

**BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Accounting Order Authorizing Deferred Accounting Treatment for the fixed cost component of the Company's newly acquired Goldendale Generating Station pending approval of the Company's 2007 Power Cost Only Rate Case.

Docket No. UE-07 _____

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 deferred accounting treatment detailed in this Petition related to the fixed cost component of the Company's newly acquired Goldendale Generating Station pending entry of a final Commission order in the Company's 2007 Power Cost Only Rate Case ("PCORC"), expected to be filed in

late March 2007. PSE requests that the Commission issue the requested order authorizing the deferred accounting treatment commencing as of the date of this filing.

2. PSE is requesting in this Petition that the Commission approve: (1) deferred accounting treatment for the fixed cost component of operation and maintenance expense, depreciation, taxes and cost of capital invested in rate base, resulting from the acquisition of the Goldendale Generating Station, for the period commencing with the filing date of this petition and ending with the effective date of new rates going into effect as a result of the Commission's Order in the Company's 2007 PCORC, expected to be issued in late August 2007; (2) the monthly booking of carrying charges on that deferral at PSE's approved net of tax rate of return until amortization begins; and (3) amortization of the total deferred balance including carrying charges over three years commencing with the earlier of January 1, 2009 or the effective date of new rates as a result of the Company's next General Rate Case ("GRC"). PSE is required to file a GRC within three months after the conclusion of a PCORC that results in an increase to general rates, unless the Company requests and the Commission approves a waiver.

3. This accounting treatment is necessary in order for PSE to recover the Goldendale Generating Station fixed costs that are not included in the Power Cost Adjustment Mechanism ("PCA"). These costs would not otherwise be recovered absent the Commission approval of the cost deferral requested herein. PSE is not requesting in this Petition that the Commission address: (1) the prudence of PSE's acquisition of the Goldendale Generating Station from Calpine Corporation; or (2) the final rate treatment for recovery of PSE's related revenue requirement deferral and carrying charges. PSE will present its case on this first issue in the

PCORC expected to be filed in late March 2007, and on the latter issue in a future GRC. Thus, the Commission will have before it in the 2007 PCORC proceeding and future GRC proceeding, the evidence and arguments necessary to address the prudence and rate treatment issues and will be able to rule upon the prudence portion of the acquisition prior to the end of 2007.

4. 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, Regulatory Relations
P.O. Box 97034
Bellevue, Washington 98009-9734

PSE's representative for purposes of this proceeding is:

Sheree Strom Carson
Perkins Coie LLP
10885 N.E. Fourth Street, Suite 700
Bellevue, WA 98004-5579
Phone: 425-635-1422
Fax: 425-635-2400
scarson@perkinscoie.com

5. 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

6. The Goldendale Generating Station, formerly known as the Goldendale Energy Center, is a modern, 277-megawatt (MW) natural gas-fired combined cycle plant. The generating facility was developed on a greenfield site in south-central Washington, and is located on approximately 42 acres of land within the Goldendale Industrial Park and the City of Goldendale in Klickitat County. The facility was constructed by the Calpine Corporation at an estimated cost of \$334 million and achieved commercial operation in September 2004. The station includes gas delivery facilities, an electrical switchyard, certain nearby real property, and other facilities. The plant's turbines, fired by natural gas, employ "combined-cycle" technology that generates electricity using both a natural gas cycle and a steam cycle. The process provides higher operating efficiencies, lower fuel costs, and lower air emissions. The 250 MW plant can generate up to 277 MWs of power with duct-firing capacity. The plant was originally designed for baseload operation, and its low heat rate makes it one of the most efficient generating facilities in the Western Energy Coordinating Council ("WECC") region. On February 21, 2007, PSE acquired the plant for \$120 million under a bankruptcy proceeding and bid auction process¹. The acquisition stems from the request for outside proposals ("RFP") process and PSE's need to secure about 1,500 average MWs of new power supply by 2015 to meet the energy needs of its steadily growing customer base across the Puget Sound region. When compared to the other short-listed projects in the RFP review process, the Goldendale Generating Station was identified

¹ PSE was selected by Calpine as the initial stalking horse bid at \$100 million and was successful in the bankruptcy auction with a final bid price of \$120 million, competing against one other qualified bidder.

as having superior portfolio benefit² and was also recognized as having an attractive levelized cost and benefit ratio. Complete details will be provided in support of the Company's 2007 PCORC when it is filed.

7. Output from the Goldendale Generating Station is expected to represent a significant part of the backbone of PSE's resource base and will be utilized to meet base-load, daily and seasonal peaking requirements and to integrate existing and incremental wind or other variable production resources into PSE's supply portfolio. The new facility will also provide increased certainty related to modeling and determination of PSE's future resource needs and supply alternatives and is an important component of PSE's long-term electric portfolio management strategy.

III. PROPOSED ACCOUNTING TREATMENT

8. The PCORC mechanism allows for expedited consideration between general rate proceedings of the prudence and rate treatment of costs associated with major generation acquisitions by PSE. The PCORC mechanism was approved as part of the PCA settlement in Docket Nos. UE-011570 and UG-011571. Under the PCA mechanism the Company can only include the variable costs in the PCA true up that are less than or equal to the current power cost rate, currently \$56.899 per MWh, for new Company owned resources. Due to the circumstances surrounding the purchase of the Goldendale plant the Company was unable to predict whether it would be the successful bidder or what the closing date would be for this purchase. This

² The portfolio benefit is the estimated 20-year present value of all portfolio benefits derived from

uncertainty created the regulatory lag that the Company is requesting the Commission provide financial relief for with the approval of this Petition.

9. The Company proposes in this Petition to defer the fixed cost component of the operation and maintenance expense, depreciation, taxes and cost of capital invested in rate base associated with the Goldendale Generating Station as a regulatory asset in account 182.3, Other Regulatory Assets, commencing with the filing date of this petition and ending with the effective date of new rates going into effect as a result of the Commission's Order in the Company's 2007 PCORC, expected to be issued in late August 2007. It is proposed that, during this period, such operation and maintenance expense, depreciation, taxes and cost of capital invested in rate base, shall be based upon the twelve-month period ending February 29, 2008, and is currently estimated to be an annual amount of \$29,587,632 as shown in Exhibit A, attached herewith. It is further proposed that one-twelfth (1/12th) of such amount be deferred each full month and that the pro-rata portion of such amount be deferred for partial months. Additionally, PSE proposes to accrue interest on such deferred amounts, at PSE's net of tax rate of return for the period, currently 7.06%, commencing with the filing date of this petition and ending with the effective date of new rates going into effect as a result of the Commission's Order in the Company's next general rate case.

10. PSE proposes that such deferred amounts, plus accrued interest, should then be amortized over three years. PSE further proposes that in its next general rate case when final

each project in comparison to the 2005 Least Cost Plan ("LCP") generic portfolio.

amortization amounts are confirmed and amortization is set to begin, the deferral amount plus accrued interest be included in ratebase and interest deferral cease, much like and consistent with the treatment afforded in Docket No. UE-060539, in connection with the \$89 million capacity reservation charge recently paid to Chelan PUD.

11. Deferring the operating and carrying costs until recovery can be provided for, assures that the customers receiving the benefit of the new power station are the ones required to pay for its costs. Inclusion of PSE's carrying costs is appropriate because, under the bankruptcy bid process, the Company had limited control over the timing of the acquisition and was required to immediately borrow the large amount of funds necessary to secure this generating station opportunity for its customers well in advance of enabling recovery methods.

12. In any event, PSE believes that it is appropriate that the Commission now authorize the proposed deferred accounting treatment and the booking of carrying charges on the deferred amount since PSE must incur these operating costs well before the next power cost only rate case or general rate case will be concluded and the Company will be unable to recover these costs, absent deferred accounting treatment, even though its customers are receiving the benefits.

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 March 31, 2007.

DATED this 14 day of March 2007.

PERKINS COIE LLP

By Sheree Strom Carson
Sheree Strom Carson
Attorneys for Puget Sound Energy, Inc.

