

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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

For an Order Authorizing the Deferral of the  
Net Proceeds from the sale of Biogas and  
Environmental Attributes and its Associated  
Accounting Treatment

Docket No. \_\_\_\_\_

PETITION FOR AN  
ACCOUNTING ORDER

**I. INTRODUCTION**

1. In accordance with WAC 480-07-370(1)(b), Puget Sound Energy, Inc. ("PSE" or the "Company") respectfully petitions the Commission for an order that would allow the creation of a Biogas Tracker. PSE requests the proceeds from the sale of biogas, which include environmental attributes and associated costs ("Net Biogas Proceeds"), be deferred and passed through to customers in a separate Biogas Tracker.

2. PSE is engaged in the business of providing electric and natural 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: Katherine J. Barnard  
Director of Revenue Requirements and Regulatory Compliance  
P.O. Box 97034  
Bellevue, Washington 98009-9734

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

## **II. BACKGROUND: BIOGAS IN PSE'S PORTFOLIO**

4. In October 2008, PSE entered into a twenty year contract to purchase all of the pipeline quality natural gas supply produced from the landfill-gas recovery project at the Cedar Hills Landfill in King County. The arrangement was the result of a collaborative effort among PSE, Bio Energy Washington (“BEW”) and King County to develop a project that captures the waste methane gas produced at the Cedar Hills Landfill, processes it to achieve pipeline quality supply, and delivers the gas into the Northwest Pipeline (“NWP”) interstate system.

5. In February 2011, PSE entered into an arrangement with King County that gave PSE all rights to the environmental attributes of the pipeline quality natural gas. Obtaining the environmental attributes of the Cedar Hills pipeline quality processed landfill gas created a renewable resource, biogas (“Cedar Hills biogas”), and enabled PSE to begin monetizing the environmental attributes for the benefit of its customers.

## **III. ENVIRONMENTAL ATTRIBUTES OF BIOGAS**

6. The environmental attributes of biogas are a marketable commodity – separate from the underlying fuel – though generally bundled with the physical gas, and may be used to demonstrate compliance with various state and federal programs, corporate environmental commitments or with the Environmental Protection Agency’s (“EPA”) Renewable Fuels Program<sup>1</sup>.

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<sup>1</sup> See Renewable Fuel Standard page on EPA WEB site: [www.epa.gov/otaq/fuels/renewablefuels/](http://www.epa.gov/otaq/fuels/renewablefuels/)

7. While there may be additional uses for the Cedar Hills biogas that materialize in the evolving compliance marketplace, PSE has identified four ways that the Cedar Hills biogas can be used today to yield some type of environmental attribute (and thus a marketable commodity with value).

**“Application 1” (Production of Renewable Energy Credits (“RECs”) for self-use):**

Biogas can be delivered (via the natural gas pipeline, trucked or similarly transported) to a natural gas fired generation facility and used to generate electricity. In this application, a REC would be produced for each megawatt hour of electricity generated from the biogas. PSE would deliver biogas to its own natural gas fired generation facility where the biogas would be used to generate electricity and RECs and such RECs could be used to satisfy PSE’s own Renewable Portfolio Standard (“RPS”) requirements.

As there is no environmental attribute premium revenue associated with using biogas under this application, transactions associated with Application 1 are not a subject of this accounting petition;

**“Application 2” (Sale of RECs produced from Biogas):**

Biogas can be delivered (via the natural gas pipeline, trucked or similarly transported) to a natural gas fired generation facility and used to generate electricity. In this application, a REC would be produced for each megawatt hour of electricity generated from the biogas. PSE would deliver biogas to its own natural gas fired generation facility where the biogas would be used to generate electricity and RECs and such RECs would be sold in the REC compliance market.

Transactions associated with Application 2 are a subject of this accounting petition;

**“Application 3” (Sale of Renewable Identification Number (“RIN”)):**

Biogas can be delivered (via the natural gas pipeline, trucked or similarly transported) and used as a transportation fuel to create a RIN as part of the EPA’s Renewable Fuels Program. If PSE finds third parties who would purchase and use the biogas as qualifying transportation fuel as defined in the EPA Renewable Fuels Program, PSE would earn RINs which it could then sell into the EPA’s Renewable Fuels Program compliance market. PSE received Category D5 RIN certification from the EPA in May 2013, which means that RINs generated when the Cedar Hills biogas is used as a transportation fuel will qualify for use as a D5 Category RIN in the compliance market. D5 RINs are used by transportation fuel refineries to meet certain EPA mandated compliance targets each year. The EPA program includes mandatory compliance targets that generally increase each year through 2025, therefore it is expected that this program will remain a viable market for the Cedar Hills biogas.

Transactions associated with Application 3 are a subject of this accounting petition; and

**“Application 4” (Sale of Gas with Environmental Attributes):**

Biogas can be sold and delivered (via the natural gas pipeline, trucked or similarly transported) to a third party (or marketer serving such third party) for an application of their choosing (e.g. consumed at a natural gas fired facility to generate a REC or used as a transportation fuel to generate a RIN or some other application of their choosing). If PSE sold biogas to third parties in this application, the third parties would pay a negotiated “green premium” for each MMBtu of biogas sold to such third party in addition to the market-based value of the underlying physical gas. In some

circumstances, the third party may offer a bundled price that does not distinguish a separate green premium. Until PSE received Level D5 RIN certification in May 2013, the net proceeds received from sales of biogas have been relatively immaterial and have been made under this Application 4. PSE believes that the majority of the Cedar Hills biogas will be sold under this Application 4 and that the green premium or bundled price will be reflective of the EPA Renewable Fuels Program RIN value.

Transactions associated with Application 4 are a subject of this accounting petition.

8. PSE will continuously analyze the various markets and opportunities for its Cedar Hills biogas. At this time, however, PSE has determined that it is more economically advantageous to PSE and its customers to sell the Cedar Hills biogas (which includes the related environmental attributes) as biogas (i.e. Application 3 or 4 above) than to use such biogas to create electricity (and thus RECs) (i.e. Application 1 or 2 above). PSE has entered into several short-term natural gas transactions to monetize the Cedar Hills biogas and continues to work on additional transactions. As circumstances change, PSE will direct the Cedar Hills biogas to the most valuable developed or yet to be developed environmental attributes market available.

9. Although subtle differences may exist in the negotiated transactions of the various applications listed above or being explored, PSE requests the approval to defer the Net Biogas Proceeds for what would be connected with the purchase and sale of the biogas and the premium from the *environmental attribute* regardless of what they are labeled (a RIN, a REC, a “green premium,” or other future designation, etc.). In short, this accounting petition would apply to Applications 2 through 4 and any like transactions involving the revenues and costs associated with the biogas and the environmental attributes of biogas.

#### **IV. NET BIOGAS PROCEEDS**

10. PSE proposes that the Net Biogas Proceeds, defined as the net revenues from the sale of any biogas and the environmental attributes of biogas, less the costs associated with, or to facilitate such sale of biogas, be allocated in the manner set forth below. The costs requested to be netted against revenues from the sale of biogas and the environmental attributes of biogas are proposed to include the underlying cost of the physical gas purchased from BEW (and other biogas suppliers, in the future) and the associated incremental transaction costs, including the cost of transporting and storing the biogas, to achieve its value. In addition, this petition seeks approval to defer costs similar to those included in the REC tracker. Such costs include, but are not limited to, attorney fees, broker commissions, royalty payments or other third party costs associated with the transaction.

#### **V. ACCOUNTING METHODOLOGY**

##### **A. Methodology Under Which PSE Is Currently Treating Revenues and Costs Associated With the Sale of Biogas and Related Environmental Attributes.**

11. Commission approval has not yet been granted for the accounting and ratemaking treatment for the Net Biogas Proceeds. It was originally contemplated that the net proceeds would be included with the Schedule 137 REC tariff. However, PSE has since determined that permission was never received from the Commission to defer certain costs that are associated with biogas for which there are no like type costs in the wind RECs included in Schedule 137. Examples of such costs are the purchase and sale of the physical biogas, the incremental transportation of the physical biogas and the incremental costs of storing the physical biogas that are necessary in order to maximize the value of the environmental attributes for customers. Accordingly, PSE is requesting such approval through this petition. Until this petition is granted

PSE has been and will be deferring the revenues for the environmental attribute transactions in FERC account 253. Additionally, PSE has also been offsetting these deferred revenues with the costs that are similar to those approved for deferral in Schedule 137. PSE has not, however, been deferring the sales revenues and purchase costs of the physical biogas<sup>2</sup> or the incremental transportation or storage costs and is not accruing interest on this deferral. Because it is uncertain what costs will ultimately be allowed in the deferral, PSE proposes that once the accounting petition is granted, interest at PSE's net of tax authorized rate of return, grossed up for income taxes, be calculated on the deferred balance from inception for all of the biogas revenues and costs that are approved for deferral in the petition and a true-up entry will be included for the interest.

12. The purchase costs and sale revenues of the physical biogas are currently included in PSE's Power Cost Adjustment mechanism ("PCA") Baseline Rate. PSE is requesting these costs be removed from the Baseline Rate (and the PCA) and be allowed to be deferred and included in the Biogas Tracker commensurate with the effective date of the Baseline Rate to be approved in PSE's Power Cost Only Rate Case filed April 25, 2013 under Docket No. UE-130617 ("2013 PCORC"). This request has also been made in the prefiled direct testimony of Mr. David E. Mills, Exhibit No. \_\_\_(DEM-1CT) in the 2013 PCORC.

**B. Proposed Accounting and Ratemaking Treatment for Net Biogas Proceeds.**

13. PSE requests approval to defer all net proceeds for biogas sales transactions currently in place and for like transactions going forward in a FERC Account 254, Other Regulatory Liabilities, and to include them in a separate tracker to be passed back or charged to

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<sup>2</sup> As noted below, the cost of the physical biogas is included in PSE's current baseline rate.

customers. This methodology will provide the best matching of costs and revenues and eliminate disparities associated with volumetric estimates of biogas production to ensure the full net value of the biogas is passed back to customers. Net biogas proceeds are to include:

i. Revenues:

1. Revenues associated with the sale of the underlying physical biogas (begin coincident with the effective date of the 2013 PCORC Baseline Rate); It should be noted that in some circumstances, it may not be possible to distinguish a separate price for the environmental attribute, separate from the physical gas. Therefore it is important to include the total revenue, whether bundled or separately identified, in the deferral; and
2. Revenues associated with the premiums for the environmental attributes of the biogas, be they in the form of a REC, a RIN, a Green Attribute, or any other like product.

ii. Costs:

1. Physical gas costs: The cost to PSE of the physical gas as determined in PSE's contracted price with Biogas Energy Washington and/or future contracted price with third parties (begin coincident with the effective date of 2013 PCORC Baseline Rate);
2. Incremental transaction costs associated with biogas environmental attributes, including, but not limited to: Any pipeline demand, transportation, fuel losses and storage charges specifically related to the storage and delivery of the biogas to the contracted third parties;
3. Associated Royalties; and
4. All other third-party costs including, but not limited to, attorney fees, broker commissions, royalty payments or other third party costs associated with the transaction.

14. Upon approval of this petition, net proceeds will be transferred to a FERC Account 254, Regulatory Liability. PSE will provide detailed worksheets and work with



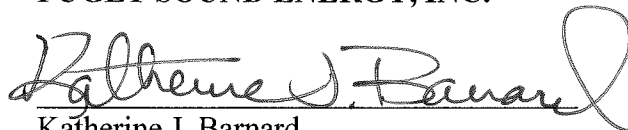
WUTC Staff to establish the proper one-time transfer value that properly integrates with the exclusion of costs from the PCA. At the beginning of each December, PSE will file an update to this Biogas Tracker for the net proceeds plus accrued interest from the prior twelve month ended September. The rate filing will also include a true-up associated with the difference between the forecast and actual load from the prior rate period. Such update and true-up will be passed back or charged to customers beginning that January 1<sup>st</sup> to align with the rate changes already occurring on PSE's Schedule 137 REC Tracker approved in its 2011 GRC under UE-111048 and UE-111049.

#### VI. PRAYER FOR RELIEF

15. Based on the foregoing, PSE respectfully requests that the Commission issue an Accounting Order authorizing the accounting treatment set forth in this petition.

DATED this 8th day of July, 2013.

**PUGET SOUND ENERGY, INC.**



Katherine J. Barnard  
Director of Revenue Requirements and  
Regulatory Compliance

VERIFICATION

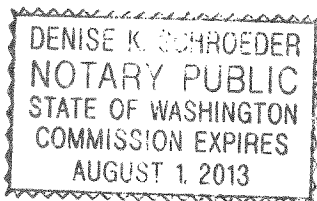
STATE OF WASHINGTON )  
 ) ss.  
COUNTY OF KING )

Katherine Barnard, being first duly sworn, on oath deposes and says:

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

*Katherine J. Barnard*  
Katherine J. Barnard

SUBSCRIBED and SWORN to before me this this 8th day of July, 2013.



*Denise K Schroeder*  
Print Name: Denise K Schroeder  
Notary Public in and for the State of Washington,  
residing at SNOQUALMIE, WA  
My commission expires: 8-1-2013