

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)	DOCKET NO. UE-041846
)	
PUGET SOUND ENERGY, INC.)	ORDER NO. 01
)	
)	
For an Accounting Order)	
Authorizing Deferral of Payments by)	
CanWest Gas Supply Inc. for Gas)	ORDER APPROVING
Supply Cessation Settlement)	ACCOUNTING PETITION
.....)	

BACKGROUND

1 On October 18, 2004, Puget Sound Energy (“PSE” or “Company”) filed a petition seeking for an Accounting Order, in accordance with WAC 480-07-370(1)(b), and because of the termination of a Gas Purchase Contract entered into as of October 16, 1991 (the "Agreement"), between CanWest Gas Supply Inc. (“CanWest”) and Encogen Northwest, L.P. (“Encogen”), a limited partnership owned by wholly owned subsidiaries of PSE, that authorizes PSE to:

- a) Defer in Account 254 “Regulatory Liabilities” the “Escalated Present Value Market Exposure Installment” (“Deferred Payment”) as defined in the “Amendment No. 3 and Settlement Agreement” (“Settlement Agreement”) attached to this Petition as Exhibit A.

- b) Amortize the Deferred Payment to Account 547 “Fuel” on a straight-line basis beginning November 1, 2005, and continuing through the remaining life of the original contract with CanWest, which ends June 30, 2008.

- c) Amortize any deferred taxes arising from the Regulatory Liability consistent with the amortization of the Deferred Payment.
- d) Include the Deferred Payment and associated deferred taxes in the calculation of the return on and amortization of regulatory assets under the Power Cost Adjustment Mechanism (PCA).

2 CanWest advised PSE they would cease supplying gas to Encogen pursuant to the Agreement as of November 1, 2005. The Company will receive Deferred Payment as a reduction on its monthly billings from CanWest for the October 2004 through October 2005 billings.

3 In 1991, Encogen entered into the Agreement with CanWest for the supply of gas. At that time, Encogen was a limited partnership formed for the purpose of selling power produced by its combined cycle combustion turbine generating facility to PSE. On November 1, 1999, wholly owned subsidiaries of PSE created to facilitate the acquisition of the Encogen project purchased the interests of the general and limited partners of Encogen. On October 27, 1999, the Commission approved PSE's accounting order related to its acquisition of Encogen in its order in Docket No. UE-991498. All of the output of the Encogen electrical generation project is delivered to PSE.

4 At the time the Agreement was entered into, CanWest was the primary seller of the gas supplies for producers in British Columbia, Canada. CanWest did not, and does not, own gas assets, but rather aggregates and sells the Canadian producers' supply to buyers in the wholesale market.

5 The Agreement would not have expired pursuant to its terms until June 30, 2008. However, in February 2004, CanWest notified PSE that as of November 1, 2005, CanWest would cease receiving gas supplies from Canadian producers and that,

accordingly, CanWest would fail to perform its obligations to deliver gas supplies to Encogen as of that time and thereafter.

- 6 Taking into consideration the importance of continuing good relations with Canadian producers, PSE entered into settlement discussions with CanWest. Such discussions resulted in the execution of an "Amendment No. 3 and Settlement Agreement" dated as of October 1, 2004, between CanWest and Encogen attached to the Company's Petition as Exhibit A. Such agreement provides, among other things, for Encogen's recovery from CanWest of a portion of the difference between the market value of the undelivered gas supply, as determined per the Settlement Agreement, minus the contract value for such supply.
- 7 In connection with the execution of the Settlement Agreement, PSE states in its petition that it analyzed market circumstances and conditions for purposes of replacing all or part of the gas supply that would otherwise have been delivered by CanWest under the Agreement. On October 4, 2004, PSE locked in gas supply replacing a portion of the amount of gas that CanWest will fail to deliver through the end of the Agreement term. On October 8, 2004, PSE locked in gas supply that replaced the remaining amount that CanWest will fail to deliver through the end of the Agreement term.
- 8 The underlying rationale for deferring and amortizing the payments by CanWest is that the payments are benefits to the ratepayer that relate to the monthly present value market exposure for the monthly periods commencing in November 2005 and ending in June 2008.
- 9 Currently the Company is recovering the cost of the original contract with CanWest in the Power Cost Adjustment (PCA) mechanism. The prudence and reasonableness of all matters related to power costs subject to the PCA

mechanism such as the CanWest gas supply cancellation, settlement payments, and costs of replacement gas are considered in the Commission review of affected PCA periods.

FINDINGS AND CONCLUSIONS

- 10 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, accounts, securities, and property transfers of public service companies, including electric utilities. *RCW 80.01.040; Chapter 80.04 RCW and Chapter 80.28 RCW.*
- 11 (2) PSE is a public service company furnishing electric and gas service primarily in the Puget Sound region of the State of Washington and is subject to the regulatory authority of the Commission as to its rates, service, facilities and practices.
- 12 (3) WAC 480-07-370(1)(b) allows companies to file a petition including that for which PSE seeks approval.
- 13 (4) Staff has reviewed the petition in Docket UE-041846 including supporting documents. Staff believes the accounting treatment proposed by PSE is reasonable and should be approved.
- 14 (5) This matter was brought before the Commission at its regularly scheduled meeting on November 24, 2004.
- 15 (6) After examination of the petition filed in Docket UE-041846 by PSE on October 18, 2004, and giving due consideration to all relevant matters and

for good cause shown, the Commission finds that the petition filed should be approved.

ORDER

- 16 (1) Puget Sound Energy is authorized to:
- a) Defer in Account 254, Regulatory Liabilities, the Deferred Payment as received from CanWest and the related deferred taxes in Account 190, Accumulated Deferred Income Taxes.
 - b) Amortize the Deferred Payment to Account 547, Other Power Generation – Fuel, on a straight-line basis beginning November 1, 2005, and continuing through the remaining life of the original contract with CanWest, which ends June 30, 2008, or 32 months.
 - c) Amortize deferred taxes arising from the Regulatory Liability consistent with the amortization of the Deferred Payment.
 - d) Include the regulatory liability recorded in Account 254 and the associated deferred taxes recorded in Account 190 and the amortization in the PCA calculation in the same manner as other power cost related regulatory assets and amortization are treated. This treatment would allow for a net of tax rate of return to be applied to the balance of the regulatory asset during the period of amortization and would reflect the actual cost of gas purchased for Encogen in expense.
- 17 (2) The Company's execution of gas supply cessation settlement agreement with Can West Gas Supply Inc., the level of settlement payments, and

costs of replacement gas will be considered in the Commission review of affected PCA periods. The Company bears the burden of proof in any such proceeding regarding the prudence and reasonableness of these matters.

- 18 (3) The Commission's approval of the instant petition does not in any manner modify or affect the Commission's prior orders regarding standards or burden of proof in determining whether costs of the utility were imprudent or unreasonable, e.g., Washington Utilities and Transportation Commission v. Puget Sound Power & Light Company, Docket Nos. UE-920499, UE-921262 (September 27, 1994).
- 19 (4) Nothing herein shall be construed to waive or otherwise impair the jurisdiction of the Commission over the rates, services, accounts, and practices of Applicant, Puget Sound Energy.
- 20 (5) The Commission retains jurisdiction to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this 24th day of November, 2004.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

CAROLE J. WASHBURN, Secretary