

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

Petition of	)	
	)	Docket No. UE-991918
PUGET SOUND ENERGY, INC.	)	
	)	
For an Order Regarding the Accounting	)	ORDER APPROVING
Treatment for the Assignment of a Gas	)	ACCOUNTING TREATMENT
Purchase Agreement from Cabot Oil &	)	
Gas Marketing Corporation	)	
. . . . .	)	

BACKGROUND

On December 8, 1999, Puget Sound Energy, Inc., ("PSE" or "the Company") filed a petition for an order regarding the accounting and rate making treatment of the Company's assignment of a gas purchase agreement from Cabot Oil & Gas Marketing Corporation ("Cabot").<sup>1</sup> The Gas Purchase Agreement relates to the gas supply at the Encogen cogeneration project, from which PSE purchases the electrical output. According to the Petition, assignment of the Gas Purchase Agreement allows the Company to lower the purchased gas costs at the Encogen facility, thereby producing significant savings. The Company estimates these savings at \$7.4 million. PSE requests an order allowing the Company to spread the costs associated with the Assignment over the remaining term of the Gas Purchase Agreement.

On October 27, 1999 in Docket No. UE-991498, the Commission approved accounting and rate making treatment for PSE's acquisition of the Encogen cogeneration project. In connection with its acquisition of the Encogen project, PSE also discussed with the project's gas suppliers reducing the gas supply costs of the facility. These discussions resulted in the letter of intent between PSE and Cabot, and the accompanying Assignment and Assumption Agreement. Under the Assignment and Assumption Agreement, PSE will pay to Cabot \$12.0 million, in return for which Cabot will assign to PSE the Gas Purchase Agreement. PSE will also incur expenses estimated to be \$906,000 related to the transaction.

According to the Petition, the Company's objective in entering into the Assignment and Assumption Agreement is to drive the gas cost element of the Gas Supply Agreement toward market, at a price and at a time that provides overall benefit to the Company and its customers. After the assignment, the Gas Purchase Agreement will be replaced with a new gas supply agreement with market pricing. The net savings in gas costs from the Encogen facility as a result of this transaction, less the effects of the accounting treatment, are estimated at \$7.4 million, according to the Company.

---

<sup>1</sup> The Gas Purchase Agreement between Encogen Northwest, L.P. and Cabot Oil & Gas Marketing Corporation (as successor-in-interest to Washington Energy Exploration, Inc.), dated November 27, 1991, as amended by the First Amendment to Gas Purchase Agreement, dated October 1, 1992 (collectively, the "Gas Purchase Agreement").

This proposal is structured such that the purchase price and financing costs are amortized in proportion to the gas cost savings over the original costs under the Gas Purchase Agreement, net of interest. According to the Company, this allocates a reasonable portion of the net savings in each of the remaining years under the Gas Purchase Agreement.

Proposed Accounting Treatment

The purchase of the Gas Purchase Agreement by PSE results in an effective reduction in the gas supply costs for the Encogen project in the future. PSE proposes to amortize the purchase price plus the costs to achieve the savings in a manner that matches the savings of each future year. This spreads the gas cost reduction benefits over the remaining term of the Gas Purchase Agreement, thereby making the buyout reasonable and economically attractive, according to the Company. The cost of money for purposes of calculating the interest on deferrals is assumed to be 8.0%.

To achieve the savings, the Company requires an accounting order that obtains the desired effect for rate making purposes and satisfies the Company's financial reporting and accounting needs. The Company requests an order which authorizes it to do the following for accounting and rate making purposes:

- (a) Capitalize, for recovery in rates, the purchase price paid by the Company for the Gas Purchase Agreement<sup>2</sup>;
- (b) Commence amortization of the purchase price immediately;
- (c) Capitalize the interest costs at a rate of 8% on the net regulatory assets for three years;
- (d) Commence amortization of the deferred balance (including the capitalized interest and the capitalized purchase price) based on the gas cost savings less interest expense in each of the remaining years as follows:

2000	2.06%
2001	4.97%
2002	7.20%
2003	9.52%
2004	11.98%
2005	14.68%
2006	17.78%
2007	20.96%
2008	10.85%

The unamortized balance will be included for rate making purposes for recovery in any future proceedings at the then-authorized rate of return; and

---

<sup>2</sup> The purchase price would include the \$12.0 million paid to Cabot for the assignment, as well as transaction costs incurred by PSE in connection with the assignment.

- e) For rate making purposes, amortize the tax deduction associated with the purchase price on a straight line basis over the remaining life of the contract, which expires June 30, 2008;

FINDINGS

THE COMMISSION FINDS:

- 1. 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 regulatory authority of the Commission as to its rates, service, facilities and practices.
- 2. On December 8, 1999, PSE filed a petition for an order regarding the accounting and rate making treatment of the Company's assignment of a gas purchase agreement from Cabot Oil & Gas Marketing Corporation ("Cabot"). The Gas Purchase Agreement relates to the gas supply at the Encogen cogeneration project, from which PSE purchases the electrical output.
- 3. Assignment of the Gas Purchase Agreement will provide the Company with the opportunity to achieve lower purchased gas costs at the Encogen facility, thereby producing significant savings for customers. The order requested by the Petition would allow the Company to spread the costs associated with the Assignment over the remaining term of the Gas Purchase Agreement.
- 4. The Company's proposed accounting treatment of the purchase price, as described above, is in the public interest.

ORDER

THE COMMISSION ORDERS:

- 1. Approval is hereby given for the accounting treatment proposed in the Company's Petition filed December 8, 1999, with respect to the Company's Assignment of a Gas Purchase Agreement from Cabot.
- 2. The Company is authorized to:
  - (a) Capitalize, for recovery in rates, the purchase price paid by the Company for the Gas Purchase Agreement (including transaction costs incurred by the Company);
  - (b) Commence amortization of the purchase price immediately;
  - (c) Capitalize the interest costs at a rate of 8% on the net regulatory assets for three years;
  - (d) Commence amortization of the deferred balance (including the capitalized interest and the capitalized purchase price) based on the gas cost savings less interest expense in each of the remaining years as set forth above. The unamortized balance will be included for rate making purposes for recovery in any future proceedings at the then-authorized rate of return; and
  - (e) For rate making purposes, amortize the tax deduction associated with the purchase price on a straight line basis over the remaining life of the contract;

3. The Company's actions in purchasing the gas sales contract, managing the cost of gas, and restructuring the power purchase agreement is subject to review in future rate proceedings; the Company bears the burden of proof in any such proceeding regarding these matters. Any costs determined to be unreasonable or imprudent in such proceedings are subject to disallowance.

4. The Commission's approval of the instant petition does not in any manner modify or affect the Commission's prior orders regarding standards or burden of proof in determining whether costs of a utility were imprudent or unreasonable, e.g., Washington Utilities and Transportation, Commission v. Puget Sound Power & Light Company, Docket Nos. UE-920499, UE-921262, (September 27, 1994).

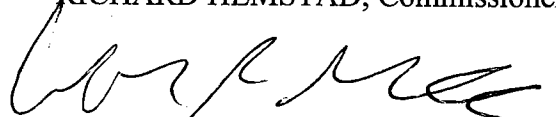
5. The Commission retains jurisdiction to effectuate the provisions of this order.

DATED at Olympia, Washington this 29th day of December, 1999.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

  
MARILYN SHOWALTER, Chairwoman

  
RICHARD HEMSTAD, Commissioner

  
WILLIAM R. GILLIS, Commissioner