

**BEFORE THE  
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

In the Matter of the Petition of  
  
PUGET SOUND ENERGY, INC.

For an Accounting Order Authorizing  
Accounting Treatment and Amortization  
Related to Payments Received by PSE for  
Taking Assignment of Westcoast Pipeline  
Capacity

Docket No. UE-10-\_\_\_\_\_

PETITION OF  
PUGET SOUND ENERGY, INC.  
FOR AN ACCOUNTING ORDER

**I. INTRODUCTION**

1. In accordance with WAC 480-07-370(b), Puget Sound Energy, Inc. ("PSE" or the "Company") respectfully petitions the Commission for an order that authorizes the accounting and ratemaking treatment detailed in this Petition related to PSE's receipt of funds from BNP Paribus Energy Trading Canada Corp. (formerly FB Energy Canada Corp.) ("BNP") in exchange for PSE's assumption of BNP's contractual benefits and obligations related to additional natural gas transportation capacity on the Westcoast Energy Inc ("Westcoast") pipeline that was formerly held by BNP.

2. PSE is not requesting in this Petition that the Commission address the appropriateness of PSE's assumption of the additional pipeline capacity from BNP. PSE will present its case on the appropriateness of the contract, and the discount obtained, in its next rate case. Thus, the Commission will have before it in the rate case proceeding the evidence and arguments necessary to address the appropriateness of the assumption.

3. 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 are:

Puget Sound Energy, Inc.  
Attn: John Story  
Director Cost and Regulation  
P.O. Box 97034  
Bellevue, Washington 98009-9734

PSE's representative for purposes of this proceeding is:

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4. Rules and statutes that may be at issue in this Petition include RCW 80.01.040, RCW 80.28.020, and WAC 480-07-370(b).

## II. BACKGROUND

5. BNP is the holder of natural gas pipeline capacity on the Westcoast pipeline which it had acquired at a discount through an auction of capacity when another holder of the capacity repudiated its contract. PSE acquired a portion of BNP's capacity from its predecessor (FB Energy Canada Corp.) in a similarly discounted transaction in October 2008 (See Accounting Petition at Docket No. UE-082013). BNP has determined that after March 31, 2010 the remainder of its current capacity is surplus to its needs and thus decided to reduce its holding of Westcoast capacity.

6. Because of BNP's decision to reduce its pipeline capacity holdings, PSE had the opportunity to take permanent release of 713.1 Cubic Meters per day (equivalent of 25,180 Mcf/day or 25,853 Dth/day) of BNP's Westcoast pipeline capacity, effective April 1, 2010. This assumption of capacity includes a one-time payment from BNP to PSE of CAN\$4.75 million. The transactions necessary to complete the Westcoast release were completed on March 10, 2010, and PSE received BNP's payment of CAN\$4.75 million from escrow on March 11, 2010. The CAN\$4.75 million equates to US\$4.6 million on the date of receipt.

7. The Westcoast pipeline capacity will provide firm transportation of gas supplies from the northern British Columbia "Station 2" supply hub to the Sumas Export interconnect with Northwest pipeline. The Sumas Export point also interconnects to the pipelines serving PSE power generation facilities at Whitehorn and Sumas. The Station 2 supply trading point is growing in volume and liquidity, as compared to the historic Sumas supply point. The capacity provides the opportunity to mitigate risk associated with acquiring all of PSE's generation gas

requirements at the Sumas trading hub. The contract that PSE has agreed to assume has a remaining primary term through October 31, 2018.

8. Through analysis performed in conjunction with PSE's 2005, 2007 and 2009 Least Cost Plans, PSE identified a strategic need for the Westcoast pipeline capacity. PSE also identified Westcoast pipeline capacity as necessary to support PSE's growing fleet of gas-fired generation. PSE had included 20,000 Dth per day of new Westcoast pipeline capacity in the rate year power costs of its most recent rate case under WUTC Docket No. UE-090704. While the capacity obtained here is slightly larger (25,853 Dth/day), the discount proposed to be amortized offsets much of the higher cost of the larger capacity. PSE will provide additional details regarding its analyses and conclusions related to the BNP capacity acquisition in its next rate case filing.

9. The US\$4.6 million payment received by PSE from BNP will be treated as taxable income for federal income tax purposes. While this US\$4.6 million is taxable at the time of receipt, PSE is proposing to normalize the tax of US\$1.6 million (US\$4.6 million multiplied by 35%) over the same time period proposed in this Petition for amortization of the US\$4.6 million.

10. The underlying intent of PSE's acquisition of the Westcoast pipeline capacity from BNP was to obtain gas transportation capacity needed to support PSE's risk mitigation strategy as identified in PSE's most recent general rate case under WUTC Docket No. UE-090704 at a discount from prices that PSE's electric customers would otherwise have to pay for

such transportation. The US\$4.6 million payment from BNP represents an 11.50% discount from the expected cost of the Westcoast pipeline capacity over the term of the assumed contract.

11. PSE seeks in this filing to obtain approval for deferred accounting treatment and amortization of the US\$4.6 million such that the payment and related deferred tax can be used to offset the capacity costs that will flow to PSE's electric customers over the remaining life of the Westcoast pipeline contract as the additional capacity is utilized within PSE's power generation portfolio, commencing April 1, 2010.

### **III. PROPOSED ACCOUNTING AND RATEMAKING TREATMENT**

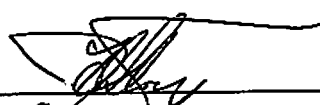
12. For the Westcoast pipeline capacity from Station 2 to Sumas, the Company proposes: (1) to defer the US\$4.6 million payment from BNP as a regulatory liability; (2) to amortize the deferred amounts against the Westcoast pipeline capacity payments straight-line over the life of the contract – April 1, 2010 through October 31, 2018 in the same manner as previous credits; and (3) to provide deferred federal income taxes on the difference between the tax and regulatory treatment. The details of the proposed accounting are shown for the original deferral and first month's amortization in Exhibit A to this Petition attached hereto.

### **IV. PRAYER FOR RELIEF**

13. Based on the foregoing, PSE respectfully requests that the Commission issue an Accounting Order in the form attached as Exhibit B.

DATED this 30th day of March, 2010.

**PUGET SOUND ENERGY, INC.**



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John Story  
Director, Cost and Regulation



Amortization of Westcoast pipeline capacity pre-paid discount

Proposed Accounting

		<u>Acc. No.</u>	<u>Debit</u>	<u>Credit</u>
1	<b>Upon receipt of cash from BNP the Company will record a deferred regulatory liability to be amortized against the capacity demand charge through October, 2018. The Company will record a deferred tax debit to offset the current taxes payable on the transaction.</b>			
a	<b>To record the receipt of cash</b>			
	Dr. Cash	131	\$ 4,614,625	
	Cr. Deferred credits	253		\$ 4,614,625
b	<b>To transfer the deferred liability to regulatory credits upon Commission approval of the accounting petition</b>			
	Dr. Deferred credits	253	\$ 4,614,625	
	Cr. Other regulatory liabilities	254		\$ 4,614,625
c	<b>To record the current tax liability and related deferred taxes</b>			
	Dr. Current income tax expense	409	1,615,119	
	Cr. Current income tax payable	236		1,615,119
	Dr. Accumulated deferred income taxes	190	1,615,119	
	Cr. Deferred income tax expense	411		1,615,119
2	<b>Monthly (starting April 1, 2010), the deferred liability will be amortized against the monthly pipeline capacity charge related to the capacity acquired. (example of first month's transaction)</b>			
a	<b>To record the capacity charge and related taxes</b>			
	Dr. Power Costs	547	333,131	
	Cr. Cash	131		333,131
	Dr. Current income tax payable	236	116,596	
	Cr. Current income tax expense	409		116,596
b	<b>To record the amortization of the deferred regulatory liability and related deferred taxes</b>			
	Dr. Other regulatory liabilities (See Note 1)	254	44,802	
	Cr. Power Cost amortization	547		44,802
	Dr. Deferred income tax expense	410	15,681	
	Cr. Accumulated deferred income taxes	190		15,681

**Note 1:**

**Monthly amortization = US\$4,614,625 : 103 months**