

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	DOCKET NO. UE-070725
Complainant,)	
)	
v.)	ICNU’S ANSWER TO PSE’S AND
)	STAFF’S PETITIONS FOR
PUGET SOUND ENERGY, INC.,)	RECONSIDERATION
)	
Respondent.)	

I. INTRODUCTION

1 On May 28, 2010, Puget Sound Energy, Inc. (“PSE” or the “Company”) filed a petition for reconsideration (“PSE Petition”) of the Washington Utilities and Transportation Commission’s (“WUTC” or “Commission”) Order No. 3 in this docket, with respect to two 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 WUTC’s “calculation of the amount of REC proceeds that PSE may retain to offset its California Receivable.”^{1/} ICNU files this answer in opposition to PSE’s Petition and respectfully requests that the Commission deny reconsideration on both issues, for the reasons explained below.

2 On June 1, 2010, Commission Staff (“Staff”) also filed a petition for reconsideration (“Staff’s Petition”) of Order No. 3. Staff has requested that the WUTC reconsider its decision to allocate \$4.57 million of REC proceeds exclusively to low income

^{1/} PSE Petition at ¶ 1.

conservation during the 2010–11 period. ICNU fully supports Staff’s request, for the reasons explained in Staff’s Petition, and devotes the rest of this Answer to PSE’s Petition.

II. ARGUMENT

3 ICNU believes that the Commission rightly determined that REC proceeds should reduce PSE’s rate base,^{2/} and that amortized regulatory liability account balances should accrue interest.^{3/} However, if the Commission is inclined to grant reconsideration, it should alternatively order interest accounting in the same manner that production tax credits (“PTCs”) are treated—i.e., interest would accrue on unamortized account balances with no reduction to rate base until a rate proceeding. Similar to PTCs, the Commission should require that the interest rate be the Company’s weighted cost of capital.

4 As to whether REC sales to Pacific Gas & Electric (“PG&E”) should be factored in a receivables credit, the Commission appropriately excluded the one million RECs sold to PG&E.^{4/} ICNU respectfully maintains that PSE should not be allowed to retain any premium from REC sales; however, the Commission rightly distinguished the two million RECs sold to Southern California Edison (“SCE”), which satisfied PSE’s settlement offer, and the supererogatory sales to PG&E which followed. Still, to the extent the Commission finds inconsistency between Paragraphs 44 and 45 of Order No. 3, ICNU suggests a modification to Paragraph 44 to distinguish between SCE and PG&E proceeds.

A. Legal Standard

5 The Commission may grant reconsideration of a final order if a party files a request stating the specific grounds upon which relief is requested within ten days of service

^{2/} Order No. 3 at ¶¶ 90 and 96.

^{3/} Id. at ¶ 68.

^{4/} See Id. at ¶ 45.

of the order.^{5/} The purpose of a petition for reconsideration is to request that the Commission change the outcome regarding one or more issues in the final order.^{6/} PSE retains the burden of proof to establish that reconsideration should be granted.^{7/} Reconsideration may be granted if the petitioner identifies portions of the order that are erroneous or incomplete.^{8/} Accordingly, reconsideration should be denied if PSE cannot identify portions of the order that are erroneous or incomplete.^{9/} The Commission also should reject the reconsideration request if it is not well-reasoned or mischaracterizes and distorts the Commission's order.^{10/}

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The Commission should reject PSE's Petition because the Company mischaracterizes Order No. 3 and the evidence in the record with regard to "double recovery," and has not identified any erroneous or incomplete portions of Order No. 3 with regard to the exclusion of the PG&E REC sales to be retained by PSE. In its petition for reconsideration, PSE does not present any evidence to support its contention that the WUTC was in error by excluding the PG&E REC sale proceeds. By failing to demonstrate that the WUTC erred in issuing Order No. 3, PSE has not met its burden of proof for reconsideration and the Commission must deny PSE's petition.

B. Reduction of Rate Base with Interest Accrual is Appropriate

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The WUTC determined "that all REC revenues should be returned to the ratepayers who pay rates *to cover all of the costs* of the related resources."^{11/} To ensure this result, the Commission provided that regulatory liability account balances "will accrue

^{5/} RCW § 34.05.470; WAC § 480-07-850(1).

^{6/} WAC § 480-07-850(1).

^{7/} See RCW § 80.04.130(4); WAC § 480-07-540.

^{8/} WAC § 480-07-850(2).

^{9/} Id.

^{10/} E.g. WUTC v. Puget Sound Energy, Inc., Docket No. UE-031725, Order No. 15 at ¶¶ 5, 26 (June 7, 2004).

^{11/} Id. at ¶ 68 (emphasis added).

interest.”^{12/} This is logical because the Commission ordered PSE to amortize the balance of REC proceeds in a regulatory liability account over a ten year period;^{13/} in other words, the means toward ensuring that ratepayers receive a full return of REC proceeds—factoring a time value of money loss over the ten year amortization period—is to allow an interest accrual.

8 PSE wrongly contends that the Commission has ordered a “double recovery” for ratepayers.^{14/} This charge is baseless. The WUTC has not yet determined the interest accrual rate.^{15/} Moreover, PSE has no grounds to assert that the time value of money loss, to be recovered through the interest rate, will be exceeded (thereby leading to a “bonus” ratepayer recovery). Indeed, there is no reason to believe that the Commission will do anything *but* ensure that the interest accrual rate simply allows ratepayers to receive a full return on “all of the costs” already paid.

9 Nor does the final order in PSE’s last general rate case support the argument that the WUTC has now erroneously mandated a double recovery on REC proceeds.^{16/} PSE makes an inapposite comparison between ratepayer payment recovery and the Company’s return on rate base. Whereas PSE already receives a return on rate base, thereby rendering the accrual of interest on top of its return an impermissible double recovery,^{17/} interest on REC proceeds returned to ratepayers is not a double return upon anything. The accrual of interest on REC proceeds will simply allow ratepayers to recover “all” costs owed them, by accounting for monetary depreciation over the ten year amortization period. In essence, the

^{12/}

Id.

^{13/}

Id. at ¶ 96.

^{14/}

PSE Petition at ¶ 5.

^{15/}

Order No. 3 at ¶ 68.

^{16/}

PSE Petition at ¶ 5.

^{17/}

WUTC v. PSE, Docket Nos. UE-090704 and UG-090705, Order No. 11 at ¶¶ 242 and 247.

interest on REC proceeds results only in par value being received by ratepayers. Conversely, in PSE's last general rate case, the WUTC was concerned with an excessive "return on investment" via "carrying costs," which the Company assayed to accrue on top of its standard return.^{18/}

10 Nevertheless, if the Commission determines that an alternate accounting is necessary, REC proceeds should be handled in the same manner as PTCs. The Commission should order that interest accrue on the proceeds at the Company's weighted cost of capital to the time when the revenues actually reduce rate base in a rate proceeding. This will effectively account for the REC proceeds as a "below the line" item. This approach would also allow revenue to be easily tracked through to each customer class over the ten year amortization period.

C. The Commission Properly Allowed Receivable Credit Only for SCE Sales

11 In calculating a premium on the sale of RECs resulting in settlement of the California Receivables litigation, the WUTC excluded consideration of REC proceeds associated with PG&E.^{19/} This was appropriate because, as the Commission acknowledges, "PSE obtained . . . the settlement price *paid by SCE*."^{20/} In other words, the Commission found that REC sales to PG&E did not constitute any part of the actual "settlement price."

12 The Commission accurately attributed the settlement of the California Receivables litigation *solely* to the two million RECs purchased by SCE. PSE offered to settle the litigation for all utilities if a bid for two million RECs was accepted from any one

^{18/} Id.
^{19/} Order No. 3 at ¶ 45.
^{20/} Id. (emphasis added).

utility.^{21/} Within a week of making this offer, PSE accepted SCE's bid for all two million RECs.^{22/} In short, SCE alone occasioned the settlement of the California Receivables litigation. Indeed, only SCE submitted an advice letter to the California Public Utilities Commission ("CPUC") even referencing the settlement.^{23/} Tellingly, PG&E did not reference the settlement in its own, later submissions to the CPUC.^{24/} The simple explanation for this is that SCE had already satisfied the settlement conditions with its successful bid; therefore, PG&E's subsequent purchase of one million RECs did not constitute a "settlement price."

13 The Commission's statements in Paragraphs 44 and 45 need not be interpreted as inconsistent, as PSE argues.^{25/} There is nothing inherently inconsistent about the finding "that PSE's sale of three million RECs to SCE and PG&E . . . was *tied* to the settlement of the California Receivables litigation,"^{26/} and the determination that "PSE obtained . . . the *settlement price* paid by SCE."^{27/} PG&E's purchase of one million RECs was unrelated to the actual settlement price paid solely by SCE; rather, PG&E's purchase was a *byproduct* of the settlement process. Through SCE's successful bid for two million RECs, PG&E gained valuable intelligence of the price that it could obtain from PSE, to satisfy its own California requirements. Thus, REC proceeds associated with sales to PG&E may be in some sense "tied to the settlement," though not justifying equal treatment with SCE sale proceeds.

^{21/} De Boer, Exh. No. TAD-12HC at 3-4; accord De Boer, Confidential TR. 124:20-25, 173:14-22, 177:17-20.

^{22/} Schoenbeck, Exh. No. DWS-7 at 2, 4.

^{23/} Schoenbeck, Exh. No. DWS-8 at 3.

^{24/} PSE Response to WUTC Staff Data Request No. 023_ICNU-2.01_Attachment B.

^{25/} PSE Petition at ¶ 7.

^{26/} Order No. 3 at ¶ 44 (emphasis added).

^{27/} Id. at ¶ 45 (emphasis added).

Nonetheless, in the interests of clarity, if the Commission deems it appropriate to change the verbiage associated with these Paragraphs, Paragraph 44 could be modified to better establish the distinction between SCE and PG&E sale proceeds. This distinction is apparent in Paragraph 45, and the two Paragraphs should be changed only to distinguish between the settlement price paid by SCE and the proceeds from PG&E which are unrelated to the settlement price.

III. CONCLUSION

For the reasons stated above, ICNU respectfully asks that the WUTC deny both of PSE's reconsideration requests. Alternatively, the Commission could adopt the modest modifications explained in this Answer. Finally, ICNU confirms its full support for Staff's Petition on the exclusive allocation of REC proceeds to low income conservation.

Dated in Portland, Oregon, this 15th day of June, 2010.

Respectfully submitted,

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