BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY, INC. For a Determination of Emissions Compliance and Proposed Accounting Treatment For the Mint Farm Energy Center; or, Alternatively For an Accounting Order	Docket No. UE-08_______ PETITION OF PUGET SOUND ENERGY, INC. FOR AN EMISSIONS PERFORMANCE DETERMINATION AND APPROVING ACCOUNTING TREATMENT; OR ALTERNATIVELY FOR AN ACCOUNTING ORDER

I. INTRODUCTION

1. In accordance with RCW 80.80.060(5), proposed WAC 480-100-405 through 480-100-435[1] and WAC 480-07-370(b), Puget Sound Energy, Inc. ("PSE" or the "Company") respectfully petitions the Washington Utilities and Transportation Commission ("Commission") for an order: *(i)* determining that the Mint Farm Energy Center ("Mint Farm") complies with the greenhouse gases emissions performance standards in Chapter 80.80 RCW, Greenhouse Gases

Emissions; and *(ii)* approving the proposed deferred accounting methodology, pursuant to RCW 80.80.060(6) and WAC 480-100-435, detailed in Section III of this Petition. The proposed methodology addresses the deferred accounting treatment for the fixed and net variable cost components of Mint Farm that will be incurred prior to entry of a final Commission order in the next proceeding that adjusts all the Company's power costs ("next rate proceeding"). This Petition also provides notice, as required by WAC 480-100-435(2)(a), of PSE's intent to defer the costs of Mint Farm.

2. PSE requests in this Petition that the Commission take the following action:

(a) Determine that Mint Farm complies with the greenhouse gases emissions performance standard, including a determination that the resource is baseload electric generation and;

(b) Approve the proposed deferred accounting methodology detailed in Section III of this Petition.

3. In the alternative, in the event the Commission determines that Mint Farm is not eligible for deferral accounting under RCW 80.80.060(6), PSE petitions the Commission for an accounting order, in accordance with WAC 480-07-370(b), that authorizes the deferred accounting treatment detailed in Section III of this Petition related to the fixed and net variable cost components of the Mint Farm facility that will be incurred prior to entry of a final Commission order in the Company's next rate proceeding.

---

[1] On November 14, 2008, the Commission issued General Order No. R-553 in Docket UE-080111, adopting WAC 480-100-405 thru 480-100-435 and establishing an effective date of December 15, 2008.

4. PSE is not requesting in this Petition that the Commission address: (1) the prudence of PSE's acquisition of Mint Farm; or, (2) the final rate treatment for recovery of PSE's revenue requirement related to the deferral of fixed costs, total net variable costs and carrying charges for Mint Farm. PSE will present its case on these issues in its next rate proceeding. Thus, the Commission will have before it in the next rate proceeding, the evidence necessary to address the prudence and rate treatment issues, and will be able to rule on the prudence portion of the acquisition prior to new general rates going into effect. PSE also notes that on November 14, 2008, the Federal Energy Regulatory Commission issued an order in Docket No. EC08-127-000 authorizing PSE's acquisition of Mint Farm.

5. PSE is engaged in the business of providing electric and gas service within the State of Washington as a public service company, and is subject to the regulatory authority of the Commission as to its retail rates, service, facilities and practices. Its full name and mailing address for purposes of this proceeding are:

Puget Sound Energy, Inc.
Attn: Karl R. Karzmar
Director, Regulatory Relations
P.O. Box 97034
Bellevue, Washington 98009-9734

PSE's representatives for purposes of this proceeding are:

Sheree Strom Carson
Donna Barnett
Perkins Coie LLP
10885 N.E. Fourth Street, Suite 700
Bellevue, WA 98004-5579
Phone: 425-635-1422
Fax: 425-635-2400
scarson@perkinscoie.com
dbarnett@perkinscoie.com

6. Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040, RCW 80.28.020, RCW 80.80.060, WAC 173-407-100 through 173-407-400, WAC 480-100-405, WAC 480-100-415, WAC 480-100-435, and WAC 480-07-370(b).

II. BACKGROUND AND COMPLIANCE WITH EMISSION PERFORMANCE STANDARDS

7. The Mint Farm Energy Center is a modern, 311-megawatt (MW) (nominal) rated capacity natural gas-fired combined cycle combustion turbine plant. With a capacity of 260 MW, plus 37 MW of duct fire capability, the machine is clean, quiet, well designed, and in near new condition. Under emergency circumstances, an incremental 14 MWs can be produced through steam augmentation. The generating facility is situated on approximately 11.42 acres of land located within the Mint Farm Industrial Park in Longview, Washington. The facility was originally developed by Avista Power in partnership with Steag AG, a large German power producer, and is currently owned by Wayzata Opportunities Fund, LLC, a Delaware limited liability company, and Mint Farm Power LLC, a South Dakota limited liability company. Construction of the facility was completed by JH Kelly and commercial operation was achieved

in January 2008. The station includes gas delivery facilities, an electrical switchyard, certain real property, and other facilities. The plant's turbines, fired by natural gas, employ "combined-cycle" technology that generates electricity using both a natural gas cycle and a steam cycle. The process provides higher operating efficiencies, lower fuel costs, and lower air emissions. The primary plant equipment consists of a General Electric Frame 7FA model combustion turbine and generator,[2] a Foster-Wheeler Heat Recovery Steam Generator and a Siemens-Fuji KN steam turbine and generator. With a heat rate below 7,000 Btu per kWh, Mint Farm is one of the most efficient generating facilities in the Western Electricity Coordinating Council region. PSE's purchase price for the plant and related facilities is $240,690,000 payable at closing.[3] The Definitive Agreement executed on September 24, 2008, is not subject to a financing contingency. The acquisition stems from the May 2007 Integrated Resource Plan in which PSE identified a need to secure 1,234 average MWs of natural gas-fired combined cycle generation by 2015 to meet the energy needs of its steadily growing customer base across the Puget Sound region. When compared to the other short-listed projects submitted in response to PSE's request for proposals ("RFP"), Mint Farm was identified as superior overall, when considering price, transmission, development and execution risk along with operational flexibility. Complete

[2] The GE 7FA gas turbine is a mature, well understood machine with greater than 1,000 units installed around the world providing power at 98 percent reliability, and this one is nearly identical in design and operation to the machine currently in use at PSE's Goldendale Generating Facility.

[3] This is subject to the net working capital closing statement, which will be completed within 45 days following the closing date. Net working capital for the facility as of May 31, 2008 was approximately $950,000, net of cash. This may fluctuate with operations until the closing date.

details will be provided in support of acquisition of the plant in the Company's next rate proceeding when it is filed.

8. Pursuant to RCW 80.80.060, WAC 173-407-110, and WAC 480-100-405, Mint Farm is designed and intended to provide baseload electric generation. Output from Mint Farm is expected to represent a significant part of the backbone of PSE's resource base and will be utilized to meet baseload, daily and seasonal peaking. The new facility will also provide increased certainty related to modeling and determination of PSE's future resource needs and supply alternatives and is an important component of PSE's long-term electric portfolio management strategy.

9. Exhibit A, attached hereto, provides the information required by WAC 480-100-415 to assist the Commission in making its determination that Mint Farm complies with the greenhouse gases emissions performance standard. Additionally, PSE will provide to the Commission supplementary documents as they are made available to the Company after closing.

III. DEFERRED ACCOUNTING METHODOLOGY

Fixed Cost Components

10. The Company proposes in this Petition to defer the fixed cost component of the operation and maintenance expense, depreciation, taxes and cost of capital invested in rate base associated with Mint Farm as a regulatory asset in account 182.3, Other Regulatory Assets and credit the appropriate FERC account, commencing with the plant acquisition date and ending with the effective date of new rates going into effect as a result of the Commission's order in the

Company's next rate proceeding. It is proposed that, during this period, such operation and maintenance expense, depreciation, taxes and cost of capital invested in rate base,[4] shall be based upon the twelve-month period ending December, 2009, currently estimated to be an annual amount of $45.2 million as shown in Exhibit B, attached hereto. It is further proposed that one-twelfth (1/12th) of such amount be deferred each full month and that the pro-rata portion of such amount be deferred for partial months. Should the plant acquisition date be a date other than December 2008, the twelve month period to use for calculating the deferral will be adjusted accordingly. If new rates are not yet in effect following December 2009, the fixed cost recovery for that time period will be based on the twelve month time period ending with the expected date for the implementation of new rates from the next rate case filing.

Variable Power Cost Components

11. PSE's Power Cost Adjustment ("PCA") mechanism defines variable power costs as including fuel and transportation costs. When a resource such as Mint Farm is added to the Company's portfolio the transportation costs are actually a fixed cost, as they are required to be paid whether the plant generates or not, and are not part of the dispatch matrix. As the resource will dispatch based on fuel costs and actual variable operations and maintenance costs based on run-time, the transportations costs are not recovered. In addition, as the Company can only

---

[4] The Company's outside auditors have indicated that the deferral of equity portion of the capital invested in rate base will not be recognized for financial reporting purposes until the actual recovery is approved and collected in rates. For regulatory purposes the Company would recognize the regulatory asset and a credit to interest income associated with the equity return deferred, plus associated interest; but for financial purposes the Company would reserve for this deferral by crediting a miscellaneous liability and charging interest income. This financial entry reduces reported net income until the deferral is allowed in rates.

include PCA variable costs up to the current baseline rate any variable costs in excess of the baseline rate are ignored for PCA true up purposes. As this resource will reduce the actual market power costs built into rates the Company proposes to use the reduction of these costs to offset the variable costs being deferred as explained below.

12. PSE proposes that the actual variable costs of fuel, fuel transportation, and electric transmission be deferred until new rates go into effect as a result of the Commission's order in the Company's next rate proceeding, as a regulatory asset in account 182.3, Other Regulatory Assets, with the offsetting credit being recognized in the appropriate FERC account. Such variable costs are currently estimated to be, for the twelve-month period ending December 31, 2009, an annual amount of $49.1 million as shown in Exhibit C, attached hereto, based upon a run of AURORA from the Company's rebuttal filing in the 2007 general rate case, Docket UE-072300 *et al.*. PSE proposes to offset these costs by crediting the variable cost deferral with the hourly market price of power used to determine the current baseline rate proposed per PSE's 2007 general rate case rebuttal filing dated July 3, 2008. This offset would be calculated based on the forecast purchased power costs included in current rates and would be a credit to the 182.3 deferral account and a charge to Account 555, purchased power. This charge to Account 555 will be included in the monthly PCA true-up calculation as a power cost. This approach for determining the amount of deferral for variable costs plus offsetting the credit for market purchases avoided is based on the same logic that is used when new resources are acquired and put into rates—the baseline rate is increased by the PCA variable costs (fuel, gas transportation and wheeling) for the new resource and reduced by avoided market purchases or increased

market power sales. This deferral accounting provides the customer an offset for the market power purchases built into current rates that will not be incurred during the deferral period.

13. In addition to the credit associated with market power the Company also proposes that the deferral of net variable costs, explained above, be offset by any over recovery of power costs under the PCA mechanism true-up prior to the implementation of the 100% over recovery sharing band being allocated to the Company. This credit would be calculated by tracking the total over and under recovery of power costs from the date of acquisition until Mint Farm is included in rates and if that balance shows an over recovery of power costs, that amount would be credited to the 182.3 deferral account up to the amount of deferred net variable costs associated with Mint Farm. The offsetting charge would be recognized in the appropriate FERC account. Any over collection of power costs in excess of the total net deferred variable costs would then be subject to the normal PCA sharing bands starting with the first $20 million band for over recovery being allocated to the Company. An example of how this portion of the credit mechanism would work, assuming (1) an under collection of power costs and (2) an over collection of power costs during the deferral period, is attached as Exhibit D.

14. It is proposed that deferral of the total net variable costs as described above should commence with the plant acquisition date and ending with the effective date of new rates going into effect as a result of the Commission's order in the Company's next rate proceeding.

Schedule G

15. This proposal for fixed and variable cost deferral would eliminate the true-up under Schedule G for Mint Farm during the deferral period. The temporary elimination of

Schedule G for Mint Farm is required so that the Company can defer these costs until the resolution of its next rate case, and to meet the deferral provisions of RCW 80.80.060(6). The temporary elimination of Schedule G is required to allow for the deferral of actual costs associated with Mint Farm irrespective of whether the deferral meets the requirements of RCW 80.80.060(6).

Accrual of Interest

16. PSE proposes to accrue interest on such deferred amounts in account 182.3, at PSE's authorized net of tax rate of return for the period, seven percent (7%) per the Partial Settlement Re: Electric and Natural Gas Revenue Requirements and Order 12 in the Company's most recent general rate case, Docket UE-072300 *et al.*, commencing with the initial recognition of deferred costs and ending with the effective date of new rates going into effect as a result of the Commission's order in the Company's next rate proceeding.

Amortization

17. PSE proposes that such deferred amounts, plus accrued interest, should then be amortized over three years, or over an appropriate time to be determined in the next rate proceeding, beginning on the date new rates become effective in the next rate proceeding. PSE further proposes that in its next rate case, when final amortization amounts are confirmed and amortization is set to begin, the deferral amount plus accrued interest shall be included in ratebase and interest deferral cease, much like and consistent with the treatment afforded in Docket No. UE-060539, in connection with the $89 million capacity reservation charge paid to

Chelan PUD and in Docket No. UE-070533, in connection with the $120 million purchase of the Goldendale Generating Facility.

IV. PETITION FOR ACCOUNTING ORDER IN THE ALTERNATIVE

18. PSE believes that deferred accounting for Mint Farm is appropriate under RCW 80.80.060(6). However, in the event the Commission determines that Mint Farm is not eligible for deferred accounting under RCW 80.80.060(6), PSE petitions the Commission, in accordance with WAC 480-07-370(b), for an accounting order that authorizes the deferred accounting treatment detailed in Section III of this Petition related to the fixed and net variable cost components of the Mint Farm facility pending entry of a final Commission order in the Company's next rate proceeding.

19. PSE requests in this Petition that the Commission approve the deferred accounting as proposed in paragraphs 10 through 17 in accordance with WAC 480-07-370(b).

V. CONCLUSION

20. Under the PCA mechanism, the fixed costs of new resources are not currently allowed to be included in the actual power costs in the PCA true up, and the Company can only include the variable costs in the PCA true up that are less than or equal to the current power cost rate for new Company owned resources, currently $62.841 per MWh. Accordingly, deferred accounting treatment is necessary in order to recover the PCA defined fixed costs and variable operating costs for Mint Farm.

21. Deferring the fixed operating costs and variable incremental power costs net of savings, plus carrying costs on the deferred balance, until rate recovery can be provided assures that the customers receiving the benefit of the new power station are the ones required to pay for its costs. Inclusion of PSE's carrying costs is appropriate because the Company is required to provide the capital to cover the large amount of funds necessary to secure and operate this generating station for its customers well in advance of the time when PSE can adjust rates to recover the cost of Mint Farm. The proposed deferral accounting benefits both the customer and the Company as only the incremental costs associated with Mint Farm are deferred, plus the proposed accounting meets the requirements of RCW 80.80.060(6).

22. If the Commission determines that Mint Farm is not eligible for deferral accounting under RCW 80.80.060(6), the Company requests the Commission provide an accounting order that allows the requested deferred accounting pursuant to WAC 480-07-370(b).

VI. PRAYER FOR RELIEF

23. Based on the foregoing, PSE respectfully requests that the Commission issue an order in the form attached hereto as Exhibit E. As the Company will need to have an order from the Commission to recognize the proposed deferral for financial accounting purposes, the Company requests that the Commission issue an order by January 9, 2009 so that the Company can reflect the appropriate accounting in its year-end financial statements.

DATED this 25th day of November 2008.

PERKINS COIE LLP

By Donna B
Sheree Strom Carson, WSBA No. 25349
Donna Barnett, WSBA No. 36794
Attorneys for Puget Sound Energy, Inc.

VERIFICATION

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

Karl R. Karzmar, being first duly sworn, on oath deposes and says:

That he is Director of Regulatory Relations with Puget Sound Energy, Inc., that he has read the foregoing Petition of Puget Sound Energy, Inc. for An Emissions Performance Determination and Approving Accounting Treatment; or Alternatively, an Accounting Order, that he knows the contents thereof, and that he believes the same to be true to the best of his knowledge and belief.

Karl R. Karzmar

SUBSCRIBED and SWORN to before me this 25th day of November 2008.

DENISE K SCHROEDER
COMMISSION EXPIRES
NOTARY
PUBLIC
AUG. 01, 2009
STATE OF WASHINGTON

Denise K Schroeder
Print Name: DENISE K SCHROEDER
Notary Public in and for the State of Washington,
residing at SNOQUALMIE WA
My commission expires: 8-1-2009

EXHIBIT A

Supporting Documents As Required By WAC 480-100-415

1. The electrical company's most recent integrated resource plan.

   Enclosed are two discs containing an electronic copy of PSE's most recent integrated resource plan ("IRP").

2. A description of how the proposed electric generation resource meets the resource need, resource investment strategies and other factors identified in the integrated resource plan.

   A complete discussion of how the Mint Farm facility meets the Company's resource need can be found in the attached IRP. For convenience, excerpts from the IRP addressing this requirement are provided below:

   From Chapter 1: Executive Summary of the 2007 IRP:

   Meeting Electric Needs

   PSE's extensive analysis indicates that the portfolio shown below in Figure 1-3 is the lowest reasonable cost long-term resource strategy to pursue to meet our customers' growing demand for electricity. This strategy employs aggressive increases in demand-side resources (primarily energy efficiency), aggressive acquisition of wind resources in order to meet renewable portfolio standards, and gas-fired generation to make up the balance of energy needs that cannot reasonably be met through demand-side and renewable resources.

   (IRP, page 1-6)

   Available Alternatives

   Natural gas-fired generation. Natural gas becomes the lowest reasonable cost resource that is available in large enough quantities to meet base load and intermediate needs without proven carbon sequestration technology. This plan demonstrates that at this time natural gas is a better alternative than coal for meeting base load energy needs. There are several challenges with natural gas, such as diversity and security of supply, long-term availability, and demand-pull price risks. However, we judge such risks somewhat more manageable than coal risks.

(IRP, page 1-10)

PSE will need an additional 1,234 MW of capacity from gas-fired generation by the year 2015.

(IRP, table on page 1-7)

3. The plant technology, design, fuel and fuel consumption.

   Please see PSE's Department of Ecology filing, including attachments, for information regarding Mint Farm technology, design, fuel, and fuel consumption. PSE's Department of Ecology filing ("Exhibit A-1") is provided herein on a CD-ROM.

4. Any site certificate or other permits necessary for operation of the power plant, including any determination made by the department of ecology or the energy facility site evaluation council regarding compliance with the performance standard; and such other information as is available concerning the exhaust emissions characteristics of the plant.

   Mint Farm currently operates under authority of Air Discharge Permit No. 04-2571R2 issued by the Southwest Clean Air Agency (SWCAA). Mint Farm Energy Center submitted a Title V Operating Permit Application to SWCAA on September 19, 2008. Please see Exhibit A-1 for more permit information and exhaust emissions characteristics. Supplementary documents will be made available as they are provided to and obtained by PSE.

5. The expected cost of the power generation to be acquired from the plant.

   The twenty-year levelized cost of the power is expected to be in a range of \$125/MWh to \$155/MWh.

6. Department of Ecology Filing.

   Please see Exhibit No. A-1 for PSE's Department of Ecology Filing.

EXHIBIT B

Mint Farm Energy Center estimated fixed cost component of operation and maintenance expense, depreciation, taxes and cost of capital invested in rate base for the twelve-month period ended December 31, 2009

LINE NO.	DESCRIPTION	ADJUSTED RATE YEAR
1	NEW PLANT RATEBASE	
2	PLANT BALANCE	$258,303,366
3	ACCUMULATED DEPRECIATION	(5,122,775)
4	DEFERRED INCOME TAX	(2,354,540)
5	NET MINT FARM PLANT RATEBASE	$250,826,052
6		
7	FIXED ASSETS RECOVERY [Adj Rate yr x 7.00% / .65]	$27,012,036
8		
9	MINT FARM OPERATING EXPENSE	
10	PRODUCTION OPERATION AND MAINTENANCE	7,863,240
11	MINT FARM DEPRECIATION EXPENSE	8,781,899
12	MINT FARM PROPERTY INSURANCE	235,146
13	MINT FARM PROPERTY TAXES	1,295,495
14	TOTAL OPERATION AND MAINTENANCE EXPENSE	18,175,781
15	TOTAL FIXED COSTS (line 7 plus line 14)	$45,187,817

EXHIBIT C

Mint Farm Energy Center estimated variable cost components of fuel, fuel transportation, and electric transmission expense, for the twelve-month period ended December 31, 2009

LINE NO.	DESCRIPTION	MWh	ADJUSTED RATE YEAR
1	PCA VARIABLE COSTS		
2	FIXED GAS TRANSPORTATION		$8,899,752
3	FIXED ELECTRIC TRANSMISSION		5,319,117
4	VARIABLE ELECTRIC TRANSPORTATION		339,893
5	FUEL (including variable gas transportation)		34,493,650
6	PCA VARIABLE COSTS		49,052,412
7			
8	OFFSETTING BENEFITS		
9	REDUCED PURCHASES	561,714	35,751,230
10	NET VARIABLE COSTS		$13,301,182

EXHIBIT D

Page 2 of Exhibit D shows two examples of under and over recovered power costs as calculated under the PCA mechanism for a sixteen month period. The column labeled "Difference" is the Actual Power Cost column minus the Baseline Cost. For purposes of this exhibit the actual power costs would include the charge to Account 555 for the market price of power that has been credited to the Mint Farm deferral.

If the next general rate case filing was finalized sixteen months after the beginning of the Mint Farm deferral the following adjustments would be made to the Mint Farm deferral.

Example 1 – No adjustment would be made as power costs were under recovered by $14,698,536.

Example 2 – As power costs were over collected per the PCA true-up, the $16,915,039 would be used to offset the net variable cost deferral. As Exhibit C is based on a twelve month period it is assumed that power costs would be comparable for an additional four months and the net variable cost deferral would be approximately $17,734,909 (Exhibit C amount of $13,301,182*16/12). All of the $16,915,039 would be used to offset this balance and the amount deferred for the total net variable cost portion of Mint Farm would be $819,870 ($17,734,909 - $16,915,039).

If the net variable costs deferred were less than the $16,915,039 the over collection would be credited to the net variable cost deferral to eliminate any deferral and the remaining amount of the over collection would be subject to the PCA sharing bands starting with the first $20 million over recovery being credited to the company.

	Actuals	Baseline	Difference	
	Power Cost	Baseline Rate * Load	Monthly	
Example 1				
Month 1	$ 58,033,261	$ 61,616,393	$ (3,583,132)	
Month 2	60,995,923	62,377,208	(1,381,285)	
Month 3	66,852,027	60,040,410	6,811,617	
Month 4	73,027,438	69,523,163	3,504,275	
Month 5	72,030,237	74,375,539	(2,345,302)	
Month 6	86,853,495	84,599,358	2,254,137	
Month 7	80,417,925	81,723,969	(1,306,044)	
Month 8	80,919,874	75,416,275	5,503,599	
Month 9	84,985,417	77,553,819	7,431,598	
Month 10	67,904,413	69,473,916	(1,569,503)	
Month 11	63,348,684	65,590,803	(2,242,119)	
Month 12	50,037,002	60,835,557	(10,798,555)	
Month 13	65,158,883	64,630,576	528,307	
Month 14	64,642,085	63,110,328	1,531,758	
Month 15	66,762,206	62,478,495	4,283,711	
Month 16	74,997,315	68,971,841	6,025,475	$ 14,648,536
Example 2				
Month 1	68,385,764	74,070,384	(5,684,621)	
Month 2	75,193,914	75,878,972	(685,058)	
Month 3	78,043,164	72,653,043	5,390,121	
Month 4	85,939,385	80,243,630	5,695,755	
Month 5	101,154,361	101,324,973	(170,612)	
Month 6	124,835,336	114,228,749	10,606,588	
Month 7	104,869,972	107,291,961	(2,421,989)	
Month 8	102,226,685	99,805,664	2,421,022	
Month 9	108,739,595	101,462,777	7,276,818	
Month 10	77,304,654	86,590,213	(9,285,559)	
Month 11	64,186,677	82,958,420	(18,771,743)	
Month 12	73,821,765	78,718,897	(4,897,132)	
Month 13	73,803,881	89,533,013	(15,729,132)	
Month 14	82,173,817	89,240,945	(7,067,128)	
Month 15	92,770,135	87,713,288	5,056,847	
Month 16	109,331,178	97,980,393	11,350,785	$(16,915,039)

EXHIBIT E

Exhibit E
PROPOSED ORDER

BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY, INC. For a Determination of Emissions Compliance and Proposed Accounting Treatment For the Mint Farm Energy Center; or, Alternatively For an Accounting Order	Docket No. UE-08_______ ORDER (PROPOSED)

BACKGROUND

1. On November 24, 2008, in accordance with RCW 80.80.060(5), proposed WAC 480-100-405 thru 480-100-435[1] and WAC 480-07-370(b), Puget Sound Energy, Inc. ("PSE" or the "Company") filed a petition for an order determining that its newly acquired Mint Farm Energy Center ("Mint Farm") complies with the greenhouse gases emissions performance standards in Chapter 80.80 RCW, Greenhouse Gases Emissions, and approval of proposed deferred accounting pursuant to RCW 80.80.060(6) and WAC 480-100-435. The proposed accounting addresses the fixed and net variable cost components of Mint Farm that will be incurred prior to entry of final Commission order that adjusts all the Company's power costs

("next rate proceeding"). The Company's Petition also provided notice, as required by WAC 480-100-435(2)(a), of PSE's intent to defer the costs of Mint Farm.

2. PSE requested in its Petition that the Commission take the following action:

(a) Determine that Mint Farm complies with the greenhouse gases emissions performance standard, including a determination that the resource is baseload electric generation and;

(b) Approve the proposed deferred accounting methodology detailed in its Petition.

3. In the alternative, in the event the Commission determines that Mint Farm is not eligible for deferral accounting under RCW 80.80.060(6), PSE requested in its Petition that the Commission issue an accounting order, in accordance with WAC 480-07-370(b), that authorizes the deferred accounting treatment detailed in its Petition related to the fixed and net variable cost components of the Mint Farm facility that will be incurred prior to entry of a final Commission order in the Company's next rate proceeding.

4. PSE describes the Mint Farm Energy Center as a modern, 311-megawatt (MW) (nominal) natural gas-fired combined cycle combustion turbine plant. The Mint Farm has a baseload capacity of 250 MW plus 37 MW of duct fire capability, and PSE states that the machine is clean, quiet, well designed, and in near new condition. Under emergency circumstances, an incremental 14 MW can be produced through steam augmentation. The

[1] On November 14, 2008, the Commission issued General Order No. R-553 in Docket UE-080111, adopting WAC 480-100-405 thru 480-100-435 and establishing an effective date of December 15, 2008.

generating facility is situated on approximately 11.42 acres of land located within the Mint Farm Industrial Park in Longview, Washington.

5. PSE states that Mint Farm is designed and intended to provide baseload electric generation. Output from Mint Farm is expected to represent a significant part of the backbone of PSE's resource base and will be utilized to meet baseload, daily and seasonal peaking. PSE also states that the new facility will also provide increased certainty related to modeling and determination of PSE's future resource needs and supply alternatives and is an important component of PSE's long-term electric portfolio management strategy.

A. Compliance with Emissions Performance Standard

6. PSE provides detailed plant information and information required by WAC 480-100-415. *See* Petition at ¶7 and Exhibits A and A-1 to PSE's Petition. Additionally, PSE has committed to providing the Commission supplementary documents as they are made available to the Company after closing. Exhibit A-1 to the Petition contains calculations of greenhouse gas emissions and average greenhouse gas emissions per MWh during the time period January through September 2008. The calculated result is 1,056 lb/MWh, which meets the greenhouse gas emissions standards, RCW 80.80.040. PSE anticipates that the plant will be operated more efficiently in future years and that greenhouse gas emissions per MWh will be significantly less when PSE owns and operates the plant.

B. **Requested Deferred Accounting Methodology**

Fixed Cost Components

7. The Company proposes in its Petition to defer the fixed cost component of the operation and maintenance expense, depreciation, taxes and cost of capital invested in rate base associated with Mint Farm as a regulatory asset in account 182.3, Other Regulatory Assets, and credit the appropriate FERC account, commencing with the plant acquisition date and ending with the effective date of new rates going into effect as a result of the Commission's order in the Company's next rate proceeding. PSE proposes that, during this period, such operation and maintenance expense, depreciation, taxes and cost of capital invested in rate base,[2] be based upon the twelve-month period ending December 2009, currently estimated to be an annual amount of $45.2 million as shown in Exhibit B to PSE's Petition. PSE further proposes that one-twelfth (1/12th) of such amount be deferred each full month and that the pro-rata portion of such amount be deferred for partial months. Should the plant acquisition date be a date other than December 2008, the twelve month period to use for calculating the deferral will be adjusted accordingly. If new rates are not yet in effect following December 2009, PSE proposes that the fixed cost recovery for that time period be based on the twelve month time period ending with the expected date for the implementation of new rates from the next rate case filing.

---

2 The Company's outside auditors have indicated that the deferral of equity portion of the capital invested in rate base will not be recognized for financial reporting purposes until the actual recovery is approved and collected in rates. For regulatory purposes the Company would recognize the regulatory asset and a credit to interest income associated with the equity return deferred, plus associated interest; but for financial purposes the Company would reserve for this deferral by crediting a miscellaneous liability and charging interest income. This financial entry reduces reported net income until the deferral is allowed in rates.

Variable Power Cost Components

8. PSE proposes that the actual variable costs of fuel, fuel transportation, and electric transmission be deferred until new rates go into effect as a result of the Commission's order in the Company's next rate proceeding, as a regulatory asset in account 182.3, Other Regulatory Assets, with the offsetting credit being recognized in the appropriate FERC account. PSE currently estimates such costs to be, for the twelve-month period ending December 31, 2009, an annual amount of $49.1 million as shown in Exhibit C to the Petition, based upon a run of AURORA from the Company's rebuttal filing in the 2007 general rate case, Docket UE-072300 *et al.*. PSE proposes to offset these costs by crediting the variable cost deferral with the hourly market price of power used to determine the current baseline rate proposed per PSE's 2007 general rate case rebuttal filing dated July 3, 2008. This offset would be calculated based on the forecast purchased power costs included in current rates and would be a credit to the 182.3 deferral account and a charge to Account 555, purchased power. This charge to Account 555 will be included in the monthly PCA true-up calculation as a power cost. PSE points out that this approach for determining the amount of deferral for variable costs plus offsetting the credit for market purchases avoided is based on the same logic that is used when new resources are acquired and put into rates—the baseline rate is increased by the PCA variable costs (fuel, gas transportation and wheeling) for the new resource and reduced by avoided market purchases or increased market power sales. PSE adds that this deferral accounting provides the customer

an offset for the market power purchases built into current rates that will not be incurred during the deferral period.

9. In addition to the credit associated with market power, the Company also proposes that the deferral of net variable costs be offset by any over recovery of power costs under the PCA mechanism true-up prior to the implementation of the 100% over recovery sharing band being allocated to the Company. PSE states that this credit would be calculated by tracking the total over and under recovery of power costs from the date of acquisition until Mint Farm is included in rates and if that balance shows an over recovery of power costs, that amount would be credited to the 182.3 deferral account up to the amount of deferred net variable costs associated with Mint Farm. The offsetting charge would be recognized in the appropriate FERC account. Any over collection of power costs in excess of the total net deferred variable costs would then be subject to the normal PCA sharing bands starting with the first $20 million band for over recovery being allocated to the Company. In Exhibit D to its Petition, PSE provides an example of how this portion of the credit mechanism would work, assuming (1) an under collection of power costs and (2) an over collection of power costs during the deferral period.

10. PSE proposes that deferral of the total net variable costs as described above commence with Mint Farm's acquisition date and end with the effective date of new rates going into effect as a result of the Commission's order in the Company's next rate proceeding.

Schedule G

11. PSE's proposal for fixed and variable cost deferral would eliminate the true-up under Schedule G for Mint Farm during the deferral period. PSE states that the temporary elimination of Schedule G for Mint Farm is required so that the Company can defer these costs until the resolution of its next rate case, and to meet the deferral provisions of RCW 80.80.060(6).

Accrual of Interest

12. PSE proposes to accrue interest on such deferred amounts in account 182.3 at PSE's authorized net of tax rate of return for the period, seven percent (7%), per the Partial Settlement Re: Electric and Natural Gas Revenue Requirements and Order 12 in the Company's most recent general rate case, Docket UE-072300 *et al.*, commencing with the initial recognition of deferred costs and ending with the effective date of new rates going into effect as a result of the Commission's order in the Company's next rate proceeding.

Amortization

13. PSE proposes that such deferred amounts, plus accrued interest, should then be amortized over three years, or over an appropriate time to be determined in the next rate proceeding, beginning on the date new rates become effective in the next rate proceeding. PSE further proposes that in its next rate case, when final amortization amounts are confirmed and amortization is set to begin, the deferral amount plus accrued interest shall be included in ratebase and interest deferral cease, much like and consistent with the treatment afforded in Docket No. UE-060539, in connection with the $89 million capacity reservation charge paid to

Chelan County Public Utility District and in Docket No. UE-070533, in connection with the $120 million purchase of the Goldendale Generating Facility.

FINDINGS AND CONCLUSIONS

14. PSE is engaged in the business of furnishing electric and gas service within the state of Washington as a public service company and is subject to the jurisdiction of this Commission.

15. On November 24, 2008, PSE filed with the Commission a petition for a determination of emissions compliance or, alternatively, for an order regarding accounting treatment related to the fixed and net variable cost components of the Company's Mint Farm Energy Center ("Mint Farm")

16. The Mint Farm complies with the greenhouse gases emissions performance standards in Chapter 80.80 RCW.

17. The accounting treatment methodology proposed in the Petition is reasonable and in the public interest, and should be approved.

18. The prudence of PSE's acquisition of Mint Farm and PSE's proposed ratemaking treatment are to be addressed in the Company's next general rate case.

DETERMINATION AND ORDER

WHEREFORE, THE COMMISSION HEREBY:

19. Determines that the Mint Farm facility complies with the greenhouse gases emissions performance standards in Chapter 80.80 RCW.

20. Approves the accounting treatment requested in PSE's Petition dated November 24, 2008, with respect to PSE's costs related to the acquisition of PSE's Mint Farm Energy Center ("Mint Farm").

21. Authorizes PSE to begin deferral of the fixed and net variable costs, commencing with closing date of PSE's acquisition of Mint Farm and ending with the effective date of new rates going into effect as a result of a final order in the Company's next rate proceeding.

22. It is further ordered that Schedule G is eliminated during PSE's deferral period.

23. PSE shall accrue interest on the deferred amounts in account 182.3 at seven percent (7%), commencing with the closing date of PSE's acquisition of Mint Farm and ending with the effective date of new rates going into effect as a result of a final order in the Company's next rate proceeding.

24. The deferred amounts, plus accrued interest, shall be amortized over three years in account 407.3, Regulatory Debits.

25. This order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of cost or any matters whatsoever

that may come before it, nor shall anything herein be construed as an acquiescence in any estimate or determination of costs claimed or asserted.

26. The Commission retains jurisdiction over the subject matter of the Petition and PSE to effect the provisions of this order.

DATED at Olympia, Washington, and effective this _____ day of __________, _____.

____
MARK H. SIDRAN, Chairman

____
PATRICK J. OSHIE, Commissioner

____
PHILIP B. JONES, Commissioner