

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

Amended Petition of

PUGET SOUND ENERGY, INC.

For an Order Authorizing the Use of the
Proceeds from the Sale of Renewable Energy
Credits and Carbon Financial Instruments

Docket No. UE-070725

AMENDED PETITION

1. In accordance with WAC 480-07-395(5), Puget Sound Energy, Inc. ("PSE" or "the Company") submits this Amended Petition requesting that the Washington Utilities and Transportation Commission (the "Commission") issue an order authorizing PSE to defer the net revenues (the revenues from the sale of RECs and CFIs (as defined below), less the costs associated with such sale or to facilitate such sale of RECs and associated energy,) from the sale of Renewable Energy Credits ("REC") and Carbon Financial Instruments ("CFI") (collectively, "REC Proceeds") and to use these revenues in the manner set forth below:

(1) Provide funding for low income energy efficiency and renewable energy services;

(2) Credit a portion of the REC Proceeds to sums owed to PSE by several California utilities since 2001. This sum, the "California Receivable," reflects unpaid amounts owed to the Company from California utilities for power PSE sold into California during the 2000-2001 energy crisis; and

(3) Provide a credit to customers by offsetting the REC Proceeds against a regulatory asset.

INTRODUCTION

2. 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:

Amended Petition of PSE for an Order
Authorizing the Use of Proceeds
from the Sale of RECs and CFIs

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3. Statutes and rules that may be at issue in this Petition include RCW 80.01.040, RCW 80.28.024, WAC 480-07-370(1)(b) and WAC 480-07-395(5).

BACKGROUND

A. Renewable Energy Credits

4. Renewable Energy Credits, or RECs, are intangible assets. RECs represent the right (which may be a contractual right) to claim the environmental attributes¹ of a renewable generation facility associated with electricity generated from that facility. These

¹ “Environmental attributes” is here used to mean any and all certificates, credits, benefits, emissions reductions, environmental air quality credits, and emissions reduction credits, offsets, and allowances, howsoever entitled, resulting from the avoidance of the emission of any gas, chemical, or other substance attributable to the generation of the specified energy by the specified resource and the delivery of the specified energy to the electricity grid, and include without limitation any of the same arising out of legislation or regulation concerned with oxides of nitrogen, sulfur, or carbon, with particulate matter, soot, or mercury, or implementing the United Nations Framework Convention on Climate Change (“UNFCCC”) or the Kyoto Protocol to the UNFCCC or crediting “early action” with a view thereto, or laws or regulations involving or administered by the Clean Air Markets Division of the Environmental Protection Agency or successor administrator, any state or federal entity given jurisdiction over a program involving transferability of environmental attributes, but excluding wind production tax credits, investment tax credits, cash grants, or other financial incentives offered to encourage renewable generation development, if any.

renewable or green credits represent the environmental attributes from wind power or other renewable energy sources and can be used to support the development of renewable resources by displacing other non-renewable energy sources such as coal and natural gas generation. RECs are generally defined by three criteria: year of production (vintage); technology (*e.g.*, wind, landfill gas); and location (typically by state). Jurisdictions across the country use these three criteria to define eligible RECs under their policies, independent of each other and, to date, without federal guidelines.

5. REC markets are relatively new and in the earlier stages of their development. Markets emerging across the country are presently defined by each state's laws and regulations, and each state's laws and regulations are subject to ongoing pressures by affected parties seeking change to such laws and regulations. In general, RECs may be traded as a bundled product, where the electricity and environmental attributes are sold together to the purchaser, or unbundled, where only the environmental attribute is sold. As noted above, each state's rules pertaining to the definition of environmental compliance using bundled or unbundled RECs can vary.

6. RECs can be used to demonstrate compliance with a Renewable Portfolio Standard ("RPS"). Many states (including Washington) allow utilities to comply with an RPS through tradable renewable energy credits. RECs are characterized by the number of megawatt-hours ("MWh") generated from an eligible renewable resource (1 REC = 1 MWh).

7. Under the Energy Independence Act, codified as RCW 19.285, PSE is required to demonstrate that it is using eligible renewable resources or that it is acquiring equivalent RECs to meet 3% of its load by 2012, 9% of its load by 2016 and increasing to 15% of its load by 2020. RECs are defined for purposes of compliance with the RPS in RCW 19.285.030 (17), and nonpower attributes are defined in RCW 19.285.030 (13). PSE renewable resources that currently generate RECs or that may generate RECs in the future include but are not limited to the following: Hopkins Ridge wind plant, Wild Horse wind plant and solar plant, the Klondike III Purchased Power Agreement, and upgrades to PSE hydro facilities. PSE will have excess RECs until the Energy Independence Act's

requirements are effective in 2012, at which time the level of excess RECs will decline and perhaps end as the renewable requirements increase in the year 2020.

B. Carbon Financial Instruments

8. PSE holds proceeds from the sale of Carbon Financial Instruments (“CFI”) related to its participation in the Chicago Climate Exchange (“CCX”). (The commodity transacted at CCX is the CFI which represents the equivalent of 100 metric tons of CO₂.) Members of CCX make a voluntary—but legally binding—commitment to meet the annual emission reduction targets. CCX is a greenhouse gas emission registry, reduction and trading system for all six greenhouse gases. CCX is a self-regulated, rules-based exchange designed and governed by the CCX to reduce greenhouse gases. In February 2007, PSE formally joined CCX as a Phase 1 member. Phase 1 membership is limited to years 2003-2006. PSE elected not to participate in the Phase II program.

9. CCX members, including PSE, pledged to reduce emissions by 1% per year in Phase I, for a total 4% reduction in four years. The reductions a member was required to make were determined by a calculated baseline. The baseline for Phase I is equal to the direct emissions average for the period 1998 to 2001. Those members that reduce their emissions below the target have surplus allowances to sell, and those members who emit above the targets comply by purchasing CFIs from other members of CCX. Phase I of the CCX pilot had built-in provisions that protected members from being penalized if they missed their targets by growing too rapidly, and it also had built-in provisions or "safety valves" to prevent members from gaming or capitalizing unfairly. As a result, there was a maximum amount of credits that a member was allowed to sell each year.

10. The 1998-2001 baseline and emission output for 2003, 2004, 2005, and 2006 were calculated, audited, and verified by a third party reviewer (FINRA) and were approved by the CCX in November 2008. Following a completed audit, PSE is now eligible to trade a certain quantity of CFIs banked during each year. PSE’s membership with CCX will expire

November 14, 2009. As of July 31, 2009, PSE's net proceeds from sales of the CFIs are approximately \$700,000.

C. California Receivable Settlement

11. The California Receivable litigation has been on-going for over eight years at both the Federal Energy Regulatory Commission and in the courts. As discussed in more detail in the testimony of Tom De Boer filed with this Petition (Exhibit No. ____ (TAD-1T)), in late 2008, PSE developed a strategy for both settling the litigation and providing significant benefits for customers through the sale of PSE's excess RECs. A key component of the settlement is PSE's sale of two million MWhs of California RPS-eligible electric energy to Southern California Edison Company ("SCE") over a two year period. The settlement also required PSE to make an offer to sell an additional one million MWhs of California RPS-eligible electric energy to Pacific Gas & Electric Company ("PG&E"). The California Public Utilities Commission ("CPUC") approved the California Receivable litigation settlement and, separately, SCE's purchase of California RPS-eligible electric energy from PSE on June 18, 2009. The Federal Energy Regulatory Commission ("FERC") approved the California Receivable litigation settlement on July 1, 2009. CPUC consideration of PSE's transaction with PG&E is pending.

ALLOCATION OF ENVIRONMENTAL ATTRIBUTE PROCEEDS

12. PSE proposes that revenues from the sale of RECs and CFIs, less the costs (or credits) associated with such sale or to facilitate such sale of RECs and associated energy, be allocated in the manner set forth below and as described in the testimony filed concurrently with this Petition. These costs to be netted against revenues include expenses incurred in negotiating the transactions, finalizing the sale agreements and fulfilling the obligations under such agreements, including, but not limited to, attorney fees, broker commissions, royalty payments or other third party fees (such as WREGIS-related fees, the Center for Resource Solution fees and audit fees) and the net costs of the energy component of the transaction, if any. This Amended Petition is intended to address the disposition of net

proceeds from any and all sales of RECs and CFIs by PSE, including sales of future RECs and CFIs.

13. PSE's existing funds (*i.e.*, prior to any California RPS-eligible electric energy sales) from the sale of RECs and CFIs amount to approximately \$10 million. PSE proposes that these existing proceeds, plus the lesser of 20% of the proceeds from future sales or approximately \$10 million, for a combined total not to exceed \$20 million, be dedicated as additional funds to low income programs as described in more detail below and in the Joint Testimony of Eric E. Englert, Sandra M. Sieg, Danielle O. Dixon, Ann E. Gravatt, and Charles M. Eberdt (Exhibit No. ____JOINT-1T) ("Joint Testimony"). Further, PSE proposes that 40% of the REC proceeds, not to exceed \$21,062,800, that are received be allocated to offset the California Receivable that PSE has held on its books since the California energy crisis in 2000 and 2001. PSE proposes that the remainder of the REC proceeds be used to provide a credit to customers by offsetting the REC proceeds against a regulatory asset.

A. Low Income

1. Energy Efficiency Measures and Energy-Related Repairs

14. PSE proposes to use a portion of REC Proceeds for energy efficiency measures to supplement and enhance existing efforts. These proceeds would be used to cover the full spectrum of energy efficiency measures, including but not limited to energy education, home audit or assessment, installation of baseload and shell measures, and inspections.

15. Additionally, PSE proposes to use a portion of REC Proceeds for energy-related repairs that are necessary in order to install energy efficiency measures safely and properly in some low income homes. One of the greatest obstacles to making low-income homes more energy efficient is the degraded condition of the structures themselves. The necessity for repairs essentially strands the potential energy conservation that could be

captured. An energy-related repair is a repair that is necessary: (1) to install an energy efficiency measure properly; (2) to protect the health and/or safety of the occupants; (3) to address an existing problem that energy efficiency retrofit could aggravate (*e.g.*, moisture/mold problem); or (4) to protect the integrity of an installed measure. The following are representative examples of measures the categories above might include, but not be limited to: (1) removal of knob and tube wiring prior to installing attic insulation; (2) combustion safety/carbon monoxide testing or electrical service repair; (3) ensuring adequate ventilation in moisture producing rooms; and (4) roofing or siding repair to protect insulation.

2. Renewable Energy Systems for Low-Income Residential Locations

16. The Company proposes to use a portion of the REC Proceeds to further the application of renewable energy resources benefit low-income occupants. These renewable energy resources would include but not be limited to solar thermal hot water and photovoltaic systems. The use of REC Proceeds on such systems would expand the capacity of the eligible low-income agencies to install and maintain such systems and encourage a greater proliferation of such technology and a skilled support network. Depending on how quickly the technology develops, other renewable systems may be deemed appropriate.

3. Low-Income Program Allocation

17. As stated above, PSE currently maintains approximately \$10 million in REC Proceeds in a segregated account. PSE proposes to allocate these existing funds plus 20% of other REC Proceeds, not to exceed a combined total of \$20 million, to these low-income programs over a seven year period. The liability account used for tracking the low income programs will be included in working capital for rate purposes. The initial allocation of funds between the two low income programs shall be as follows: 80% allocated for low income energy efficiency measures and energy-related repairs; and 20% allocated to install renewable energy systems. If, in the future, funding from other sources increases to address

the need for energy-related repairs and to install energy efficiency measures, more of the REC funds can be allocated to the renewable energy systems program, at that time.

B. California Receivable

18. PSE and several California parties agreed to settle the ongoing litigation that arose out of the California energy crisis. A key component of the settlement is that all claims by the parties for costs of power delivered and received during the California energy crisis are resolved. Another key component of the settlement is PSE's sale of RECs and California RPS-eligible electric energy to California utilities.

19. PSE proposes that 40% of the REC Proceeds, not to exceed \$21,062,800, be allocated to offset the California Receivable that the Company has had on its books since the energy crisis in 2000 and 2001, and as to which PSE had pursued recovery since 2001. PSE has agreed to dismiss its claims seeking recovery of the California Receivable as part of the settlement agreement. The \$21 million receivable due from California utilities is net of approximately \$39.5 million in write-offs the Company 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.

C. Credit Against a Regulatory Asset

20. PSE proposes that the remaining REC Proceeds be used to offset an approved electric regulatory asset and that the regulatory asset be removed from general rate recovery. For example, in the Company's last general rate case the Commission approved the recovery of storm damage associated with the December 2006 wind storm. As of April 1, 2010 approximately \$68.3 million will remain to be collected from customers. If the Company were to remove this regulatory asset from its current rate filing the electric revenue deficiency would decrease approximately \$14.8 million. As storm damage is a component of

working capital, the removal of the \$68.3 million would also decrease the Company's currently filed gas revenue deficiency by approximately \$2.5 million.

21. The \$68.3 million would remain in account 182.3, Other regulatory assets, and the Company would accrue interest on the remaining balance using its most recently approved net of tax rate of return (currently $.07\%/.65 = 10\%$). As cash is received from the REC sales, the amount remaining after allocation to low income and the California Receivable would be allocated to the storm damage balance. If the total balance is paid off any additional REC Proceeds would be deferred in a regulatory liability account and would be addressed in the Company's next regulatory filing that adjusts electric general tariffs.

REQUESTED ORDER

22. By this Amended Petition, PSE respectfully requests an order that authorizes the Company to defer the net proceeds from the sale of RECs and CFIs and allocate these proceeds: (1) to low income energy efficiency, energy-related repairs and renewable energy programs; (2) to the California Receivable that PSE has held on its books since 2000-2001; and (3) as a credit to customers by offsetting proceeds against a regulatory asset.

23. In addition, PSE requests an order approving the following proposed accounting treatment:

All proceeds from the sale of RECs and CFIs, less the costs associated with such sale or to facilitate such sale of RECs and associated energy, if any (as described in paragraph 12 above) shall be deferred in Federal Energy Regulatory Commission ("FERC") Account No. 254 Other Regulatory Liabilities;

Corresponding deferred income taxes arising from the deferral of RECs shall be recorded in FERC Account No. 190 Accumulated deferred income taxes(account No. 254 and account No. 190 associated with this transaction shall be included in working capital for rate purposes);

Renewable generation resource plant that qualifies for capital treatment will be capitalized in FERC Account No. 101 Electric plant

in Service and depreciated consistent with other electric plant in service;

24. PSE respectfully requests that the Commission enter an order in the form attached as Exhibit A to this Petition.

DATED: October 7, 2009

PUGET SOUND ENERGY, INC.



Tom De Boer, Director, Federal and State
Regulatory Affairs

VERIFICATION

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

Tom De Boer, being first duly sworn, on oath deposes and says:

That he is Director, Federal and State Regulatory Affairs for Puget Sound Energy, Inc., that he has read the foregoing Petition, that he knows the contents thereof, and that he believes the same to be true to the best of his knowledge and belief under penalty of perjury.

Tom De Boer

Tom De Boer, Director, Federal and State
Regulatory Affairs

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

SUBSCRIBED AND SWORN to before me this 7th day of October, 2009

Cynthia G. Main

Print Name: CYNTHIA MAIN
Notary Public in and for the State of
Washington, residing at Kubla
My commission expires: 9-29-2011



VERIFICATION

EXHIBIT A

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

Amended Petition of

PUGET SOUND ENERGY, INC.

For an Order Authorizing the Use of the
Proceeds from the Sale of Renewable Energy
Credits and Carbon Financial Instruments

Docket No. UE-070725

ORDER (PROPOSED)

1. On April 13, 2007, Puget Sound Energy, Inc. ("PSE") filed a Petition for an accounting order related to net revenues from the sale of Renewable Energy Credits ("REC") and Emission Reduction Allowances. On October 6, 2009, in accordance with WAC 480-07-395(5), PSE filed an Amended Petition requesting that the Washington Utilities and Transportation Commission (the "Commission") issue an order authorizing PSE to defer the net revenues (the revenues from the sale of RECs and CFIs (as defined below), less the costs associated with such sale or to facilitate such sale of RECs and associated energy, if any,) from the sale of RECs and Carbon Financial Instruments ("CFI") (collectively, "REC Proceeds") and to use these revenues in the manner set forth below:

- (1) Provide funding for low income energy efficiency and renewable energy services;
- (2) Credit a portion of the REC Proceeds to sums owed to PSE by several California utilities since 2001. This sum, the "California Receivable," reflects unpaid amounts owed to the Company from California utilities for power PSE sold into California during the 2000-2001 energy crisis; and
- (3) Provide a credit to customers by offsetting the REC Proceeds against a regulatory asset.

ORDER (PROPOSED)

BACKGROUND AND MEMORANDUM

D. Renewable Energy Credits

2. In its Amended Petition, PSE explains that Renewable Energy Credits, or RECs, are intangible assets. RECs represent the right (which may be a contractual right) to claim the environmental attributes¹ of a renewable generation facility associated with electricity generated from that facility. These renewable or green credits represent the environmental attributes from wind power or other renewable energy sources and can be used to support the development of renewable resources by displacing other non-renewable energy sources such as coal and natural gas generation. RECs are generally defined by three criteria: year of production (vintage); technology (*e.g.*, wind, landfill gas); and location (typically by state). Jurisdictions across the country use these three criteria to define eligible RECs under their policies, independent of each other and, to date, without federal guidelines.

3. PSE further explains that in general, RECs may be traded as a bundled product, where the electricity and environmental attributes are sold together to the purchaser, or unbundled, where only the environmental attribute is sold. Each state's rules pertaining to the definition of environmental compliance using bundled or unbundled RECs can vary.

4. PSE states that RECs can be used to demonstrate compliance with a Renewable Portfolio Standard ("RPS"). Washington, for instance, allows utilities to comply with an RPS through tradable renewable energy credits. RECs are characterized by the

¹ PSE states that "Environmental attributes" is used in PSE's Amended Petition to mean any and all certificates, credits, benefits, emissions reductions, environmental air quality credits, and emissions reduction credits, offsets, and allowances, howsoever entitled, resulting from the avoidance of the emission of any gas, chemical, or other substance attributable to the generation of the specified energy by the specified resource and the delivery of the specified energy to the electricity grid, and include without limitation any of the same arising out of legislation or regulation concerned with oxides of nitrogen, sulfur, or carbon, with particulate matter, soot, or mercury, or implementing the United Nations Framework Convention on Climate Change ("UNFCCC") or the Kyoto Protocol to the UNFCCC or crediting "early action" with a view thereto, or laws or regulations involving or administered by the Clean Air Markets Division of the Environmental Protection Agency or successor administrator, any state or federal entity given jurisdiction over a program involving transferability of environmental attributes, but excluding wind production tax credits, investment tax credits, cash grants, or other financial incentives offered to encourage renewable generation development, if any.

number of megawatt-hours (“MWh”) generated from an eligible renewable resource (1 REC = 1 MWh).

5. Under the Energy Independence Act, codified as RCW 19.285, PSE is required to demonstrate that it is using eligible renewable resources or that it is acquiring equivalent RECs to meet 3% of its load by 2012, 9% of its load by 2016 and increasing to 15% of its load by 2020. PSE states that its Hopkins Ridge wind plant, Wild Horse wind plant and solar plant, the Klondike III Purchased Power Agreement, and upgrades to PSE hydro facilities are examples of resources that are either now generating RECs or may in the future. PSE explains that it will have excess RECs until the Energy Independence Act’s requirements are effective in 2012, at which time the level of excess RECs will decline and perhaps end as the renewable requirements increase in the year 2020.

E. Carbon Financial Instruments

6. PSE also states that it holds proceeds from the sale of Carbon Financial Instruments (“CFI”) related to its participation in the Chicago Climate Exchange (“CCX”).² PSE explains that CCX members, including PSE, pledged to reduce emissions by 1% per year in Phase I, for a total 4% reduction in four years. PSE states that it is now eligible to trade a certain quantity of CFIs banked during each year that it achieved emissions goals. PSE states that its membership with CCX will expire November 14, 2009, and as of July 31, 2009, PSE’s net proceeds from sales of the CFIs are approximately \$700,000.

F. California Receivable Settlement

7. PSE was a party to the California Receivable litigation, which has been on-going for over eight years at both the Federal Energy Regulatory Commission and in the courts. Details regarding the California Receivable litigation are provided in the testimony of Tom De Boer, filed with PSE’s Amended Petition (Exhibit No. ____ (TAD-1T)). PSE

² The commodity transacted at CCX is the CFI, which represents the equivalent of 100 metric tons of CO₂. See PSE’s Amended Petition for details regarding CFI proceeds.

explains that in late 2008, it developed a strategy for both settling the litigation and providing significant benefits for customers through the sale of PSE's excess RECs. A key component of the settlement is PSE's sale of two million MWhs of California RPS-eligible electric energy to Southern California Edison Company ("SCE") over a two year period. The settlement also required PSE to make an offer to sell an additional one million MWhs of California RPS-eligible electric energy to Pacific Gas & Electric Company ("PG&E"). The California Public Utilities Commission ("CPUC") approved the California Receivable litigation settlement and, separately, SCE's purchase of California RPS-eligible electric energy from PSE on June 18, 2009. The Federal Energy Regulatory Commission ("FERC") approved the California Receivable litigation settlement on July 1, 2009. CPUC consideration PSE's transaction with PG&E is pending.

ALLOCATION OF ENVIRONMENTAL ATTRIBUTE PROCEEDS

8. PSE proposes that revenues from the sale of RECs and CFIs, less the costs associated with such sale or to facilitate such sale of RECs and associated energy (if any), be allocated in the manner set forth below and as described in the testimony filed concurrently with its Amended Petition. PSE requests that these costs to be netted against revenues include expenses incurred in negotiating the transactions, finalizing the sale agreements and fulfilling the obligations under such agreements, including, but not limited to, attorney fees, broker commissions, royalty payments or other third party fees (such as WREGIS-related fees, the Center for Resource Solution fees and audit fees) and the net costs of the energy component of the transaction, if any. PSE's Amended Petition is intended to address the disposition of net proceeds from any and all sales of RECs and CFIs by PSE, including sales of future RECs and CFIs.

9. PSE states that its existing funds (*i.e.*, prior to any California RPS-eligible electric energy sales) from the sale of RECs and CFIs amount to approximately \$10 million. PSE proposes that these existing proceeds, plus an additional \$10 million from other REC

sales, for a combined total not to exceed \$20 million, be dedicated as additional funds to low income programs as described in more detail in the Joint Testimony of Eric E. Englert, Sandra M. Sieg, Danielle O. Dixon, Ann E. Gravatt, and Charles M. Eberdt (Exhibit No. ____ (JOINT-1T)). Further, PSE proposes that 40% of the REC proceeds, not to exceed \$21,062,800, that are received be allocated to offset the California Receivable that PSE has held on its books since the California energy crisis in 2000 and 2001. PSE proposes that the remainder of the REC proceeds be used to provide a credit to customers by offsetting the REC proceeds against a regulatory asset.

G. Low Income

1. Energy Efficiency Measures and Energy-Related Repairs

10. PSE proposes to use a portion of REC and CFI proceeds for energy efficiency measures to supplement and enhance existing efforts. These proceeds would be used to cover the full spectrum of energy efficiency measures, including but not limited to energy education, home audit or assessment, installation of baseload and shell measures, and inspections.

11. Additionally, PSE proposes to use a portion of REC and CFI proceeds for energy-related repairs that are necessary in order to install energy efficiency measures safely and properly in some low income homes. PSE and the joint witnesses state that one of the greatest obstacles to making low-income homes more energy efficient is the degraded condition of the structures themselves. An energy-related repair is a repair that is necessary: (1) to install an energy efficiency measure properly; (2) to protect the health and/or safety of the occupants; (3) to address an existing problem that energy efficiency retrofit could aggravate (*e.g.*, moisture/mold problem); or (4) to protect the integrity of an installed measure.

2. Renewable Energy Systems for Low-Income Residential Locations

12. The Company proposes to use a portion of the REC and CFI proceeds to further the application of renewable energy resources benefit low-income occupants. These renewable energy resources would include but not be limited to solar thermal hot water and photovoltaic systems.

3. Low-Income Program Allocation

13. As stated above, PSE currently maintains approximately \$10 million in REC and CFI proceeds in a segregated account. PSE proposes to allocate these existing funds plus 20% of other REC Proceeds, not to exceed a combined total of \$20 million, to these low-income programs over a seven year period. PSE proposes that the liability account used for tracking the low income programs be included in working capital for rate purposes. The initial allocation of funds between the two low income programs would be as follows: 80% allocated for low income energy efficiency measures and energy-related repairs; and 20% allocated to install renewable energy systems. If, in the future, funding from other sources would increase to address the need for energy-related repairs and to install energy efficiency measures, more of the REC funds can be allocated to the renewable energy systems program, at that time.

H. California Receivable

14. PSE proposes that 40% of the REC Proceeds, not to exceed \$21,062,800, be allocated to offset the California Receivable described above. PSE has agreed to dismiss its claims seeking recovery of the California Receivable as part of the settlement agreement. The \$21 million receivable due from California utilities is net of approximately \$39.5 million in write-offs the Company 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. PSE explains that FERC had previously ruled that

receivables from California would include interest which would have added approximately \$13.2 million to the \$21 million receivable.

I. Credit Against a Regulatory Asset

15. PSE finally proposes that the remaining REC proceeds be used to offset an approved electric regulatory asset and that the regulatory asset be removed from general rate recovery.

J. Proposed Accounting Treatment

16. In addition, PSE requests an order approving the following proposed accounting treatment:

All proceeds from the sale of RECs and CFIs, less the costs associated with such sale or to facilitate such sale of RECs and associated energy, if any (as discussed in paragraph 8, above) shall be deferred in Federal Energy Regulatory Commission ("FERC") Account No. 254 Other Regulatory Liabilities;

Corresponding deferred income taxes arising from the deferral of RECs shall be recorded in FERC Account No. 190 Accumulated deferred income taxes (account No. 254 and account No. 190 associated with this transaction shall be included in working capital for rate purposes) ;

Renewable generation resource plant that qualifies for capital treatment will be capitalized in FERC Account No. 101 Electric plant in Service and depreciated consistent with other electric plant in service;

FINDINGS AND CONCLUSIONS

17. 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.

18. On October 7, 2009, PSE filed with the Commission an Amended Petition for an accounting order authorizing PSE to defer the net revenues, less the costs associated with

ORDER (PROPOSED)

the sale or to facilitate the sale, from the sale of Renewable Energy Credits and Carbon Financial Instruments.

19. PSE's Amended Petition was supported by testimony of Tom De Boer in Exhibit No. ____ (TAD-1), and PSE's proposals with regard to low income assistance were supported by Joint Testimony of Eric E. Englert, Sandra M. Sieg, Danielle O. Dixon, Ann E. Gravatt, and Charles M. Eberdt in Exhibit No. ____ (JOINT-1T).

20. The accounting treatment methodology and disposition of net proceeds from the sale of RECs and CFIs proposed in the Amended Petition is reasonable and in the public interest, and should be approved.

DETERMINATION AND ORDER

WHEREFORE, THE COMMISSION HEREBY:

21. Approves the accounting treatment and disposition of net proceeds requested in PSE's Amended Petition dated October 7, 2009, with respect to the sale of Renewable Energy Credits and Carbon Financial Instruments.

22. 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.

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

ORDER (PROPOSED)

EXHIBIT A

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

JEFFREY D. GOLTZ, Chairman

PATRICK J. OSHIE, Commissioner

PHILIP B. JONES, Commissioner

ORDER (PROPOSED)