

Exhibit No. (EJK-4)
Docket UE-130617
Witness: Edward J. Keating

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKET UE-130617

EXHIBIT TO
TESTIMONY OF

Edward J. Keating

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

*Excerpt of PSE Response to
Commission Staff Data Request No. 54
(excludes confidential attachments)*

August 14, 2013

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket No. UE-130617
Puget Sound Energy, Inc.'s
2013 Power Cost Only Rate Case**

WUTC STAFF DATA REQUEST NO. 054

“CONFIDENTIAL” Table of Contents

DR NO.	“CONFIDENTIAL” Material
054	Attachment A to PSE's Response to WUTC Staff Data Request No. 054 is CONFIDENTIAL per Protective Order in WUTC Staff Docket No. UE-130617

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket No. UE-130617
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WUTC STAFF DATA REQUEST NO. 054

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It is Staff's understanding that during the Commission's July 26, 2013, Open Public Meeting representatives of PSE stated that Cedar Hills biogas was not being sold or burned, but was instead being stored.

1. Please confirm that staff's understanding of statements made by the company at the July 26, 2013, Open Meeting are accurate.
2. If the statements were accurate, please provide the volume of Cedar Hills biogas currently being stored and contrast that with the total amount of Cedar Hill biogas purchased since inception of the contract in 2009.
3. Please provide the accounting treatment for the stored Cedar Hills biogas.
4. Please provide the total dollar amount of Cedar Hills biogas purchases since inception of the 2009 contract.
5. Please provide any offsets to costs associated with purchases of the Cedar Hills biogas.
6. If any Cedar Hills biogas has been sold since inception of the contract, please provide the dates and quantities as well as the accounting treatment.

Response:

1. Puget Sound Energy, Inc. ("PSE") believes WUTC Staff's understanding of the statements made by PSE representatives at the July 26, 2013 meeting is accurate.
2. Subsequent to the meeting referenced in WUTC Staff Data Request No. 054, PSE checked its records and found that some of the Cedar Hills biogas has been sold since August 2011. PSE also confirmed that what was indicated at the open meeting and in PSE's Response to WUTC Staff Data Request No. 044 remains accurate: that PSE has never burned biogas in its own facilities and accordingly has never produced renewable energy credits ("REC") from the Cedar Hills biogas. In an effort to help all parties' understanding of the Cedar Hills contract, the following is a brief history of the Cedar Hills contract:

PSE signed a twenty-year contract to purchase all of the pipeline quality gas produced by the Cedar Hills Regional Landfill facility ("Cedar Hills"), which became effective with the facility's commercial operation date in May 2009. On February 11, 2011, PSE entered into an agreement with King County to purchase all of the Cedar Hills gas emission credits, providing PSE the right to all of the environmental attributes associated with the Cedar Hills biogas. During the time PSE did not have the right to the environmental attributes associated with the Cedar Hills gas, between May 2009 and February 10, 2011, the gas purchased from Cedar Hills was no different than other purchased physical gas and was pooled with PSE's other physical gas purchases, which was then sold or consumed in power generation in the normal course of business. Because PSE did not have the title to the environmental attributes, no RECs were generated from the gas consumed.

When PSE acquired the rights to the environmental attributes of the Cedar Hills gas on February 11, 2011, the Cedar Hills gas became a more valuable product: biogas, and PSE set up accounting procedures to separately track this biogas inventory. In analyzing the benefits of obtaining the environmental attributes, PSE had planned to generate RECs by using the biogas to generate power at its Mint Farm Facility, which had been certified for this application. However, by the time the rights to the attributes were secured, the market had evolved such that the Cedar Hills physical gas had greater value as biogas than could be derived through the generation of RECs. Accordingly, PSE changed its strategy from the burning of biogas to create RECs to instead monetizing the renewable attributes of the biogas. PSE worked with third parties to sell the biogas and, pending the outcome of the contract negotiations in February 2011, PSE began storing the production of Cedar Hills biogas. However, in March 2011, the Cedar Hills facility interrupted production due to the failure of a major processing plant component and did not resume biogas production until July 2012. PSE began delivering biogas under its contract obligations in the fall of 2012.

In July 2012, PSE recognized the prospect of qualifying for the Environmental Protection Agency's ("EPA") Renewable Fuels program. The EPA program, which is independent of Washington's Renewable Portfolio Standard program, allows the biogas to be used to produce Renewable Identification Numbers ("RIN"), which allows for a significantly higher value to be received through this program. Accordingly, in July 2012, PSE continued storing Cedar Hills biogas produced in excess of that needed to fulfill existing contract obligations until the biogas was certified for the EPA program. The Cedar Hills biogas received EPA certification in May 2013 for all inventoried biogas and all future biogas production. PSE began making deliveries under the EPA renewable fuel standard program in June 2013.

Since July 2012 and throughout the RIN certification process, PSE has continued to enter into transactions with third parties for biogas sales contracts to extract the best value for the Cedar Hills biogas.

As noted above, beginning February 2011 PSE separately tracked the Cedar Hills biogas in order 15100251. Attached as Attachment A to PSE's Response to WUTC Staff Data Request No. 054, please see a MS Excel spreadsheet that provides the monthly purchases, sales and (where applicable) ending inventory volumes of Cedar Hills gas since inception of the contract in 2009. In addition, Attachment A to PSE's Response to WUTC Staff Data Request No. 054 summarizes the accounting for the Cedar Hills biogas inventory, costs of biogas sold, revenues for biogas sold, costs associated with the sales of the biogas, revenues for the environmental attributes of the biogas and the credit PSE receives for pipeline maintenance under the contract.

3. PSE tracks the stored, or inventoried, Cedar Hills biogas in order 15100251, "Fuel Stock Cedar Hills Gas JP".
4. The total dollar amount of Cedar Hills biogas purchases since inception of the 2009 contract is provided in item 2 above.
5. PSE interprets "offsets to costs associated with purchases of the Cedar Hills biogas" to mean the sales proceeds of the *physical gas* volumes sold which is separately identified and accounted for from the environmental attributes of the Cedar Hills biogas. Currently this gain or loss on the sale of the physical biogas (not the environmental attributes) represents a power cost expense. PSE's pending accounting petition under WUTC Docket No. UE-131276 seeks to defer these costs with the proceeds from the sale of the attributes and to remove these costs from the power cost only rate case if approved. Revenues from the sales of the renewable attributes, along with certain selling expenses for the sale, are being tracked separately in order 25301141 and are included in Attachment A to PSE's Response to WUTC Staff Data Request No. 054. Please refer to Docket No. UE-131276 for PSE's request to defer and pass back to electric customers, the net proceeds of the Cedar Hills biogas, including PSE's proposal of the accounting for the purchase and sale of the Cedar Hills biogas and environmental attributes.
6. Attachment A to PSE's Response to WUTC Staff Data Request No. 054 provides the monthly activity of biogas sales since inception of the contract. As noted in PSE's Response to WUTC Staff Data Request No. 054(5), currently the purchase cost and sale proceeds of the physical biogas are a power cost and the environmental attributes and some of the associated cost of sales are being deferred in account 25301141. Pursuant to Docket No. UE-131276, PSE proposes that all of the costs and revenues associated with the Cedar Hills biogas be included in the biogas tracker once the baseline rate, which would exclude any costs or revenues associated with the biogas, is set for this proceeding.

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