

Agenda Date: April 11, 2007
Item Number: A2

Docket: UE-070533
Company Name: Puget Sound Energy, Inc.

Staff: Roland Martin, Regulatory Analyst
Yohannes Mariam, Regulatory Analyst
Doug Kilpatrick, Senior Regulatory Engineering Specialist
Mike Parvinen, Deputy Assistant Director, Energy

Recommendation:

Issue an order authorizing deferred accounting treatment for the fixed cost component of the Company's newly acquired Goldendale Generating Station pending approval of the Company's 2007 Power Cost Only Rate Case (PCORC).

Discussion:

On March 15, 2007, Puget Sound Energy, Inc., (PSE or the Company) filed a petition seeking an Accounting Order under WAC 480-07-370(b)(i) that authorizes deferred accounting treatment related to the fixed cost component of the Company's newly acquired Goldendale Generating Station, pending entry of a final Commission order in the Company's 2007 PCORC, filed March 20, 2007. The PCORC mechanism allows for expedited consideration between general rate cases of the prudence and rate treatment of costs associated with major generation acquisitions by PSE. The acquisition of Goldendale Generating Station involves a 250 MW natural gas-fired combined cycle electric generating facility that PSE acquired on February 21, 2007, for \$120 million under a bankruptcy proceeding and bid auction process. The acquisition stems from the Company's alleged need to secure about 1,500 average MWs of new power supply by 2015 to meet the energy needs of its customers.

PSE requests that the Commission approve the following proposed accounting treatment associated with the acquisition of Goldendale Generating Station: (1) defer the fixed cost component of operation and maintenance expense, depreciation, taxes, and cost of capital invested in rate base, beginning with the filing date of the petition and ending with the effective date of new rates from the Company's 2007 PCORC, (2) book monthly carrying charges on the deferred costs at PSE's approved net of tax rate of return until amortization begins; and (3) amortize the total deferred balance including carrying charges over three years commencing with the earlier of January 1, 2009, or the effective date of new rates as a result of the Company's next general rate case, which is required to be filed within three months after the conclusion of a PCORC, unless the Commission approves a requested waiver.

PSE is not requesting in its petition that the Commission address: (1) the prudence of PSE's acquisition of the Goldendale Generating Station; or (2) the final rate treatment for recovery of the deferred costs and carrying charges. PSE states the Commission should examine the

prudence issue in the 2007 PCORC proceeding and the ratemaking treatment in a future general rate case.

PSE has agreed that the monthly deferral entries will be based on known actual costs and the deferred balance including carrying charges will be amortized over a period as specified in the Company's next general rate case.

On April 3, 2007, Industrial Customers of Northwest Utilities (ICNU) filed a response to the petition requesting that the Commission deny PSE's petition because of inappropriateness of allowing recovery of the fixed costs of a new resource in the manner proposed by PSE in its petition. ICNU questions whether it is appropriate to set a precedent allowing recovery of the capital costs of new resources as proposed, particularly when the PCORC itself is an exception to the rule governing general rate increase filings. If the Commission favorably considers the petition, ICNU urges that the dispatch benefits of the new resource should also be tracked to avoid such benefits falling within the PCA deadband and not being directly passed on to customers.

Staff disagrees with ICNU regarding its perceived inappropriateness of the accounting deferral requested in the petition. The requested deferred accounting treatment is reasonable and consistent with the objective to have a new power cost rate in effect by the time a new resource would go into service, as provided in the PCA settlement agreement approved by the Commission in Dockets UE-011570 and UG-011571.

With respect to ICNU's proposal to defer the dispatch benefits from the new resource, Staff believes the PCA mechanism already captures such benefits and to isolate the benefits through a separate deferral results in the distortion of the PCA mechanism by avoiding the operation of the PCA deadband.

Conclusion:

Staff recommends the Commission issue an order authorizing deferred accounting treatment for the fixed cost component of the Company's newly acquired Goldendale Generating Station pending approval of the company's 2007 Power Cost Only Rate Case.