

**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-08-_____

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 FB Energy Canada Corp. ("FB Energy") in exchange for PSE's assumption of FB Energy's contractual benefits and obligations related to additional natural gas transportation capacity on the Westcoast Energy Inc ("Westcoast") pipeline that was formerly held by FB Energy.

2. PSE is not requesting in this Petition that the Commission address the prudence of PSE's assumption of the additional pipeline capacity from FB Energy. PSE will present its case on that issue in its next general rate case. Thus, the Commission will have before it in the general rate case proceeding the evidence and arguments necessary to address the prudence issue.

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

PSE's representative for purposes of this proceeding is:

Sheree Strom Carson
Donna Barnett
Perkins Coie LLP
10885 N.E. Fourth Street, Suite 700
Bellevue, WA 98004-5579
Phone: 425-635-1400
Fax: 425-635-2400
scarson@perkinscoie.com
dbarnett@perkinscoie.com

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. FB Energy 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. FB Energy has determined that after October 31, 2009 a portion of its current capacity is surplus to its needs and thus decided to reduce its holding of Westcoast capacity.

6. Because of FB Energy's decision to reduce its pipeline capacity holdings and through subsequent negotiations with FB Energy, PSE had the opportunity to take permanent release of 24,840 Mcf/day of FB Energy's Westcoast pipeline capacity, effective November 1, 2009, in exchange for a current one-time payment from FB Energy to PSE of CAN\$4.5 million and PSE's assumption of FB Energy's payment obligations for the pipeline capacity beginning November 1, 2009. The transactions necessary to complete the Westcoast release were completed on October 23, 2008, and PSE received FB Energy's payment of CAN\$4.5 million from escrow on October 24, 2008. The CAN\$4.5 million equates to US\$3,529,350.00 on the date of receipt. Hereafter, the payment received will be referred to as US\$3.5 million.

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 contract that PSE has agreed to assume has a remaining primary term through October 31, 2018.

8. Through analysis performed in conjunction with both PSE's 2005 and 2007 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. Subsequent updating of PSE's analyses indicated that acquisition of the FB Energy capacity can reasonably be expected to be the lowest cost resource addition to PSE's power generation portfolio, based on reasonably available resource alternatives. PSE will provide additional details regarding its analyses and conclusions related to the FB Energy capacity acquisition in its next general rate case filing.

9. PSE's tax department has determined that the US\$3.5 million that PSE received from FB Energy should be treated as taxable income for federal income tax purposes. While this US\$3.5 million is taxable at the time of receipt, PSE is proposing to normalize the tax of US\$1.2 million (US\$3.5 million multiplied by 35%) over the same time period proposed in this Petition for amortization of the US\$3.5 million.

10. The underlying intent of PSE's acquisition of the Westcoast pipeline capacity from FB Energy was to obtain immediately-needed gas transportation capacity (which will also be needed in the future) at a discount from prices that PSE's electric customers would otherwise have to pay for such transportation. The US\$3.5 million payment from FB Energy represents an 11.25% discount from the expected cost of the Westcoast pipeline capacity over the term of the assumed contract. PSE seeks in this filing to obtain approval for deferred accounting treatment and amortization of the US\$3.5 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 November 1, 2009.

III. PROPOSED ACCOUNTING AND RATEMAKING TREATMENT


11. For the Westcoast pipeline capacity from Station 2 to Sumas, the Company proposes: (1) to defer the US\$3.5 million payment from FB Energy as a regulatory liability together with deferred federal income taxes; and (2) to amortize the deferred amounts against the Westcoast pipeline capacity payments over the life of the contract- November 1, 2009 through October 31, 2018. 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

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

DATED this 5th day of November, 2008.

PUGET SOUND ENERGY, INC.




Karl Karzmar
Director, Regulatory Relations

VERIFICATION

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

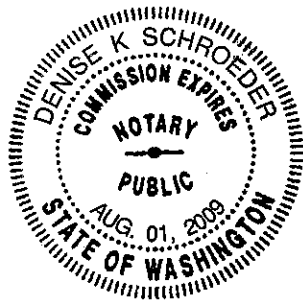
Karl Karzmar, being first duly sworn, on oath deposes and says:

That he is Director of Regulatory Relations with Puget Sound Energy, Inc., that he has read the foregoing Petition of Puget Sound Energy, Inc. for An Accounting Order, that he knows the contents thereof, and that he believes the same to be true to the best of his knowledge and belief.



Karl Karzmar

SUBSCRIBED and SWORN to before me this 5th day of November, 2008.



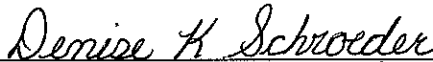

Print Name: Denise K Schroeder
Notary Public in and for the State of Washington,
residing at SNOQUALMIE, WA
My commission expires: 8-1-09

Exhibit A
Puget Sound Energy
Amortization of Westcoast pipeline capacity pre-paid discount

Proposed Accounting	<u>Acc. No.</u>	<u>Debit</u>	<u>Credit</u>
1 Upon receipt of cash from FB Energy 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.			
a To record the receipt of cash			
Dr. Cash	131	\$ 3,529,350	
Cr. Deferred credits	253		\$ 3,529,350
b To transfer the deferred liability to regulatory credits upon Commission approval of the accounting petition			
Dr. Deferred credits	253	\$ 3,529,350	
Cr. Other regulatory liabilities	254		\$ 3,529,350
c To record the current tax liability and related deferred taxes			
Dr. Current income tax expense	409	1,235,273	
Cr. Current income tax payable	236		1,235,273
Dr. Accumulated deferred income taxes	190	1,235,273	
Cr. Deferred income tax expense	411		1,235,273
2 Monthly (starting November 1, 2009), the deferred liability will be amortized against the monthly pipeline capacity charge related to the capacity acquired. (example of first month's transaction)			
a To record the capacity charge and related taxes			
Dr. Power Costs	547	249,642	
Cr. Cash	131		249,642
Dr. Current income tax payable	236	87,375	
Cr. Current income tax expense	409		87,375
b To record the amortization of the deferred regulatory liability and related deferred taxes			
Dr. Other regulatory liabilities (See Note 1)	254	32,679	
Cr. Power Cost amortization	547		32,679
Dr. Deferred income tax expense	410	11,438	
Cr. Accumulated deferred income taxes	190		11,438

Note 1:

Monthly amortization = US\$3,529,350 : (9 years * 12 months) = \$3,529,350 : 108 months