp. Order: Rejecting Tariff Filing; Approving and Adopting Settlement Stipulation Subject to Modifications, Clarifications, and Conditions; Authorizing and Requiring Compliance Filing (June 20, 2002).

The Commission order establishing the PCA requires that “[i]n August of 2003 and each year thereafter, the Company shall file an annual report detailing the power costs included in the deferral calculation . . .”²

3 PSE’s 2004 PCA Report covers the period July 1, 2003, through June 30, 2004 (PCA Period 2). PSE’s amended report filed February 8, 2005, shows that the Company had deferred \$2,065,492 of under-recovered power cost. Interest accrued in the amount of \$20,398. The total customer deferral balance is \$2,085,890.

4 The Commission Staff audited PSE’s 2004 PCA Report and agrees with the deferral balance set forth in PSE’s revised 2004 PCA Period 2 report, prior to any modifications ordered by the Commission pursuant to Staff’s proposal as described below.

5 The Commission Staff reviewed PSE’s management of its power costs during the 2004 PCA period and does not challenge the prudence of PSE’s management of its power costs during the 2004 PCA period.

6 In its final order in PSE’s 2003 Power Cost Only Rate Case (PCORC), the Commission disallowed certain costs associated with PSE’s Tenaska facility and established a mechanism for recovery of PSE’s Tenaska-related fuel costs.³ In its petition for approval of the 2004 PCA Report, PSE requests that the Commission

² *Id.* ¶ 4.

³ *WUTC v. Puget Sound Energy, Inc.*, Docket No. UE-031725, Order No. 14: Rejecting Tariff Filing, Authorizing and Requiring Compliance Filing, and Requiring a PCA Account Adjustment, ¶¶ 86-98 (May 13, 2004). In the PCORC Order, the Commission required PSE to remove approximately \$25.6 million from power costs for the PCA period covering July 1, 2002 through June 30, 2003, as a consequence of PSE’s failure to prudently manage the fuel contracts for the Tenaska facility. *Id.* ¶ 93. For future periods, the Commission designed a recovery mechanism for PSE’s prudently incurred Tenaska-related fuel costs.

allow the Company to include as an allowable power cost the return on the regulatory asset relating to the Tenaska cogenerating project for the period from July 1, 2003, through May 23, 2004. The Company contends that the Commission's Tenaska recovery mechanism should apply to the PCA period only from May 24, 2004 (the effective date of the PCORC Order), to June 30, 2004. As a result, the Company proposed to adjust the PCA imbalance for sharing shown in its PCA 2 Report by \$10,876,000.

7 In contrast, the Commission Staff believes the better interpretation of the PCORC orders would apply the Tenaska disallowance for the entire PCA Period 2, from July 1, 2003, to June 30, 2004.

8 As a means to reconcile its interpretation of the PCORC orders with the Company's interpretation, the Staff recommends that the Commission apply the benchmark mechanism during PCA Period 2 beginning January 1, 2004, and extending through the remaining PCA 2 Period.

9 The effect of this recommendation would be to allow PSE to include an additional \$6,074,927 over the amount reflected in its original PCA 2 filing. If Commission were to adopt the Staff's recommendation, the amount of power cost deferral and associated interest referenced in paragraph 3 above would be altered. The total amount of under-recovered power cost would be \$5,101,727 and the associated interest accrued would be \$61,539, for a revised total customer deferral balance of \$5,163,266.

10 At the Commission's February 23, 2005, open meeting, the Company stated that it would accept Staff's recommendation in order to avoid further uncertainty or delay.

DISCUSSION AND DECISION

- 11 In its Fifteenth Supplemental Order in Docket No. UE-031725, the Commission specifically deferred a decision on the question of whether the Tenaska disallowance applies to the entire 2004 PCA period.⁴
- 12 The Commission Staff recommends that the Commission establish January 1, 2004, as the effective date for commencing the PCA Period 2 benchmark disallowance and the Company has stated its concurrence with this recommendation. The Commission agrees that Staff's recommendation produces a fair and equitable result.
- 13 The Commission concludes that it is in the public interest to allow PSE to record as an allowed power cost an additional return on the Tenaska regulatory asset in the amount of \$6,074,927 related to the period from July 1, 2003, through December 31, 2003. This change alters the power cost deferral amount. Therefore, the Commission rejects the Company's amended 2004 PCA 2 Report, as filed February 8, 2005, and authorizes the Company to refile the report consistent with this order.

⁴ *WUTC v. Puget Sound Energy, Inc.*, Docket No. UE-031725, Order No. 15: Denying Petition for Reconsideration; Denying, In Part, and Granting, In Part, Petition for Clarification, ¶ 53 (June 7, 2004):

The Company asks us to clarify whether the 50 percent disallowance rule should be applied during all of the PCA period 2 or only during the last six weeks of that period, even if there is no challenge to prudence. Inasmuch as PCA Period 2 is nearly over and PSE will file for review in August of this year, we find it preferable to address this question in the context of that review proceeding. This will provide the parties an opportunity to present any relevant evidence and to present more thorough argument on these questions than has been presented here. Alternatively, the parties may elect to meet informally in an effort to arrive at a common proposal to submit for Commission review.

FINDINGS AND CONCLUSIONS

- 14 (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 companies. *RCW 80.01.040; Chapter 80.04 RCW and Chapter 80.28 RCW.*
- 15 (2) PSE is an electric company and is a public service company subject to the jurisdiction of the Commission.
- 16 (3) WAC 480-07-370(b)(i), allows companies to file a petition including that for which PSE seeks approval.
- 17 (4) This matter was brought before the Commission at its regularly scheduled meeting on February 23, 2005.
- 18 (5) The Commission finds that the Staff's recommendation regarding the proper date for commencement of the Tenaska benchmark disallowance method for PCA Period 2 produces a fair, just and reasonable result under the present circumstances and is adopted. Accordingly, PSE shall be allowed to refile its PCA 2 Report to reflect an additional \$6,074,927 of return on the Tenaska regulatory asset during PCA Period 2. This result is limited to PCA Period 2 and its adoption in this Order shall not affect or limit the application of the benchmark disallowance mechanism to any subsequent PCA period.
- 19 (6) The inclusion as allowed power costs of an additional \$6,074,927 of return on the Tenaska regulatory asset as stated above will result in a revised

customer portion of the deferral balance of \$5,163,266 including accrued interest.

- 20 (7) After examination of the petition filed in Docket UE-041570 by PSE on August 31, 2004, as revised, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the Petition, as filed, should be rejected and the Company authorized to refile its report with modifications to conform with this order. A properly modified report should be approved by the Commission by letter from the Commission's executive secretary.

ORDER

THE COMMISSION ORDERS:

- 21 (1) PSE's request to include an additional \$10.9 million of the return on the Tenaska regulatory asset in allowed power costs in PCA Period 2 is partially granted in the amount of \$6,074,927, resulting in a revised customer portion of the power cost deferral of \$5,163,266, including accrued interest. The Company's amended 2004 PCA Report as filed is rejected, but PSE is authorized to refile its report consistent with this Order. The Commission will approve a properly modified report by letter from the Commission's executive secretary.
- 22 (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.

- 23 (3) The Commission retains jurisdiction over the subject matter of this proceeding and Puget Sound Energy to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this 23rd day of February, 2005.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

RICHARD HEMSTAD, Commissioner

PATRICK J. OSHIE, Commissioner