

**BEFORE THE  
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Accounting Order Authorizing  
Accounting Treatment of Payment of \$89  
million by PSE to Chelan County Public Utility  
District No. 1 for the Purchase of Power.

Docket No. UE-\_\_\_\_\_

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 treatment detailed in this Petition for a payment due on April 27, 2006 that is related to PSE's purchase of power from Chelan Public Utility District No. 1 ("Chelan PUD") under a new power sales agreement (the "Chelan Contract"). PSE requests that the Commission issue the requested order by April 26, 2006, so that a Commission order is in place by the time that PSE is required

to provide an upfront capacity reservation charge payment in the amount of \$89 million to Chelan PUD.

2. PSE is requesting in this Petition that the Commission approve: (1) deferred accounting treatment of the \$89 million payment; and (2) the booking of carrying charges on that payment at PSE's approved net of tax rate of return. PSE is *not* requesting in this Petition that the Commission address: (1) the prudence of PSE's entry into the Chelan Contract; or (2) the rate treatment for recovery of PSE's \$89 million capacity reservation charge payment and carrying charges on that payment. PSE is currently presenting its case on these latter two issues in its general rate case, Docket No. UE-060266 et al., which was filed with the Commission on February 15, 2006. Thus, the Commission will have before it in the general rate case proceeding the evidence and arguments necessary to address the prudence and rate treatment issues.

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 for purposes of this proceeding are:

Puget Sound Energy, Inc.  
Attn: Karl R. Karzmar  
Director of Regulatory Relations  
P.O. Box 97034  
Bellevue, Washington 98009-9734

PSE's representative for purposes of this proceeding is:

Kirstin S. Dodge  
Perkins Coie LLP  
10885 N.E. Fourth Street, Suite 700  
Bellevue, WA 98004-5579  
Phone: 425-635-1407  
Fax: 425-635-2400  
[kdodge@perkinscoie.com](mailto:kdodge@perkinscoie.com)

4. Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040, RCW 80.28.020, and WAC 480-07-370(b).

## II. BACKGROUND

5. PSE and Chelan PUD are parties to two separate cost-based long-term power sales agreements pursuant to which PSE purchases significant portions of the aggregate output of the Chelan PUD's Rocky Reach and Rock Island hydroelectric projects on the Columbia River. These existing contracts are set to expire, in the case of output from Rocky Reach, on October 31, 2011 and in the case of output from Rock Island, on June 7, 2012.

6. Output from Chelan PUD's Rocky Reach and Rock Island hydroelectric projects has for decades been the backbone of PSE's existing resource base, providing seasonal and daily load shaping energy and capacity benefits in addition to necessary ancillary services. This output helps to ensure PSE's ability to meet base-load, daily and seasonal peaking requirements, integrate existing and incremental wind or other variable production resources into PSE's supply portfolio, and provides increased certainty related to modeling and determination of PSE's future resource needs and supply alternatives. PSE has long understood that continued access to the

output of Chelan PUD's projects is a critical component of PSE's long-term electric portfolio management strategy, however, PSE's current contracts with Chelan PUD do not provide PSE with rights of first refusal, first offer or any extension.

7. PSE and Chelan PUD recently entered into a new power sales agreement effective February 1, 2006, which provides for the cost-based sale of 25 percent of the output of both the Rocky Reach and Rock Island projects to PSE. PSE will also receive specified ancillary services under the new contract. In exchange, PSE is obligated to pay 25 percent of the projects' costs during the term of the Chelan Contract. PSE is also obligated to make a one-time, upfront capacity reservation payment to Chelan PUD of \$89 million. Under the terms of the Chelan Contract, and due to FERC's approval on March 28, 2006, of the PSA under Section 22 of the Federal Power Act (copy provided as Exhibit A to this Petition), PSE is obligated to make that \$89 million payment to Chelan PUD by April 27, 2006.

8. The term of the new Chelan Contract is for 20 years, with power sales commencing on November 1, 2011 for the Rocky Reach hydroelectric project and on July 1, 2012 for the Rock Island hydroelectric project. The new contract will expire on October 31, 2031.

### **III. PROPOSED ACCOUNTING TREATMENT**

9. The Company proposes in this Petition to defer the \$89 million payment to Chelan PUD as a regulatory asset, with interest accrued at PSE's net of tax rate of return in effect until the commencement of power sales under of the Chelan Contract (November 1, 2011).

10. As set forth in PSE's pending general rate case, PSE believes that such deferred amounts, plus accrued interest, should then be amortized over the life of the contract (20 years). PSE is further proposing in its pending general rate case that when amortization begins, the \$89 million payment plus accrued interest be included in ratebase and interest deferral cease.

11. By deferring the payment and carrying costs for the \$89 million until power is received under the Chelan Contract, it insures that the customer receiving the benefit of the contract pays for the costs of the contract. In addition, by amortizing the \$89 million, with carrying costs, over the life of the contract, a major up-front cost of obtaining the contract is allocated equitably over the life of the contract. Inclusion of PSE's carrying costs for the deferred \$89 million is appropriate because the Company must borrow the funds to make this payment by April 27, 2006, and will not have such funds available for other purposes. As discussed in PSE's prefiled direct testimony in the general rate case, the deferral of this payment, accrual of interest at the net of tax rate of return and the resulting amortization of the regulatory asset plus its carrying costs over the life of the contract, were taken into consideration when determining the levelized cost for the Chelan Contract.

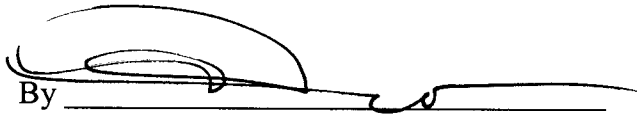
12. In any event, PSE believes that it is appropriate that the Commission now authorize deferred accounting treatment of the \$89 million payment and the booking of carrying charges on that amount since PSE must make this payment to Chelan PUD by April 27, 2006, long before the general rate case concludes.

**IV. PRAYER FOR RELIEF**

13. Based on the foregoing, PSE respectfully requests that the Commission issue an Accounting Order in the form attached as Exhibit B by no later than April 26, 2006.

DATED this 7<sup>th</sup> day of April 2006.

**PERKINS COIE LLP**

  
By \_\_\_\_\_


Kirstin S. Dodge, WSBA #22039  
Attorneys for Puget Sound Energy, Inc.

**VERIFICATION**

STATE OF WASHINGTON )  
 )  
COUNTY OF KING ) ss.

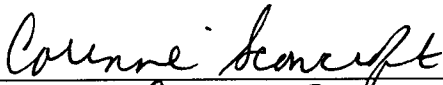
Karl R. Karzmar, being first duly sworn, on oath deposes and says:

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 R. Karzmar

SUBSCRIBED and SWORN to before me this 7th day of April 2006.



  
Print Name: Corinne Scowcroft  
Notary Public in and for the State of Washington,  
residing at Sammanish WA  
My commission expires: 12/30/06

**Exhibit A**

**FERC Order Granting Approval Under Section 22 Of The Federal Power Act,  
114 FERC ¶ 61,314 (March 28, 2006)**



114 FERC ¶61,314  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;  
Nora Mead Brownell, and Suedeem G. Kelly.

Public Utility District No. 1 of Chelan County,  
Washington

Project Nos. 2145-071 and  
943-094

ORDER GRANTING APPROVAL UNDER SECTION 22  
OF THE FEDERAL POWER ACT

(Issued March 28, 2006)

1. Public Utility District No. 1 of Chelan County, Washington (Chelan), licensee for the Rock Island Project No. 943 and Rocky Reach Project No. 2145, filed, pursuant to section 22 of the Federal Power Act (FPA),<sup>1</sup> an application for Commission approval of an agreement which provides for the sale of power from Rock Island and Rocky Reach to Puget Sound Energy (PSE) beyond the terms of Chelan's existing licenses. For the reasons discussed below, we grant the application.

**Background**

2. Rock Island and Rocky Reach are located on the Columbia River. The existing license for the 622-megawatt (MW) Rock Island Project was issued effective January 1, 1989, and expires on December 31, 2028.<sup>2</sup> Chelan currently sells power to PSE from Rock Island pursuant to a contract which expires on June 7, 2012.

3. The existing, original license for the 1,237-MW Rocky Reach Project was issued effective July 1, 1956, and expires on June 30, 2006.<sup>3</sup> In 1957, Chelan and PSE's predecessor, Puget Sound Power & Light Company, entered into a power sales contract

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<sup>1</sup> 16 U.S.C. § 815 (2000).

<sup>2</sup> 46 FERC ¶ 61,033 (1989).

<sup>3</sup> 18 FPC 25 (1957).

Project Nos. 2145-071 and P-943-094

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which expires on October 31, 2011, for the sale of a portion of the output generated by Rocky Reach. Pursuant to section 22, the Commission approved that contract's extension beyond the term of the existing license.<sup>4</sup>

4. Chelan and PSE have entered into a February 1, 2006 agreement (Agreement), which provides for the sale of 25 percent of the output of both projects to PSE. PSE is obligated to pay 25 percent of the projects' costs during the term of the Agreement. The Agreement also calls for PSE to make a one-time payment to Chelan of \$89 million contemporaneously with the execution of the Agreement, to be expended by Chelan for various purposes, including debt reduction and increase of cash reserves. Although the effective date of the Agreement is February 1, 2006, power sales would commence on November 1, 2011 from Rocky Reach and July 1, 2012 from Rock Island (*i.e.*, upon expiration of Chelan's existing contracts with PSE).<sup>5</sup> Sales from both projects would terminate on October 31, 2031, which is three years after the expiration of the Rock Island license, but will be within the term of any new license which may be issued to Chelan for Rocky Reach.<sup>6</sup>

5. Chelan's section 22 application was filed on February 9, 2006. The Commission issued public notice of the application, with comments due by March 9, 2006.<sup>7</sup> A timely motion to intervene and comments supporting the application were filed by PSE. A motion to intervene was filed one day late by PacifiCorp. Allowing PacifiCorp to intervene will not disrupt the proceeding or result in any prejudice or additional burden on other parties. Accordingly, we will grant PacifiCorp's motion to intervene pursuant to Rule 214 of our Rules of Practice and Procedure.<sup>8</sup>

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<sup>4</sup> *P.U.D. No. 1 of Chelan County, WA*, 78 FERC ¶ 61,215 (1997). The same order approves the sale by Chelan of Rocky Reach power to four other entities, also for terms extending until October 31, 2011.

<sup>5</sup> Sales from Rock Island under the Agreement would actually begin some three weeks following expiration of the existing contract between Chelan and PSE. We presume that the existing contract includes terms that permit it to be extended until sales commence under the Agreement.

<sup>6</sup> Chelan has filed an application for a new license for Rocky Reach, which is pending.

<sup>7</sup> 70 Fed. Reg. 47,189 (August 12, 2005).

<sup>8</sup> 18 C.F.R. § 385.214(d) (2005).

**Discussion**

6. Section 22 of the FPA provides in pertinent part:

That whenever the public interest requires or justifies the execution by the licensee of contracts for the sale and delivery of power for periods extending beyond the date of termination of the license, such contracts may be entered into upon the joint approval of the Commission and of the public-service commission or other similar authority in the State in which the sale or delivery of power is made, . . . and thereafter, in the event of failure to issue a new license to the original licensee at the termination of the license, the United States or the new licensee, as the case may be, shall assume and fulfill all such contracts.<sup>9</sup>

7. The legislative history of section 22, which is not extensive, indicates that the Commission is to use its sound discretion in approving contracts extending beyond the term of the license.<sup>10</sup> The Commission has previously approved applications under section 22 in order to accommodate situations where, in the absence of a power sales contract extending beyond the license termination date, the licensee would be unable to sell the project power and thereby finance the project,<sup>11</sup> to give effect to a United States-Canada treaty<sup>12</sup> regarding the sharing of power benefits from Columbia River

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<sup>9</sup> Section 14 of the FPA, 16 U.S.C. § 807 (2000), provides that the United States shall have the right upon or after expiration of any license to take over a project, upon payment of the licensee's net investment therein. Hydropower projects licensed to municipalities are not, however, subject to such federal take-over. *See* the Act of August 15, 1953, 67 Stat. 587, as amended on July 31, 1959, 73 Stat. 271, 16 U.S.C. § 828b (2000). Chelan is a municipal corporation organized under the laws of the State of Washington.

<sup>10</sup> *See* debate on H.R. 3184, which was introduced in the 66<sup>th</sup> Congress by Representative Esch and became the Federal Water Power Act of 1920. 58 Cong. Rec. 2240-41 (July 1, 1919).

<sup>11</sup> *See, e.g., Sabine River Authority of Texas and Sabine River Authority of Louisiana*, 31 FPC 885 (1964) and *P.U.D. No. 2 of Grant County, WA*, 75 FERC ¶ 61,190 (1996).

<sup>12</sup> Treaty between Canada and the United States of America Relating to Cooperative Development of The Water Resources of the Columbia River Basin (January 17, 1961), 15 U.S.T. 1555.

hydropower projects,<sup>13</sup> and to resolve litigation on the extent of a licensee's liability under FPA section 10(e)<sup>14</sup> to pay annual charges for the use of tribal lands on an Indian reservation<sup>15</sup> and the interpretation of existing power sales agreements.<sup>16</sup>

8. Chelan submits that our approval of the extension of the terms of this contract beyond the expiration dates of the current Rocky Reach and Rock Island projects will benefit Chelan, PSE, and their respective ratepayers. Chelan states that it has, and expects to have during the term of the Agreement, power surplus to the needs of Chelan County, and that there is substantial outstanding debt for the projects associated with environmental improvements, plant modernization, and other capital improvements. The Agreement would ensure that 25 percent of its project costs are covered during the term of the agreement, regardless of the project costs or amount of power produced. It states that this will enhance its bond rating and thereby assist efforts to obtain future bond financing for modernizing Rock Island, covering costs associated with relicensing of Rocky Reach, and other expenses. It further states that the Agreement provides PSE, which is resource-deficient, and its ratepayers with a reliable, low-cost, long-term, baseload resource. PSE agrees with the latter statement, and adds that the Agreement is consistent with its state-approved Least Cost Plan, and will provide flexibility to help PSE match its load and resources. Finally, PSE states that the Agreement provides it with certainty regarding access to power following expiration of the current Rocky Reach and Rock Island power sales contracts.

9. In a recent order considering an application under section 22, we considered how the contracts in question might affect the interests of the purchasing entities if a new license were issued to an entity other than the current licensee. There, the interests of those entities were protected because the contracts stated that they would remain in effect

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<sup>13</sup> *E.g., P.U.D. No. 1 of Chelan County, WA*, 81 FERC ¶ 61,364 (1997). The contract was extended to match the termination date of the treaty, approximately 18 years after license expiration.

<sup>14</sup> 16 U.S.C. § 803(e).

<sup>15</sup> *P.U.D. No. 1 of Douglas County, WA*, 110 FERC ¶ 61,128 (2005).

<sup>16</sup> *P.U.D. No. 2 of Grant County, WA*, 112 FERC ¶ 61,229 (2005).

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only so long as the current licensee remained the licensee.<sup>17</sup> For the same reason, there was no concern regarding the interests of any other future potential licensee or of the federal government in the event of a federal takeover pursuant to FPA section 14.<sup>18</sup>

10. The Agreement includes no such provisions. However, no entity other than Chelan filed an application for a new license for Rocky Reach, the Agreement extends only three years after the current term of the Rock Island license, and PSE appears to have to no concerns in this regard. Finally, we have no reason to conclude that the public interest would not be served if any future potential licensee for either project, or the United States in the event of a federal takeover, were to take control of either project subject to the existence of the Agreement.

The Commission orders:

(A) Public Utility District No. 1 of Chelan County, Washington's application filed February 9, 2006 for approval of the "Power Sales Agreement by and between Public Utility District No. 1 of Chelan County, Washington, and Puget Sound Energy, Inc.," dated February 1, 2006, as it pertains to the sale of power to Puget Sound Energy for terms commencing November 1, 2011 with respect to the Rocky Reach Project No. 2145 and July 1, 2012, with respect to Rock Island Project No. 943, and terminating with respect to both projects on October 31, 2031, is granted.

(B) This authorization is without prejudice to the authority of this Commission, or any other regulatory body, with respect to rates, service, accounts, valuation, estimates or determinations of cost, or any other matter whatsoever now pending or which may come before this Commission or any other regulatory body.

By the Commission.

( S E A L )

Magalie R. Salas,  
Secretary.

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<sup>17</sup> See *Public Utility District No. 2 of Grant County*, 112 FERC ¶ 61,230 at P 8 (2005).

<sup>18</sup> 16 U.S.C. § 807 (2000).

**Exhibit B**  
**Proposed Order**

**BEFORE THE  
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

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

For an Accounting Order Authorizing  
Accounting Treatment of Payment of \$89  
million by PSE to Chelan County Public Utility  
District No. 1 for the Purchase of Power.

Docket No. UG-\_\_\_\_\_

ORDER (PROPOSED)

**MEMORANDUM**

1. On April 7, 2006, Puget Sound Energy, Inc. ("PSE" or "the Company") submitted a Petition for an order regarding accounting treatment related to PSE's purchase of power from Chelan County Public Utility District No. 1 ("Chelan PUD") under a new power sales agreement (the "Chelan Contract").

**A. Background**

2. PSE and Chelan PUD are parties to two separate cost-based power sales agreements pursuant to which PSE purchases significant portions of the aggregate output of the Chelan PUD's Rocky Reach and Rock Island hydroelectric projects on the Columbia River. These existing contracts are set to expire, in the case of output from Rocky Reach, on October 31, 2011, and in the case of output from Rock Island, on June 7, 2012.

3. PSE's Petition states that output from Chelan PUD's Rocky Reach and Rock Island hydroelectric projects has for decades been the backbone of PSE's existing resource base, providing seasonal and daily load shaping energy and capacity benefits in addition to necessary ancillary services. This output helps to ensure PSE's ability to meet base-load, daily and seasonal peaking requirements, integrate existing and incremental wind or other variable production resources into PSE's supply portfolio, and provides increased certainty related to modeling and determination of PSE's future resource needs and supply alternatives.

4. PSE and Chelan PUD recently entered into a new agreement effective February 1, 2006, which provides for the cost-based sale of 25 percent of the output of both the Rocky Reach and Rock Island projects to PSE. PSE's Petition states that PSE will also receive specified ancillary services under the new contract. In exchange, PSE is obligated to pay 25 percent of the projects' costs during the term of the Agreement. PSE states that it is also obligated to make a one-time, upfront capacity reservation payment to Chelan PUD of \$89 million by April 27, 2006.

5. The new power sales agreement is for 20 years, commencing on November 1, 2011, for the Rocky Reach hydroelectric project and on July 1, 2012 for the Rock Island hydroelectric project. The new contract will expire on October 31, 2031.

**B. Proposed Accounting Treatment**

6. PSE is requesting in this Petition that the Commission approve: (1) deferred accounting treatment of the \$89 million payment; and (2) the booking of carrying charges on that payment at PSE's approved net of tax rate of return.



7. PSE's Petition states that PSE has and will continue to provide additional details regarding its analyses and conclusions related to the power sales agreement in its general rate case proceeding, which was filed on February 15, 2006, and assigned Docket No. UE-060266 et al. PSE states that the prudence of this electric resource acquisition should be examined by the Commission in that general rate case proceeding. PSE also states that the Commission should consider in PSE's pending general rate case PSE's proposal to amortize over the life of the contract (20 years) the \$89 million deferred amounts, plus accrued interest, as well as PSE's proposal regarding rate base treatment of such amounts.

8. PSE's Petition states that in the meantime, it is appropriate that the Commission authorize deferred accounting treatment of the \$89 million payment since PSE must make this payment to Chelan PUD by April 27, 2006, long before the general rate case concludes. PSE's Petition also states that authorization of inclusion of PSE's carrying costs for the deferred \$89 million is appropriate because the Company must borrow the funds to make this payment by April 27, 2006, and will not have such funds available for other purposes.

#### **FINDINGS**

9. PSE is engaged in the business of furnishing electric and gas service within the state of Washington as a public service company, and is subject to the jurisdiction of this Commission.

10. On April 7, 2006, PSE filed with the Commission a Petition for an order regarding accounting treatment related to PSE's new power sales agreement with Chelan PUD,

and specifically with respect to a one-time, upfront capacity reservation payment of \$89 million that PSE is obligated to make to Chelan PUD by April 27, 2006.

11. The accounting treatment requested in the Petition is reasonable and in the public interest and should be approved.

12. The prudence of PSE's entry into the Chelan Contract and PSE's proposed ratemaking treatment are to be addressed in the Company's pending general rate case.

### **ORDER**

WHEREFORE, THE COMMISSION HEREBY ORDERS:

13. Approval is hereby given for the accounting treatment requested in PSE's Petition dated April 7, 2006, with respect to PSE's \$89 million payment to Chelan PUD, as described in PSE's Petition.

14. PSE is hereby authorized to defer the \$89 million payment to Chelan PUD as a regulatory asset together with carrying charges on that payment at PSE's approved net of tax rate of return.

15. This order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of cost or any matters whatsoever that may come before it, nor shall anything herein be construed as an acquiescence in any estimate or determination of costs claimed or asserted.

16. The Commission retains jurisdiction over the subject matter of the Petition and PSE to effect the provisions of this order.

DATED at Olympia, Washington, and effective this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_.

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MARK SIDRAN, Chairman

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PATRICK OSHIE, Commissioner

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PHILLIP JONES, Commissioner