



Puget Sound Energy, Inc.
P.O. Box 97034
Bellevue, WA 98009-9734

April 13, 2007

Ms. Carole J. Washburn, Executive Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, W A 98504

**Re: Puget Sound Energy, Inc.'s Petition for Accounting Order
(Renewable Energy Credits and Emission Reduction Allowances)**

Dear Ms. Washburn:

Enclosed are an original and twelve copies of the Petition of Puget Sound Energy, Inc. for an Accounting Order regarding the deferral and use of the net revenues from the sale of Renewable Energy Credits and Emission Reduction Allowances to further the development of renewable generation resources in Washington State.

This petition is being submitted via the Washington Utilities and Transportation Commission's Records Center Web Portal electronic-filing system and by overnight mail

If you have any questions regarding this filing, please contact me at (425) 456-2797.

Very truly yours,

Karl R. Karzmar
Director, Regulatory Relations

Enclosures

cc: Bob Cedarbaum
Simon ffitc

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

Petition of

PUGET SOUND ENERGY, INC.

For an Order Authorizing the Use of the
Proceeds from the Sale of Renewable Energy
Credits and Emission Reduction Allowances
for Renewable Resource Research,
Development, and Demonstration Projects
and the Associated Accounting Treatment

Docket No. _____

PETITION

1. In accordance with WAC 480-07-370(1)(b), Puget Sound Energy, Inc. ("PSE" or "the Company") requests that the Commission issue an order authorizing PSE to defer the net revenues from the sale of Renewable Energy Credits ("RECs") and Emission Reduction Allowances ("ERAs"), and to use these revenues to further the development of renewable generation resources in Washington State or be credited to customers as described in this Petition.

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:

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

Petition of PSE for an
Order Authorizing the Use
Of Proceeds from the Sale
Of RECs and ERAs

Phone: 425-456-2797

PSE's representative for purposes of this proceeding is:

Sheree Strom Carson
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

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

BACKGROUND

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

¹ "Environmental attributes" is often defined 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

Petition of PSE for an
Order Authorizing the Use
Of Proceeds from the Sale
Of RECs and ERAs

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 and to provide a non-polluting alternative to avoid the environmental impacts of coal and natural gas generation.

5. REC markets are emerging across the country. RECs may be traded as a bundled product where the electricity and environmental attributes are sold together to the purchaser. However, in certain states, such as California, investor-owned utilities are required to ensure that the REC product is electronically tagged from source to load.

6. RECs may be used to demonstrate compliance with a Renewable Portfolio Standard ("RPS"). Unbundled REC sales separate the energy from the environmental attribute and allow the purchaser to only purchase the environmental attribute. Many states (including Washington, under the new Energy Independence Act) allow utilities to comply with an RPS through tradable renewable energy credits. RECs are characterized by the number of MWh generated (*1 REC = 1 MWh*); annual vintage of the REC; type of resource that generated the REC; and jurisdiction in which REC may be considered a renewable attribute.

7. RECs are a wasting asset. If not sold or otherwise "consumed" on a timely basis, REC value dissipates. In parts of the country, the vintage life of a REC is estimated to be 18 months, as determined by "Green E" certification, but this is not a universal definition, and each jurisdiction may have its own defined shelf life vintage for RECs. For example, in Washington State, a REC has potential value over a three year span, but must be used within

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, if any.

Petition of PSE for an
Order Authorizing the Use
Of Proceeds from the Sale
Of RECs and ERAs

either a two-year period in the past, or used within a two-year period into the future, where the period includes the year it was produced. This effectively gives the RECs in this state a two-year vintage life, in that it can be used from the previous year, the current year, or in one subsequent year.

8. REC markets are becoming more liquid. Purchasers of PSE's RECs may include entities both inside and outside the State of Washington. Purchasers could be utilities, corporate end-users, wholesalers/resellers of RECs or other parties. Each individual potential purchaser of RECs could have their own definition of what constitutes a REC, depending on their corporate or jurisdictional needs.

9. PSE proposes to preserve REC value for customers through renewable research, development, and demonstration projects. PSE expects to market RECs from 2007 and forward so long as a REC surplus exists, which may include RECs from various PSE resources that other entities consider renewable, such as Hopkins Ridge, Wild Horse, Snoqualmie Falls, and Electron. Thus, the sale of RECs generated by PSE's resources will be from resources that are considered renewable by the purchasers of such RECs. The proceeds from the sale of RECs will be dedicated to renewable resource research, development, and demonstration projects that are consistent with Washington State's definition of renewable and emerging technologies described in the Company's most recent Integrated Resource Plan.

Emission Reduction Allowances

10. PSE is also seeking to defer the revenues from the sale of credits relating to the reduction in greenhouse gas emissions through a pilot program offered through the Chicago Climate Exchange ("CCX"). CCX is a greenhouse gas emission registry, reduction and trading system for all six greenhouse gases ("GHGs"). CCX is a self-regulated, rules-based exchange designed and governed by CCX Members. For PSE to be able to get full credit for its Phase I emission reduction allowances (described below), PSE had to apply for membership in the CCX before December 31, 2006. PSE's application is, at the time of this
Petition of PSE for an
Order Authorizing the Use
Of Proceeds from the Sale
Of RECs and ERAs

filing, under review by CCX; PSE's membership in CCX would not be effective until after that review process is complete. Similar to the sale of RECs, PSE is seeking to use the net proceeds from the sale of Emission Reduction Allowances ("ERAs") to use in the research, development, and demonstration projects associated with renewable resources, consistent with emerging technologies described in the Company's most recently filed Integrated Resource Plan.

11. The CCX pilot is divided into two phases: Phase I commits members to reductions from 2003 to 2006, and Phase II that commits members to reductions between 2007 and 2010. Members pledge to reduce emissions by 1% per year in Phase I, for a total 4% reduction in four years, and if they elect to join Phase II, members pledge to reduce 1.5% per year during 2007-2010, for a total 6% reduction in four years. PSE does not presently intend to participate in the CCX Phase II program. Membership in CCX is wholly voluntary (for Phase I or Phase II); however, the pledge for emissions reduction is legally binding under the terms of the *CCX Accord*.

12. The reductions any member must make are made against a calculated baseline. The baseline for Phase I equals the emissions average for the period beginning 1998 to the end of 2001. The baseline for Phase II equals the emissions for 2000.

13. The CCX pilot has built in provisions that protect members from being penalized if they miss their targets by growing too rapidly, and it also has built in provisions or "safety valves" to prevent members from gaming or capitalizing unfairly. As a result, there is a maximum amount of credits that PSE will be allowed to sell each year.

14. Upon becoming a CCX member, PSE would participate in CCX's Phase I. Under the Phase I program, PSE would be able to trade a certain number of credits banked from Phase I years. The CCX allows members to bank a certain percentage of credits each year based on the allowed growth provision minus the annual sales amount. PSE's banked credits for 2003 to 2005 are shown in Exhibit A, attached to this Petition.

15. CCX's Phase I ended on December 31, 2006. PSE submitted its membership application because a failure to apply for membership on or before December 31, 2006 would have resulted in PSE not being able to trade credits earned during the Phase I period on CCX's exchange.

16. According to CCX, PSE has the potential "*to be a seller of emission reduction allowances for CCX Phase I (2003-2006)*".

17. PSE is requesting in this Petition that the Commission approve: (1) deferred accounting treatment for the revenues received from the sale of RECs or ERAs, net of costs; and (2) authorization to use the revenues to (i) develop renewable generation resources to be used to serve customers; or (ii) if any deferred REC and ERA proceeds are not designated or used for development of a renewable resource within 18 months of receipt, they will be transferred for customer benefit via the Company's Electric Conservation Program. PSE is not requesting in this Petition that the Commission address the prudence of any such resource acquisition.

18. Allowing the investment of the revenues to further develop renewable resources will:

- Allow funds to be invested in renewable energy research, development, and demonstration projects that have the potential to demonstrate a benefit to PSE's customers.
- Advance the development and deployment of specific clean renewable energy resources in the Pacific Northwest that are unlikely to meet the traditional "least cost" standard in the RFP process, and emerging technologies described in the Company's most recently filed Integrated Resource Plan.
- Foster growing interest by renewable developers in this state and in the region that will hopefully lead to a growing market for commercially viable renewable resource alternatives in the near future.
- Boost Washington State's renewable industry sector.

Petition of PSE for an
Order Authorizing the Use
Of Proceeds from the Sale
Of RECs and ERAs

- Further the understanding of the operational compatibility of various renewable projects with the current generation, transmission, and distribution system.

REQUESTED ORDER

19. By this petition, PSE respectfully requests an order that authorizes the Company to defer the proceeds from the sale of RECs and ERAs and invest at least an equal amount in renewable energy generation resources.

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

All proceeds from the sale of RECs or ERAs 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 and ERAs shall be recorded in FERC Account No. 190 Accumulated deferred income taxes;

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;

Renewable generation resource expenditures that constitute research and development or have short or indeterminate lives that would not call for capitalization will be charged to FERC Account No. 188, Research, development and demonstration expenditures, and amortized to the appropriate operation expense;

Renewable generation resource outside contractor, consulting or legal costs incurred, including the costs associated with the forming of contracts or construction management, as well as incremental intertie costs and other miscellaneous expenses, shall be charged to operation expense as appropriate;

Deferred REC and ERA proceeds will be amortized to expense consistent with the renewable generation resource depreciation, amortization or operation expense;


Petition of PSE for an
Order Authorizing the Use
Of Proceeds from the Sale
Of RECs and ERAs

Deferred REC and ERA proceeds not designated or used for a renewable generation resource within 18 months of receipt shall be transferred to the Company's Electric Conservation Program for application.

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

DATED: April 13, 2007

PUGET SOUND ENERGY, INC.

By 
Karl R. Karzmar
Director, Regulatory Relations

Petition of PSE for an
Order Authorizing the Use
Of Proceeds from the Sale
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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 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.




Karl R. Karzmar

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

SUBSCRIBED AND SWORN to before me this 13th day of April, 2007





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

EXHIBIT A

PSE's banked credits for 2003 to 2005

Annual Positions - August 2006 Analysis

Year	CO2 in Metric Tons			
	2003	2004	2005	2006
Baseline 1998 - 2001	6,882,448	6,882,448	6,882,448	6,882,448
Amount PSE Must Reduce (1% per Year)	68,824	137,649	206,473	275,298
Actual Amount Reduced by PSE	1,241,581	971,930	918,166	TBD
Maximum Amount PSE Can Sell Each Year	124,600	239,500	346,200	TBD
Amount PSE Can Bank For Phase II	--	35,798	66,747	TBD

**BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Accounting Order Authorizing the Use
of the Proceeds from the Sale of Renewable
Energy Credits and Emission Reduction
Allowances for Renewable Resource Research,
Development, and Demonstration Projects and
the Associated Accounting Treatment

Docket No. _____

ORDER (PROPOSED)

MEMORANDUM

1. On April 13, 2007, Puget Sound Energy, Inc. ("PSE" or "the Company") submitted a Petition for an order authorizing PSE to defer the net revenues from the sale of Renewable Energy Credits ("RECs") and Emission Reduction Allowances ("ERAs"), and to use those revenues to further the development of renewable generation resources in Washington State or be credited to customers as described in its Petition.

A. Background

Renewable Energy Credits

2. According to the Company, 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 and to provide a non-polluting alternative to avoid the environmental impacts of coal and natural gas generation

3. In its petition, the Company states that REC markets are emerging across the country and RECs may be traded as a bundled product where the electricity and environmental attributes are sold together to the purchaser. However, in certain states, such as California, investor-owned utilities are required to ensure that the REC product is electronically tagged from source to load

4. As explained by the Company, RECs may be used to demonstrate compliance with a Renewable Portfolio Standard ("RPS"). Unbundled REC sales separate the energy from the environmental attribute and allow the purchaser to only purchase the environmental attribute. Many states (including Washington, under the new Energy Independence Act) allow utilities to

¹ "Environmental attributes" is often defined 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, if any.

comply with an RPS through tradable renewable energy credits. RECs are characterized by the number of MWh generated (*1 REC = 1 MWh*); annual vintage of the REC; type of resource that generated the REC; and jurisdiction in which REC may be considered a renewable attribute.

5. The Company also explains that RECs are a wasting asset. If not sold or otherwise “consumed” on a timely basis, REC value dissipates. In parts of the country, the vintage life of a REC is estimated to be 18 months, as determined by “Green E” certification, but this is not a universal definition, and each jurisdiction may have its own defined shelf life vintage for RECs. For example, in Washington State, a REC has potential value over a three year span, but must be used within either a two-year period in the past, or used within a two-year period into the future, where the period includes the year it was produced. This effectively gives the RECs in this state a two-year vintage life, in that it can be used from the previous year, the current year, or in one subsequent year.

6. In its petition, PSE further asserts that REC markets are becoming more liquid. Purchasers of PSE’s RECs may include entities both inside and outside the State of Washington. Purchasers could be utilities, corporate end-users, wholesalers/resellers of RECs or other parties. Each individual potential purchaser of RECs could have their own definition of what constitutes a REC, depending on their corporate or jurisdictional needs.

7. According to its petition, PSE proposes to preserve REC value for customers through renewable research, development, and demonstration projects. PSE expects to market RECs from 2007 and forward so long as a REC surplus exists, which may include RECs from various PSE resources that other entities consider renewable, such as Hopkins Ridge, Wild Horse, Snoqualmie Falls, and Electron. Thus, the sale of RECs generated by PSE’s resources will be from resources that are considered renewable by the purchasers of such RECs. The proceeds from the sale of RECs will be dedicated to renewable resource research, development,

and demonstration projects that are consistent with Washington State's definition of renewable and emerging technologies described in the Company's most recent Integrated Resource Plan.

Emission Reduction Allowances

8. PSE is also seeking to defer the revenues from the sale of credits relating to the reduction in greenhouse gas emissions through a pilot program offered through the Chicago Climate Exchange ("CCX"). CCX is a greenhouse gas emission registry, reduction and trading system for all six greenhouse gases ("GHGs"). CCX is a self-regulated, rules-based exchange designed and governed by CCX Members. For PSE to be able to get full credit for its Phase I emission reduction allowances (described below), PSE had to apply for membership in the CCX before December 31, 2006. PSE's application is, at the time of this filing, under review by CCX; PSE's membership in CCX would not be effective until after that review process is complete. Similar to the sale of RECs, PSE is seeking to use the net proceeds from the sale of Emission Reduction Allowances ("ERAs") to use in the research, development, and demonstration projects associated with renewable resources, consistent with emerging technologies described in the Company's most recently filed Integrated Resource Plan.

9. The CCX pilot is divided into two phases: Phase I commits members to reductions from 2003 to 2006, and Phase II that commits members to reductions between 2007 and 2010. Members pledge to reduce emissions by 1% per year in Phase I, for a total 4% reduction in four years, and if they elect to join Phase II, members pledge to reduce 1.5% per year during 2007-2010, for a total 6% reduction in four years. PSE does not presently intend to participate in the CCX Phase II program. Membership in CCX is wholly voluntary (for Phase I or Phase II); however, the pledge for emissions reduction is legally binding under the terms of the *CCX Accord*.

10. The reductions any member must make are made against a calculated baseline. The baseline for Phase I equals the emissions average for the period beginning 1998 to the end of 2001. The baseline for Phase II equals the emissions for 2000.

11. The CCX pilot has built in provisions that protect members from being penalized if they miss their targets by growing too rapidly, and it also has built in provisions or "safety valves" to prevent members from gaming or capitalizing unfairly. As a result, there is a maximum amount of credits that PSE will be allowed to sell each year.

12. Upon becoming a CCX member, PSE would participate in CCX's Phase I. Under the Phase I program, PSE would be able to trade a certain number of credits banked from Phase I years. The CCX allows members to bank a certain percentage of credits each year based on the allowed growth provision minus the annual sales amount.

13. CCX's Phase I ended on December 31, 2006. PSE submitted its membership application because a failure to apply for membership on or before December 31, 2006 would have resulted in PSE not being able to trade credits earned during the Phase I period on CCX's exchange

14. According to CCX, PSE has the potential *"to be a seller of emission reduction allowances for CCX Phase I (2003-2006)"*.

15. PSE is requesting in this Petition that the Commission approve: (1) deferred accounting treatment for the revenues received from the sale of RECs or ERAs, net of costs; and (2) authorization to use the revenues to (i) develop renewable generation resources to be used to serve customers; or (ii) if any deferred REC and ERA proceeds are not designated or used for development of a renewable resource within 18 months of receipt, they will be transferred for customer benefit via the Company's Electric Conservation Program. PSE is not requesting in this Petition that the Commission address the prudence of any such resource acquisition.

16. PSE contends in its petition that investment of the revenues to further develop renewable resources will: 1) allow funds to be invested in renewable energy research, development, and demonstration projects that have the potential to demonstrate a benefit to PSE's customers; 2) advance the development and deployment of specific clean renewable energy resources in the Pacific Northwest that are unlikely to meet the traditional "least cost" standard in the RFP process, and emerging technologies described in the Company's most recently filed Integrated Resource Plan; 3) foster growing interest by renewable developers in this state and in the region that will hopefully lead to a growing market for commercially viable renewable resource alternatives in the near future; 4) boost Washington State's renewable industry sector; and 5) further the understanding of the operational compatibility of various renewable projects with the current generation, transmission, and distribution system.

B. Proposed Accounting Treatment

17. PSE requested in its Petition that the Commission approve the following accounting treatment:

All proceeds from the sale of RECs or ERAs 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 and ERAs shall be recorded in FERC Account No. 190 Accumulated deferred income taxes;

Limited Program generation 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;

Limited Program resource expenditures that constitute research and development or have short or indeterminate lives that would not call for

capitalization will be charged to FERC Account No. 188, Research, development and demonstration expenditures, and amortized to the appropriate operation expense;

Limited Program outside contractor, consulting or legal costs incurred, including the costs associated with the forming of contracts or construction management, as well as incremental intertie costs and other miscellaneous expenses, shall be charged to operation expense as appropriate;

Deferred REC and ERA proceeds will be amortized to expense consistent with the Limited Program depreciation, amortization or operation expense;

Deferred REC and ERA proceeds not designated or used for one of the Limited Program purposes within 18 months of receipt, shall be transferred to the Company's Electric Conservation Program for application.

FINDINGS

18. 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.

19. On April 13, 2007, Puget Sound Energy, Inc. ("PSE" or "the Company") submitted a Petition for an order authorizing PSE to defer the net revenues from the sale of Renewable Energy Credits ("RECs") and Emission Reduction Allowances ("ERAs"); and to use those revenues to further the development of renewable generation resources in Washington State or be credited to customers as described in its Petition.

20. The accounting treatment requested in the Petition is reasonable and in the public interest and should be approved.

21. The prudence of PSE's acquisition of resources as described in its petition is to be addressed in a future general rate case.

ORDER

WHEREFORE, THE COMMISSION HEREBY ORDERS:

22. PSE is hereby authorized to defer the proceeds from the sale of Renewable Energy Credits and Emission Reduction Allowances to be used for investment in qualified renewable energy generation resources as described in its Limited Renewable Resource Research, Development and Demonstration Program.

23. Approval is hereby given for the accounting treatment requested in PSE's Petition dated April 13, 2007, related to the sale of the RECs and ERAs and investment in qualified renewable energy generation resources as described in its Petition.

24. 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 acquiescence in any estimate or determination of costs claimed or asserted.

25. 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 SIDRAN, Chairman

PATRICK OSHIE, Commissioner

PHILLIP JONES, Commissioner