

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

In the matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Accounting Order Authorizing
Deferral of Colstrip Lawsuit Settlement
Payment

Docket No. UE-08 _____

PETITION OF PUGET SOUND
ENERGY, INC. FOR AN
ACCOUNTING ORDER

I. INTRODUCTION

1. In accordance with WAC 480-07-370(1)(b), Puget Sound Energy, Inc. (“PSE” or “the Company”) respectfully petitions the Washington Utilities & Transportation Commission (the “Commission”) for an order authorizing the deferral of a settlement payment to be incurred as a result of the recent settlement of a lawsuit in the State of Montana over alleged damages caused by the operation of the Colstrip Generating Project in Colstrip, Montana.
2. 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

3. 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

4. In May 2003, various parties (all of which are residents or businesses of Colstrip, Montana) filed a consolidated complaint against the owners of the Colstrip Steam Electrical Station (“CSES” or “Colstrip”) in Montana District Court.¹ Colstrip consists of four plant units, with related facilities: Units 1 & 2, at 307 net megawatts each; and Units 3 & 4, at 740 net megawatts each. PSE is an owner of 50% of Colstrip Units 1 & 2, which were placed into service in 1975 and 1976 respectively servicing the needs of its electric customers. PSE's share of the net capacity of these two electric generating projects is 307 MW. PSE is an owner of 25% of Colstrip Units 3 & 4, which was placed into service in 1984 and 1986 respectively. PSE's share of the net capacity of these two electric generating projects is 370 MW. Together, this important source of low cost energy supplied approximately 22% of the electric energy used by PSE's electric

¹ Ankney et al. v. PPL Montana, LLC, et al. (Montana Sixteenth Judicial District Court, Rosebud Co.) (Cause No. DV-03-109).

customers in calendar year 2007. PSE's most recent power cost only rate case supported a per kWh cost of \$.02907 for Colstrip Units 1, 2, 3 & 4. The plaintiffs alleged damages to buildings as a result of rising groundwater, as well as damages from contaminated waters leaking from the holding ponds of Colstrip. The Plaintiffs sought compensatory and punitive damages, including damages for abatement, unjust enrichment, trespass, property diminution and emotional distress. Appended as Attachment A is a memorandum that provides additional background with respect to the nature of the lawsuit and the settlement that was reached.

5. A trial date was scheduled for June 2, 2008. The owners of Colstrip, however, reached a settlement with the Plaintiffs on April 30, 2008. PSE's share of the settlement payment, prior to possible insurance recovery, amounts to \$10,707,986 and is to be paid on or before May 23, 2008. The Colstrip owners intend to pursue insurance recoveries possible, although such recoveries are not assured.
6. The negotiated terms of the settlement represent a favorable resolution to PSE and its customers of contested matters, particularly taking into account the following:
 - (1) The settlement presents a full and final resolution of the claims of 55 plaintiffs relating to the current and historical operation of Colstrip. As such, the settlement resolves disputed issues covering more than three decades of operation of Colstrip, and brings finality to more than five years of litigation proceedings;
 - (2) The settlement reflects a substantial reduction of the Plaintiffs' litigation position, significantly limits PSE's potential exposure for excessive compensatory and punitive damages totaling well in excess of \$121 million, and provides increased certainty to PSE

and its customers;

(3) The settlement facilitates PSE's and the other Defendants' ongoing efforts to negotiate and implement appropriate remediation efforts with the Montana Department of Environmental Quality;

(4) The settlement helps limit future claims by providing Defendants with valuable rights of first refusal with respect to Plaintiffs' properties.

7. Considering the risks of litigation, together with the potential exposure to excessive compensatory and punitive damages, the settlement reflects a reasonable compromise, and a fair accommodation, to the interests of PSE and its customers.
8. In this filing, the Company is requesting an order allowing for the deferral of the settlement payment. The Company proposes that the deferred balance, net of insurance recoveries, shall be amortized over a five-year period (60 months) commencing when the Colstrip owners' have determined that potential insurance recoveries have been exhausted, or commencing with a date and over a period of time as set forth differently in a future general rate case or other proceeding before the Commission. Deferred costs existing at the time of such future proceeding would be subject to review in that proceeding. The negotiated settlement avoids the potential of costly litigation and exposure to very substantial claims by the Plaintiffs. Colstrip is a low-cost resource that is integral to the Company's resource base. The Company and the other Colstrip owners continue to make every effort to preserve the generation from Colstrip for the benefit of their customers at the lowest possible cost. The proposed accounting treatment would

provide the Company with the opportunity to recover the costs associated with its ownership share of Colstrip, while customers receive the benefit from the low-cost resource.

III. PROPOSED ACCOUNTING TREATMENT

9. The Company requests authority to defer the Colstrip settlement payment in Account 182.3 - Other Regulatory Assets. Interest would accrue, on the deferred balance net of deferred federal income tax associated with the payment, at the Company's authorized rate of return. The Company requests that the Commission authorize the deferred balance to be amortized over a five-year period commencing when the Colstrip owners' have determined that insurance recoveries have been exhausted, or commencing with a date and over a period of time as set forth differently in a future general rate case or other proceeding before the Commission.

IV. REQUEST FOR RELIEF

10. WHEREFORE, PSE respectfully requests that the Commission issue an Order allowing the deferral of the Colstrip settlement payment in the form provided herewith as Attachment B.

DATED this 21st day of May 2008.

PUGET SOUND ENERGY, INC.

By 

Karl R. Karzmar
Director, Regulatory Regulations

STATE OF WASHINGTON)
)ss.
COUNTY OF KING)

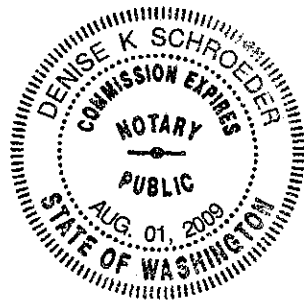
KARL R. KARZMAR, being first duly sworn, on oath deposes and says:

That he is Director, Regulatory Relations of Puget Sound Energy, Inc., that he has read the foregoing Petition for an Order Regarding deferral of the Colstrip lawsuit settlement payment, that he knows the contents thereof, and that he believes the same to be true and the best of his knowledge and belief.


KARL R. KARZMAR

State of Washington
County of King

SUBSCRIBED AND SWORN to before me this th day of May 2008.



Denise K Schroeder
Notary Public in and for the State of
Washington, residing at SNOQUALMIE, WA
My appointment expires 8-1-09