



PUGET
SOUND
ENERGY

October 15, 2004

Ms. Carole J. Washburn, Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250

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04 OCT 18 AM 10:05
STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

Re: Petition for Accounting Order

Dear Ms Washburn:

Enclosed for filing are an original and three (3) copies of a Petition for an Accounting Order authorizing deferral and recovery of investment and costs related to CanWest Gas Supply Inc.

The Petition and Attachments A and B contain confidential and proprietary information and have been marked confidential. Accordingly, with regard to the contents thereof, the Company claims confidentiality and protection from inspection or copying under WAC 480-07-160. The Company understands that, prior to any release of this material, it will be notified in order to allow the Company to invoke any and all statutory procedures for securing a court order protecting the materials as proprietary and confidential.

As required by WAC 480-07-160, the Company identifies itself, its shareholders and CanWest Gas Supply Inc. as the entities that might be directly affected by disclosure of the confidential information. Also, conforming to WAC 480-07-160, the confidential pages submitted herewith have been sealed in an envelope clearly marked Confidential and each page of the filing containing confidential information has been marked "Confidential per WAC 480-07-160."

Thank you for your assistance in this matter.

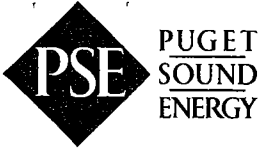
Very truly yours,

Karl R. Karzmar
Director, Regulatory Relations

Enclosure

Redacted Version
of
Puget Sound Energy's
Petition for Accounting Order Filing

October 15, 2004



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Ms. Carole J. Washburn, Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
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Thank you for your assistance in this matter.

Very truly yours,

Karl R. Karzmar
Director, Regulatory Relations

Enclosure

**BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Accounting Order Authorizing
Deferral and Recovery of Investment and
Costs Related to CanWest Gas Supply Inc.

Docket No. _____

PETITION

I. INTRODUCTION

1. In accordance with WAC 480-07-370(1)(b), and because of the termination of the Gas Purchase Contract entered into as of October 16, 1991 (the "Agreement"), between CanWest Gas Supply Inc. ("CanWest") and Encogen Northwest, L.P. ("Encogen"), a limited partnership owned by wholly owned subsidiaries of Puget Sound Energy, Inc. ("PSE" or the "Company"), PSE respectfully petitions the Commission for an order that authorizes the Company to:

- Defer in Account 254 "Regulatory Liabilities" the "Escalated Present Value Market Exposure Installment" ("Deferred Payment") as defined in the "Amendment No. 3 and Settlement Agreement" ("Settlement Agreement") attached to this Petition as Exhibit A.

- Amortize the Deferred Payment to Account 547 "Fuel" on a straight-line basis beginning November 1, 2005 and continuing through the remaining life of the original contract with CanWest: June 30, 2008.
- Amortize any deferred taxes arising from the Regulatory Liability consistent with the amortization of the Deferred Payment.
- Include the Deferred Payment in the calculation of the return on and amortization of regulatory assets under the Power Cost Adjustment Mechanism.

CanWest advised PSE they would cease supplying gas to Encogen pursuant to the Agreement as of November 1, 2005. The Company will receive the Deferred Payment as a reduction on its monthly billings from CanWest for the October 2004 through October 2005 billings. PSE asks the Commission to issue the requested order by January 15, 2005, so that PSE has that determination in time to make the final accounting entries for the Company's books for calendar year 2004.

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: Karl R. Karzmar,
Director, Regulatory Relations
P.O. Box 97034
Bellevue, Washington 98009-9734

3. Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040 and WAC 480-07-370(1)(b).

REDACTED

10. On October 8, 2004, PSE locked in a xxxx MMBtu/day gas supply that replaces xxxxxxxxxxxxxxxxxxxxxxxx of the amount of gas that CanWest will fail to deliver through the end of the Agreement term at a price equal to xxxx per MMBtu.

11. Currently the Company is recovering the cost of the original contract with CanWest in the PCA mechanism. Beginning November 1, 2005, the Agreement price is xxxx per MMBtu and increases to xxxx per MMBtu at the end of the Agreement term.

III. PROPOSED ACCOUNTING & RATEMAKING TREATMENT

12. The Company will receive the Deferred Payment as a reduction on its monthly billings from CanWest for the October, 2004 through October, 2005 billings. The calculation of the Deferred Payment is shown in Exhibit B to this Petition.

13. The Company requests the Commission's approval to:

a) Record the Deferred Payment from CanWest in Account 254, Other Regulatory Liabilities, as received from CanWest and the related deferred taxes in Account 190, Accumulated Deferred Income Taxes. This deferred gain of approximately xxxxxxxxxxxx will be amortized in equal amounts to Account 547, Other Power Generation – Fuel, beginning November, 2005 and continuing through the term of the original Agreement of June 30, 2008 or 32 months.

Deferred taxes are to be amortized consistent with amortization of the Deferred Payment

b) Include the regulatory liability recorded in Account 254 and the Deferred Tax benefit recorded in Account 190 and the amortization in the PCA calculation in the same manner as other power cost related regulatory assets

SUBSCRIBED and SWORN to before me this ____ day of [_____]
2004.

Print Name: _____
Notary Public in and for the State of
Washington, residing at _____
My commission expires: _____

LIST OF EXHIBITS

Exhibit A: Amendment No. 3 and Settlement Agreement

Exhibit B: Calculation of the Escalated Present Value Market Exposure Installment

Exhibit C: Proposed Accounting Order

REDACTED

Attachment A
Amendment No. 3 and Settlement Agreement

AMENDMENT NO. 3 AND SETTLEMENT AGREEMENT

REDACTED

REDACTED

REDACTED

REDACTED

REDACTED

REDACTED

Attachment B

Calculation of the Escalated Present Value Market Exposure Installment

Amendment No. 3 and Settlement Agreement
to the Gas Purchase Contract dated October 16, 1991 between
CanWest Gas Supply, Inc. and Encogen Northwest, L.P.

REDACTED

Attachment C
Proposed Accounting Order

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of)	DOCKET NO. UE-05_____
)	
PUGET SOUND ENERGY, INC.)	PROPOSED ORDER NO. 01
)	
)	ORDER AUTHORIZING
For an Accounting Order)	DEFERRAL AND RECOVERY OF
Authorizing Deferral and Recovery of)	INVESTMENT AND COSTS
Investment and Costs Related to)	RELATED TO CAMWEST GAS
CanWest Gas Supply Inc.)	SUPPLY INC.

.....

1 Docket No. UE-04____ is a petition by Puget Sound Energy (also referred to as PSE or the Company in this order) for Commission approval of an order that, in accordance with WAC 480-07-370(1)(b), and because of the termination of a Gas Purchase Contract entered into as of October 16, 1991 (the "Agreement"), between CanWest Gas Supply Inc. ("CanWest") and Encogen Northwest, L.P. ("Encogen"), a limited partnership owned by wholly owned subsidiaries of PSE, authorizes PSE to:

- a) Defer in Account 254 "Regulatory Liabilities" the "Escalated Present Value Market Exposure Installment" ("Deferred Payment") as defined in the "Amendment No. 3 and Settlement Agreement" ("Settlement Agreement") attached to this Petition as Exhibit A.
- b) Amortize the Deferred Payment to Account 547 "Fuel" on a straight-line basis beginning November 1, 2005 and continuing through the remaining life of the original contract with CanWest: June 30, 2008.
- c) Amortize any deferred taxes arising from the Regulatory Liability consistent with the amortization of the Deferred Payment.
- d) Include the Deferred Payment and associated deferred taxes in the calculation of the return on and amortization of regulatory assets under the Power Cost Adjustment Mechanism.

CanWest advised PSE they would cease supplying gas to Encogen pursuant to the Agreement as of November 1, 2005. The Company will receive Deferred Payment as a reduction on its monthly billings from CanWest for the October 2004 through October 2005 billings.

2 Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040 and WAC 480-07-370(1)(b).

BACKGROUND

3 In 1991, Encogen entered into the Agreement with CanWest for the supply of gas. At that time, Encogen was a limited partnership formed for the purpose of selling power produced by its combined cycle combustion turbine generating facility to PSE. On November 1, 1999, wholly owned subsidiaries of PSE created to facilitate the acquisition of the Encogen project purchased the interests of the general and limited partners of Encogen. On October 27, 1999, the Commission approved PSE's accounting order related to its acquisition of Encogen in its order in Docket No. UE-991498. All of the output of the Encogen electrical generation project is delivered to PSE.

4 At the time the Agreement was entered into, CanWest was the primary seller of the gas supplies for producers in British Columbia, Canada. CanWest did not, and does not, own gas assets, but rather aggregates and sells the Canadian producers' supply to buyers in the wholesale market.

5 The Agreement would not have expired pursuant to its terms until June 30, 2008. However, in February 2004, CanWest notified PSE that as of November 1, 2005, CanWest would cease receiving gas supplies from Canadian producers and that, accordingly, CanWest would fail to perform its obligations to deliver gas supplies to Encogen as of that time and thereafter.

6 Taking into consideration the importance of continuing good relations with Canadian producers, PSE entered into settlement discussions with CanWest. Such discussions resulted in the execution of an "Amendment No. 3 and Settlement Agreement" dated as of October 1, 2004, between CanWest and

Encogen attached to the Company's Petition as Exhibit A. Such agreement provides, among other things, for Encogen's recovery from CanWest of a portion of the difference between the market value of the undelivered gas supply, as determined per the Settlement Agreement, minus the contract value for such supply.

7 In connection with the execution of the Settlement Agreement, PSE analyzed market circumstances and conditions for purposes of replacing all or part of the gas supply that would otherwise have been delivered by CanWest under the Agreement. On October 4, 2004, PSE locked in gas supply replacing a portion of the amount of gas that CanWest will fail to deliver through the end of the Agreement term. On October 8, 2004, PSE locked in gas supply that replaced the remaining amount that CanWest will fail to deliver through the end of the Agreement term.

8 Currently the Company is recovering the cost of the original contract with CanWest in the PCA mechanism.

FINDINGS

9 PSE is a public service company furnishing electric and gas service primarily in the Puget Sound region of the State of Washington and is subject to the regulatory authority of the Commission as to its rates, service, facilities and practices.

10 On October 15, 2004, PSE filed with the Commission a Petition for an order regarding accounting and ratemaking treatment authorizing deferral and recovery of investment and costs related to CanWest Gas Supply Inc.

11 The accounting treatment proposed by PSE is reasonable, and should be approved.

ORDER

12 Authorization is hereby given for PSE to:

- a) Defer in Account 254, Regulatory Liabilities, the Deferred Payment as received from CanWest and the related deferred taxes in Account 190, Accumulated Deferred Income Taxes.
 - b) Amortize the Deferred Payment to Account 547, Other Power Generation – Fuel, on a straight-line basis beginning November 1, 2005 and continuing through the remaining life of the original contract with CanWest: June 30, 2008, or 32 months.
 - c) Amortize deferred taxes arising from the Regulatory Liability consistent with the amortization of the Deferred Payment.
 - d) Include the regulatory liability recorded in Account 254 and the Deferred Tax benefit recorded in Account 190 and the amortization in the PCA calculation in the same manner as other power cost related regulatory assets and amortization are treated. This treatment would allow for a net of tax rate of return to be applied to the balance of the regulatory asset during the period of amortization and would reflect the actual cost of gas purchased for Encogen in expense.
- 13 Nothing herein shall be construed to waive or otherwise impair the jurisdiction of the Commission over the rates, services, accounts, and practices of Applicant, Puget Sound Energy.
- 14 The Commission retains jurisdiction to effectuate the provisions of this Order.

Dated at Olympia, Washington, and effective this __th day of January, 2005.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

PATRICK J. OSHIE, Commissioner

NOTICE TO PARTIES: This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-07-870.