

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

Amended Petition of

PUGET SOUND ENERGY, INC.

**For an Order Authorizing the Use of the
Proceeds from the Sale of Renewable
Energy Credits and Carbon Financial
Instruments**

Docket No. UE-070725

**AGREED PROPOSAL CONCERNING
THE CREDITING METHOD FOR
REC PROCEEDS**

**AND REQUEST FOR AMENDMENT
OF ORDER 03**

I. INTRODUCTION

1. Pursuant to Orders 03, 04 and 05 entered by the Washington Utilities and Transportation Commission (the "Commission") in Docket UE-070725, Puget Sound Energy, Inc. ("PSE" or "the Company"), Commission Staff, and the Industrial Customers of Northwest Utilities ("the Parties") submit this agreed proposal for the manner in which Renewable Energy Credit ("REC") proceeds should be credited to customers and request the Commission to amend Order 03 in certain respects.¹ As discussed in more detail below, the Parties propose that the balance of REC proceeds received through November 30, 2009,² be credited to customers during the time period October 2010 through March 2011. Also, as part of the proposal, the Parties request that the Commission amend Order 03 to allow a

¹ All of the parties to this docket were invited to participate in the negotiations that led to the Agreed Proposal. Public Counsel participated in the negotiations along with the Parties. NW Energy Coalition, The Energy Project and Renewable Northwest Project did not participate actively. No party to this docket objects to the Proposal. The Federal Executive Agencies did not intervene in this case, and is aware of the Agreed Proposal but has not reviewed it and does not plan to do so.

² The balance of REC proceeds received through November 30, 2009 excludes that portion of the REC Proceeds PSE is allowed to retain and that portion of the REC Proceeds the Commission allows to be used to increase the funding of PSE's low income energy efficiency programs. *See* Order 03 at ¶¶ 47, 61. Order 05 at ¶ 47

portion of the REC proceeds received after November 30, 2009, to offset the surplus amount of Production Tax Credit ("PTC") that has been credited to customers through the PTC Tracker. After the PTC is reduced to zero, the remainder of the REC proceeds received by PSE after November 30, 2009, would be treated as a regulatory liability and used to reduce PSE's rate base for ratemaking purposes. The Parties request that the Commission amend Order 03 to allow the regulatory liability to be amortized over five years, rather than the ten-year amortization set forth in Order 03.³

2. Concurrent with this filing, PSE is filing an Accounting Petition requesting that the PTC balance be offset by REC proceeds in the manner set forth herein. Because resolution of these PTC and REC issues are related and interdependent, the Parties request the Commission consolidate that Accounting Petition with this docket, to facilitate Commission resolution of both the PTC issues and the REC issues as recommended herein.

II. STATEMENT OF FACTS

A. REC Proceeds

3. The Commission entered Order 03 in Docket UE-070725 on May 20, 2010. Paragraph 64 of Order 03 requires PSE and the other parties to the proceeding to present:

Either an agreed proposal or individual proposals concerning what interest rate should be applied to current and future REC balances and how these proceeds received through November 30, 2009, from the sale of RECs should be credited to customers in the near term. In general, we envision this could be in the form of a one-time bill credit or in a series of bill credits over as many as 12 months corresponding roughly to the rate year in Docket UE-090704, which will end on April 7, 2011. Other options may, however, be more appropriate.

4. In Order 04, the Commission granted an extension of time by which PSE and the other parties to the proceeding should submit their agreed proposal or individual

³ See Order 03 at ¶¶ 66-68, 90.

proposals set forth in Paragraph 64 of Order 03. The extension allowed the Commission to first rule on the several petitions for reconsideration that had been filed by the parties. In Order 05, the Commission ruled on the petitions for reconsideration and established September 22, 2010 as the date by which parties must file their proposals via appropriate motions.⁴

B. PTC Balance

5. In Order 04 from Docket No. UE-050870, the Commission approved the Company's proposal to create a new schedule, Production Tax Credit Tracker Schedule 95A, as presented in the prefiled direct testimony of John H. Story for that docket, and the testimony was attached to Order 04 as Appendix B. Schedule 95A provided for crediting electric customers' bills with the PTCs that were provided as a subsidy by the U.S. Government for generating electricity from wind. As explained in Appendix B:

To properly flow these tax credits through to the customer, the Company proposal is to create a PTC tracker that will pass through to the customer the actual production tax credits as they are generated and the tracker would not be subject to the sharing bands in the PCA. This pass through will be adjusted by the carrying costs for the deferred tax account for the PTCs that have been generated but have not been used for the current years tax credit. As the customer is receiving the benefit of the tax credits as they are generated and the Company does not receive a credit from the IRS until the tax credits are utilized the Company is reimbursed its carrying costs for funds through this calculation.

6. When Schedule 95A was proposed PSE expected that the timing difference between when the PTCs were credited to customers and when the Company would receive the subsidy from the U.S. Government would be relatively short. Through December 2007 this in fact was the case, as shown on Attachment A to this Proposal. Although the balance of the deferred tax account did not reach zero or go negative during this time period, the

⁴ See Order 05 at ¶ 50.

varying balance shows that there were additions and reductions to the receivable from the U.S. Government as the PTCs were generated and utilized in the Company's tax return. In contrast, the balance consistently grows after December 2007.

7. In 2008, the U.S. Government adopted tax changes that provided the Company additional deductions for tax purposes. These changes, plus tax deductions that the Company was allowed for adding new resources, severely limited the amount of PTCs that the Company could use against any tax liability. Since December 2007, the balance of the deferred tax account has grown from \$6.3 million to \$61 million, as of June 2010.

8. On June 24, 2010, the Commission entered Order 02 in Docket UE-091703. Order 02 zeroed out PSE's Tariff WN U-60, Tariff G, Schedule 95A- Production Tax Credit Tracker, due to the fact that PSE had not been able to use the tax credits that were being passed through to customers. As noted by the Commission in Paragraph 3 of Order 02,

PSE has been unable to realize in recent federal income tax filings the production tax credits (PTCs) that it has been and is currently passing through the Tracker. The revision of Tracker rates to zero, which is a departure from the original Tracker mechanism approved by the Commission, will cease greater accumulation of interest-bearing cash balance advanced by PSE to the customers. To address the existing balance and to craft a workable mechanism to pass realized PTCs and Treasury grant benefits to the customers, PSE commits to work with Commission staff and other interested parties to undertake necessary modification of the pass-through mechanism. The zeroing out of Tracker rates serves as a practical undertaking by PSE considering the expected delayed benefit of generated PTCs and pending resolution of the balance owed the Company.

III. THE PARTIES' AGREED PROPOSAL FOR CREDITING CUSTOMERS AND AMENDING ORDER 03

9. After the Commission issued the orders discussed above, the Parties met and developed the agreed-upon proposal, described herein, which would allow customers to receive credits for REC proceeds while also using REC proceeds to offset the balance owed to PSE under the PTC Tracker. The Parties negotiated and agreed upon the proposal to settle

certain issues in UE-050870 and certain issues related to returning REC proceeds in UE-070725, and the Parties respectfully request that the Commission approve the Proposal in its entirety. All of the parties to this docket were invited to participate in those discussions. Public Counsel participated in the discussions, and NW Energy Coalition, The Energy Project and the Renewable Northwest Project did not participate actively. The Parties agree that this Agreed Proposal sets no precedent for future issues not addressed in this proposal.

A. Amendment of Order 03 With Respect To REC Proceeds Received After November 30, 2009

10. The Parties request that the Commission amend Order 03 in Docket UE-070725 to allow a portion of the REC proceeds received by PSE from December 2009 through December 2011 to be used to offset the PTCs that have been passed through to customers ("PTC customer receivable") but have not been used by the Company on its tax return. This offset of RECs and PTCs will occur during the time period October 2010 through December 2011 ("the REC/PTC offset period").

11. During the REC/PTC offset period, the Company will calculate the actual monthly balances of the REC liability and the PTC customer receivable. The actual balances will be used to track the difference between the amount credited to the customer based on Attachment B's calculation versus the amount that is actually credited to the customer during a given month due to variance in loads. Attachment B is attached hereto. This calculation will also true up the interest calculation on the PTC customer receivable and outstanding REC balances. Interest on the REC balance will be calculated using the current net of tax rate of return on the REC balance with an offset for the REC balance included in current rates as a working capital item. A spreadsheet detailing this calculation will be provided to the Commission and all parties to this docket for each month during the REC/PTC offset period.

12. In future general or power cost only rate case filings, and after completion of the REC/PTC offset period, the Company will offset the REC liability against rate base and amortize the balance of RECs at the beginning of a given rate year over five years as a credit to cost of service. The rate base impact of the REC liability will be calculated using the same methodology used for regulatory assets related to production. For example, the Company currently uses the average of the monthly averages for the account balances during the rate year to calculate the impact on rate base. This calculation will be trued up to actual REC balances in the PCA mechanism. Once amortization on a REC balance begins, that balance will be tracked so that the amortization of that REC balance will cease at the end of five years. Given the significantly reduced REC balance that will be amortized and offset against rate base, the Parties further request that the Commission amend Order 03 to allow for amortization over five years, rather than the ten year amortization set forth in Order 03.

B. Credit to Customers For REC Proceeds Received Through November 30, 2009

13. The Parties propose that customers receive a credit on their bills for the balance of the net REC proceeds received by PSE through November 2009 (offset by the amounts the Commission orders to be provided to PSE and low-income energy efficiency programs). The Parties propose this bill credit be provided over a six month period from October 2010 through March 2011. This bill credit time period is consistent with Paragraph 64 of Order 03, which envisioned a time period corresponding to the rate year in PSE's 2009 general rate case, which ends March 2011. The calculation of the amount of credit that the customers will receive is shown in Attachment C, attached hereto.

IV. RECORDING THE PTC OFFSET AND REC CREDIT TO CUSTOMERS

14. Each month the Company will debit a contra-account to the regulatory liability for RECs credited to customers, net of revenue sensitive items, under a new schedule, Schedule 134, and credit account 456 (Other Electric Revenues). When this contra-account is expected to be equal to, or exceeds, the total revenue requirement set in Schedule 134, as shown on Attachment B, column (i), the Company will request that Schedule 134 be stopped. Any remaining balance associated with this refund, either over or under credited, will be cleared to the REC liability account.

15. Each month during the REC/PTC offset period a second debit entry will be made to another contra-account to the regulatory liability for the remaining RECs, which will be equal to the amount of RECs that are to be offset against PTCs, as shown on Attachment B, column (j). The offsetting credit entry will be booked to account 456. A separate journal entry will be made to recognize the future liability to customers for the unused PTCs, which will debit account 407.3 (Regulatory Debit) with an offsetting credit to a regulatory liability account. This entry will be reversed as PTCs are used in future years and credits are provided in customers' bills.

16. In the event that the REC liability does not have a sufficient balance to remain as a net credit on the balance sheet after these two entries, the second entry will be adjusted so that the net balance in the REC regulatory liability account does not become a larger debit balance. Any recovery of PTCs that are delayed due to this type of adjustment will be carried forward until there is a sufficient balance in the regulatory liability account to cover the PTCs delayed and the interest calculation will reflect this delay.

17. The Parties have agreed that interest will accrue on the REC balances at PSE's authorized net of tax rate of return as shown in columns (e) and (k) of Attachment B.

V. CONCLUSION

18. Based upon the foregoing, the Parties respectfully request that the Commission approve the agreed proposal in its entirety and amend Order 03 as set forth above.

DATED: September 21, 2010

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V. CONCLUSION

18. Based upon the foregoing, the Parties respectfully request that the Commission approve the agreed proposal in its entirety and amend Order 03 as set forth above.

DATED: September 22, 2010

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