BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY, INC. COMMISSION STAFF AND THE INDUSTRIAL CUSTOMERS OF. NORTHWEST UTILITIES For an Accounting Order Authorizing Accounting Treatment of Offsets to the Balance of Production Tax Credits	Docket No. UE-10-____ PETITION FOR AN ACCOUNTING ORDER

I. INTRODUCTION

1. In accordance with WAC 480-07-370(1)(b), Puget Sound Energy, Inc. ("PSE"), Commission Staff, and the Industrial Customers of Northwest Utilities (the "Petitioners") respectfully petition the Commission for an order authorizing the accounting treatment detailed in this Petition related to the surplus amount that has been credited to customers through PSE's Production Tax Credit ("PTC"). In this Petition, the Petitioners request that the surplus PTCs that have been flowed through to customers be offset against a portion of Renewable Energy Credits ("REC") proceeds allocated to PSE's customers in Docket No. UE-070725 and received by PSE after November 30, 2009. Concurrently with this petition, the Petitioners are filing a motion and proposal ("Proposal") concerning the crediting method for REC proceeds that was agreed upon in Docket No. UE-070725 by PSE, Commission Staff, and the Industrial Customers

of Northwest Utilities.[1] The Petitioners request that the Commission consolidate this Petition with Docket No. UE-070725. The Petitioners further requests an order authorizing the accounting treatment requested herein.

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 are:

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

PSE's representatives for purposes of this proceeding are:

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[1] All parties to Docket UE-070725 were invited to participate in discussions regarding the REC Proposal. Public Counsel participated in the discussions, and NW Energy Coalition, The Energy Project and the Renewable Northwest Project did not participate actively. Although not joining in the Proposal or this Accounting Petition, the parties to Docket UE-070725 do not object to the Proposal or to this Petition. The Federal Executive Agencies ("FEA") appeared at the prehearing conference in Docket UE-070725 but did not intervene in that docket. FEA is aware of the Proposal and this Petition but has not reviewed them and does not plan to do so.

3. Commission Staff's representative for purposes of this proceeding is:

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4. ICNU's representative for purposes of this proceeding is:

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5. 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(1)(b).

II. BACKGROUND

A. PTC Balance

6. In Order 04 from Docket No. UE-050870, the Commission approved PSE's proposal to create a new schedule, Production Tax Credit Tracker Schedule 95A. Schedule 95A provided for crediting electric customers' bills with the PTCs that were provided as a subsidy by

the U.S. Government for generating electricity from wind. As explained in Appendix B to Order 04:

> To properly flow these tax credits through to the customer, the Company proposal is to create a PTC tracker that will pass through to the customer the actual production tax credits as they are generated and the tracker would not be subject to the sharing bands in the PCA. This pass through will be adjusted by the carrying costs for the deferred tax account for the PTCs that have been generated but have not been used for the current years tax credit. As the customer is receiving the benefit of the tax credits as they are generated and the Company does not receive a credit from the IRS until the tax credits are utilized the Company is reimbursed its carrying costs for funds through this calculation.

7. When Schedule 95A was proposed PSE expected that the timing difference between when the PTCs were credited to customers and when PSE would receive the subsidy from the U.S. Government would be relatively short. Through December 2007 this in fact was the case. Although the balance of the deferred tax account did not reach zero or go negative during this time period, the varying balance shows that there were additions and reductions to the receivable from the U.S. Government as the PTCs were generated and utilized in PSE's tax return. In contrast, the balance consistently grows after December 2007.

8. In 2008, the U.S. Government adopted tax changes that provided PSE additional tax deductions. These changes, plus tax deductions that PSE was allowed for adding new resources, severely limited the amount of PTCs that PSE could use against any tax liability. Since December 2007, the balance of the deferred tax account has grown from $6.3 million to $61 million, as of June 2010.

9. On June 24, 2010, the Commission entered Order 02 in Docket UE-091703. Order 02 zeroed out PSE's Tariff WN U-60, Tariff G, Schedule 95A- Production Tax Credit Tracker, due to the fact that PSE had not been able to use the tax credits that were being passed through to customers. As noted by the Commission in Paragraph 3 of Order 02:

> PSE has been unable to realize in recent federal income tax filings the production tax credits (PTCs) that it has been and is currently passing through the Tracker. The revision of Tracker rates to zero, which is a departure from the original Tracker mechanism approved by the Commission, will cease greater accumulation of interest-bearing cash balance advanced by PSE to the customers. To address the existing balance and to craft a workable mechanism to pass realized PTCs and Treasury grant benefits to the customers, PSE commits to work with Commission staff and other interested parties to undertake necessary modification of the pass-through mechanism. The zeroing out of Tracker rates serves as a practical undertaking by PSE considering the expected delayed benefit of generated PTCs and pending resolution of the balance owed the Company.

B. REC Proceeds

10. The Commission entered Order 03 in Docket UE-070725 on May 20, 2010, which required PSE to credit customers for REC proceeds received by PSE prior to November 30, 2009, and to create a regulatory liability for the purpose of flowing back to customers additional REC proceeds received after November 30, 2009.

11. After the Commission issued the orders discussed above, the parties to Docket No. UE-070725 met, and a Proposal is being submitted to the Commission concurrent with this Petition. The Proposal would allow customers to receive credits for REC proceeds while also using REC proceeds to offset the balance owed to PSE under the PTC Tracker.

III. OFFSET OF REC PROCEEDS AND PTCS AND ACCOUNTING TREATMENT

12. The Petitioners request that the Commission allow a portion of the REC proceeds received by PSE from December 2009 through December 2011[2] to be used to offset the PTCs

[2] In the Proposal in Docket UE-070725, the Parties propose that REC proceeds received by PSE through November 30, 2009 be credited back to customers over a six month period from October 2010 through March 2011. *See* Proposal at Attachments B and C.

that have been passed through to customers ("PTC customer receivable") but have not been used by PSE on its tax return. This offset of RECs and PTCs will occur during the time period October 2010 through December 2011 ("the REC/PTC offset period").

13. During the REC/PTC offset period, PSE will calculate the actual monthly balances of the REC liability and the PTC customer receivable. The actual balances will be used to track the difference between the amount credited to the customer based on the calculation in Attachment A hereto[3] versus the amount that is actually credited to the customer during a given month due to variance in loads. This calculation will also true up the interest calculation on the PTC customer receivable and REC outstanding balances. Interest on the REC balance will be calculated using the current net of tax rate of return on the REC balance with an offset for the REC balance included in current rates as a working capital item. A spreadsheet detailing this calculation will be provided to the Commission and all the parties to Docket UE-070725 for each month during the REC/PTC offset period.

14. Each month PSE will debit a contra-account to the regulatory liability for RECs credited to customers, net of revenue sensitive items, under a new schedule, Schedule 134, and credit account 456 (Other Electric Revenues). When this contra-account is expected to be equal to, or exceeds, the total revenue requirement set in Schedule 134, as shown on Attachment A, column (i) hereto, PSE will request that Schedule 134 be stopped. Any remaining balance associated with this refund, either over or under credited, will be cleared to the REC liability account.

[3] Attachment A hereto is the same as Attachment B to the Proposal.

15. Each month during the REC/PTC offset period a second debit entry will be made to another contra-account to the regulatory liability for the remaining RECs, which will be equal to the amount of RECs that are to be offset against PTCs as shown on Attachment A, column (j) hereto. The offsetting credit entry will be booked to account 456. A separate journal entry will be made to recognize the future liability to customers for the unused PTCs, which will debit account 407.3 (Regulatory Debit) with an offsetting credit to a regulatory liability account. This entry will be reversed as PTCs are used in future years and credits are provided in customers' bills.

16. In the event that the REC liability does not have a sufficient balance to remain as a net credit on the balance sheet after these two entries, the second entry will be adjusted so that the net balance in the REC regulatory liability account does not become a larger debit balance. Any recovery of PTCs that are delayed due to this type of adjustment will be carried forward until there is a sufficient balance in the regulatory liability account to cover the PTCs delayed and the interest calculation will reflect this delay.

IV. PRAYER FOR RELIEF

17. Based on the foregoing, the Petitioners respectfully request that the Commission consolidate this Petition with Docket No. UE-070725 and issue an Accounting Order in the form attached hereto as Attachment B.

DATED: September 21, 2010

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DATED: September 22, 2010

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