

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Docket Nos. UE-070725

**Amended Petition of Puget Sound Energy, Inc. For an Order Authorizing
the Use of the Proceeds from the Sale of RECs and CFIs**

PUBLIC COUNSEL DATA REQUEST NO. 008

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Please explain why PSE's proposal to use REC Proceeds to pay for PSE's California litigation claims is reasonable and justified.

Response:

Puget Sound Energy, Inc. ("PSE") has held a California Receivable on its books since early 2001. This receivable reflects unpaid amounts owed to PSE from the California Independent System Operator ("Cal ISO") for power that PSE sold to California during the California Energy Crisis. The "California Receivable" totals approximately \$21 million—plus interest. The \$21 million receivable due from California is net of approximately \$39.5 million in write-offs PSE had already recognized on sales of power to California during 2000 and does not include any accrual of interest that FERC would have allowed on outstanding balances due from California. FERC had previously ruled that receivables from California would include interest, which would have added approximately \$13.2 million to the \$21 million receivable.

The dispute involves numerous parties such as Southern California Edison ("SCE"), Pacific Gas and Electric ("PG&E") and certain other entities represented by the California Attorney General and involves market pricing issues during that turbulent time in the western energy markets. There has been litigation in the courts and numerous related proceedings before FERC. After more than seven years of litigation and failed attempts at mediation and settlement, the central issues remained far from resolution. As a result of this contentious and on-going litigation, PSE has avoided transacting with the parties to the litigation in California. For this reason, PSE had not sold RECs into the California market. Instead, PSE has sold excess RECs into the voluntary REC market.

Over the past year, a number of events appeared to be developing in California energy policy and the renewable energy marketplace that PSE believed held the potential to redirect settlement discussions and monetize PSE's excess RECs to facilitate a settlement of the long-running litigation and also provide a large benefit for customers.

PSE believes that it is appropriate to use a relatively modest portion of the proceeds to satisfy the California Receivable because the tremendous increase in benefits that customers will receive would not have been available absent the settlement. In this proceeding, PSE is seeking recovery only of the approximately \$21 million California Receivable principal amount and not any accrued interest amount.