BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Amended Petition of **PUGET SOUND ENERGY, INC.** **For an Order Authorizing the Use of the Proceeds from the Sale of Renewable Energy Credits and Carbon Financial Instruments**	**Docket No. UE-070725** **PUGET SOUND ENERGY, INC.'S PETITION FOR RECONSIDERATION**

I. INTRODUCTION

1. Pursuant to RCW 34.05.470 and WAC 480-07-850, Puget Sound Energy, Inc. ("PSE") respectfully requests that the Washington Utilities and Transportation Commission (the "Commission") reconsider the Commission's Order No. 03, entered May 20, 2010, in this docket ("Order No. 03") with respect to the following issues: (1) the Commission's decision to both reduce PSE's rate base for ratemaking purposes and apply interest to the regulatory liability account in which the Renewable Energy Credit ("REC") proceeds will be booked; and (2) the Commission's calculation of the amount of REC Proceeds that PSE may retain to offset its California Receivable. PSE requests reconsideration for these issues so that any compliance filing may be accurately prepared and presented, to suggest technical changes that may be required to correct the application of principle to data, and to correct patent error.

II. STATEMENT OF FACTS AND ARGUMENT

2. PSE requests reconsideration of two items: (1) the Commission's determination that the regulatory liability account in which the REC proceeds received after November 30, 2009 are to be booked will both be deducted from rate base and accrue

interest,[1] which is contrary to the principle set forth by the Commission in numerous previous cases including PSE's most recent general rate case, Docket Nos. UE-090704 and UG-090705; and (2) the Commission's application of the $5.60 premium to *two million*[2] RECs despite the Commission's determination that "PSE's sale of *three million* RECs to SCE and PG&E. . . was tied to the settlement of the California Receivable" and "the price . . . included some premium."[3]

A. Reconsideration of Regulatory Liability Account

3. Paragraphs 90 and 96 of Order No. 03 require PSE to book REC proceeds received by PSE after November 30, 2009 to a regulatory liability account that will be used to reduce PSE's rate base for ratemaking purposes, and to amortize the balance in the account over ten years.

4. Paragraph 68 states that "[b]alances in the regulatory liability account will accrue interest at the rate we fix based on our determination following the receipt of an agreed proposal, or alternative proposals from the parties as discussed above." Further, Paragraphs 78 and 99 of Order No. 3 require PSE to provide additional evidence and argument to determine what interest rate should be applied to the REC Proceeds deferral balance.

5. The Commission has recently ruled that allowing interest to accrue on rate base that is also earning a return is not allowed because it would result in double recovery.[4] Similarly, under this principle, a regulatory liability that is being used to reduce rate base should not be allowed to accrue interest. The reduction in rate base includes the return on the rate base, and the customer should not be allowed to recover both the return and interest.

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[1] Order No. 03 at ¶¶ 5, 68, 88 and 90.
[2] Order No. 03 at ¶ 45.
[3] Order No. 03 at ¶ 44, emphasis added.
[4] *WUTC v. Puget Sound Energy, Inc.*, Docket Nos. UE-090704 and UG-090705, Order 11 at ¶¶ 242 and 247 (April 2, 2010).

6. Based on the Commission's recently stated principle, the appropriate interest rate to accrue to the regulatory liability account is zero. Accordingly, the Commission should not accrue any interest on the regulatory liability account due to double recovery, and thus PSE seeks reconsideration on this point.

B. Reconsideration of Amount of REC Proceeds to be Retained by PSE to Offset the California Receivable

7. PSE requests reconsideration of the calculation of the amount of REC Proceeds that PSE is allowed to retain to offset a portion of the California Receivable. Inconsistencies between paragraphs 44 and 45 of Order No. 03 indicate an error in the application of a premium to REC sales tied to settlement of the California Receivable litigation.

8. In paragraph 44 of Order No. 03, the Commission recognizes that PSE's sale of three million RECs to SCE and PG&E was tied to the settlement of the California Receivable litigation and that the sale price for these three million RECs included some premium. Paragraph 44 states:

> The evidence pertinent to this argument is decidedly mixed. On balance, however, we find that PSE's sale of *three million RECs to SCE and PG&E, from which the bulk of the Company's present and currently anticipated REC Proceeds are derived*, was tied to settlement of the California Receivable litigation. It also appears that the price at which PSE agreed to sell *these RECs* was sufficiently high to justify the Company's perspective that the sale price included some premium in consideration of PSE abandoning its litigation claims.[5]

9. Despite the Commission's determination that both the SCE *and* PG&E REC sales were tied to the settlement of the California Receivable litigation and that the sale price included some premium, the Commission determined a premium based on sales to only SCE and applied that premium to only SCE sales. In Paragraph 44, the Commission determined

[5] Order No. 03 at ¶ 44 (emphasis added and footnotes omitted).

that both the SCE *and* PG&E sales are tied to the settlement of the California Receivable litigation. However, in Paragraph 45 of Order No. 03, the Commission overlooks the sale to PG&E in calculating both the premium amount and the total amount of REC Proceeds to be retained by the Company:

> We interpret the evidence at hand to mean that the price PSE agreed to accept from SCE represented the high end of the market at the time of the settlement plus a premium for relinquishment of claims. By comparing this price to the high end of the sales prices PSE obtained in California for RECs that are wholly unrelated to the settlement, we find it is reasonable to infer a premium of $5.60 in the settlement price paid by SCE. This results in a total premium on the sale of RECs to SCE of $11.2 million, which is analogous to gross gain on sale of an asset, as in the Centralia case.[6]

10. The order contains no explanation of why the Commission would exclude the RECs sold to PG&E, when in the immediately preceding paragraph, the Commission had found that the three million RECs sold to SCE *and* PG&E were tied to the settlement and included some premium. Given that the Commission determined that PSE is entitled to recover a premium on the three million RECs sold to both SCE and PG&E in consideration of PSE abandoning its litigation claims, and that the Commission ultimately authorized a premium on only two million sales, omission of the PG&E portion is apparently an oversight.

11. Applying the same methodology that the Commission applied to the SCE sales results in a premium on the PG&E sale of $6.33.[7] Applying that $6.33 premium to the 1,000,000 RECs sold to PG&E as a result of the California Receivables litigation results in a total premium on the PG&E RECs of $6,330,000. Using the same 50/50 sharing methodology the Commission applied in paragraph 47 of Order No. 03 results in $3,165,000 of the PG&E premium to be allocated to PSE. The total amount of premium allocated to

[6] Order No. 03 at ¶ 45 (footnotes omitted).

[7] This result is calculated by applying the same price of wholly unrelated sales that the Commission used for the SCE sales to the price PSE obtained in the PG&E settlement transaction.

PSE from both SCE and PG&E sales tied to settlement of the California Receivables litigation is $6,456,000.

III. CONCLUSION

12. Based upon the foregoing, PSE respectfully requests that the Commission reconsider Order No. 03 and issue an order: (1) reflecting no interest accrual on the regulatory liability account; and (2) authorizing PSE to retain a premium on three million REC sales in the manner described above.

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