

**BEFORE THE  
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

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

For an Accounting Order Authorizing  
Accounting Treatment and Amortization  
Related to Payments Received by PSE for  
Taking Assignment of Westcoast Pipeline  
Capacity

Docket No. UE-10-\_\_\_\_\_

ORDER (PROPOSED)

**MEMORANDUM**

1. On March 30, 2010, Puget Sound Energy, Inc. ("PSE" or "the Company") submitted a Petition for an order regarding accounting and ratemaking treatment related to PSE's receipt of funds from BNP Paribus Energy Trading Canada Corp. (formerly FB Energy Canada Corp.) ("BNP") in exchange for PSE's assumption of BNP's contractual benefits and obligations related to additional natural gas transportation capacity on the Westcoast Energy Inc. ("Westcoast") pipeline that was formerly held by BNP.

**A. Background**

2. PSE's Petition states that BNP is the holder of natural gas pipeline capacity on the Westcoast pipeline which it had acquired at a discount through an auction of capacity when

another holder of the capacity repudiated its contract. PSE acquired a portion of BNP's capacity from its predecessor (FB Energy Canada Corp.) in a similarly discounted transaction in October, 2008. BNP has determined that after March 31, 2010 the remainder of its current capacity is surplus to its needs and thus BNP decided to reduce its holding of Westcoast pipeline capacity.

3. PSE's Petition further states that because of BNP's decision to reduce its pipeline capacity holdings, PSE had the opportunity to take permanent release of 713.1 Cubic Meters per day (equivalent of 25,180 Mcf/day or 25,853 Dth/day) of BNP's Westcoast pipeline capacity, effective April 1, 2010. The assumption of capacity includes a one-time payment from BNP to PSE of CAN\$4.75 million. The transactions necessary to complete the Westcoast release were completed on March 10, 2010, and PSE received BNP's payment of CAN\$4.75 million from escrow on March 11, 2010. The CAN\$4.75 million equates to US\$4.6 million on the date of receipt. The Westcoast pipeline capacity will provide firm transportation of gas supplies from the northern British Columbia "Station 2" supply hub to the Sumas Export interconnect with Northwest Pipeline. The Sumas Export point also interconnects to the pipelines serving PSE power generation facilities at Whitehorn and Sumas. The Station 2 supply trading point is growing in volume and liquidity, as compared to the historic Sumas supply point. The capacity provides the opportunity to mitigate the risk associated with acquiring all of PSE's generation gas requirements at the Sumas trading hub. The contract that PSE has agreed to assume has a remaining primary term through October 31, 2018.

4. In conjunction with PSE's 2005, 2007 and 2009 Least Cost Plans, PSE identified a strategic need for the Westcoast pipeline capacity. PSE also identified Westcoast capacity as necessary to support PSE's growing fleet of gas-fired generation. PSE's Petition states that PSE will provide additional details regarding its analyses and conclusions related to the BNP capacity acquisition in its next rate case filing. The petition also states the appropriateness of this capacity release acquisition could be examined by the Commission at that time.

5. The US\$4.6 million that PSE received from BNP will be treated as taxable income for federal income tax purposes. While this US\$4.6 million is taxable at the time of receipt, PSE is proposing to normalize the tax of US\$1.6 million (US\$4.6 million multiplied by 35%) over the same time period proposed in this Petition for amortization of the US\$4.6 million.

6. PSE states that the underlying intent of its acquisition of the Westcoast pipeline BNP assignment was to mitigate the risk associated with acquiring all of PSE's generation gas requirements at the Sumas trading hub. The US\$4.6 million payment from BNP represents an 11.50% discount from the expected cost of the Westcoast pipeline capacity over the term of the assumed contract. PSE seeks in this filing to obtain approval for deferred accounting treatment and amortization of the US\$4.6 million such that the payment and related deferred tax can be used to offset the capacity costs that will flow to PSE's electric customers over the remaining life of the Westcoast pipeline contract as the additional capacity is utilized within PSE's power generation portfolio, commencing April 1, 2010.

7. PSE, therefore, seeks in its Petition approval of the accounting and ratemaking treatment described below.

**B. Proposed Accounting and Ratemaking Treatment**

8. For the Westcoast pipeline capacity from Station 2 to Sumas, the Company proposes: (1) to defer the US\$4.6 million payment from BNP as a regulatory liability; (2) to amortize the deferred amounts against the Westcoast pipeline capacity payments over the life of the contract - April 1, 2010 through October 31, 2018 in the same manner as previous credits; and (3) to provide deferred federal income taxes on the difference between the tax and regulatory treatment. The details of the proposed accounting are shown for the original deferral and first month's amortization in Exhibit A to this Petition.

**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 March 30, 2010 PSE filed with the Commission a Petition for an order regarding accounting and ratemaking treatment related to PSE's receipt of funds from BNP in exchange for PSE's assumption of additional natural gas transportation capacity on the Westcoast pipeline that was formerly held by BNP.

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

12. The appropriateness of PSE's acquisition of the BNP capacity is to be addressed in the Company's next rate case.

### **ORDER**

WHEREFORE, THE COMMISSION HEREBY ORDERS:

13. Approval is hereby given for the accounting and ratemaking treatment requested in PSE's Petition dated March 30, 2010, with respect to funds received by PSE from BNP in exchange for PSE's assumption of additional natural gas transportation capacity on the Westcoast pipeline that was formerly held by BNP, as described in PSE's Petition.

14. PSE is hereby authorized (1) to defer the US\$4.6 million payment from BNP as a regulatory liability together with deferred federal income taxes; and (2) to amortize the deferred amounts against the Westcoast pipeline capacity payments over the life of the contract - April 1, 2010 through October 31, 2018. The details of the proposed accounting are shown for the original deferral and first month's amortization in Exhibit A to this Order.

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 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 30th day of March, 2010.

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JEFFREY D. GOLTZ, Chairman

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PATRICK J. OSHIE, Commissioner

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PHILIP B. JONES, Commissioner

Amortization of Westcoast pipeline capacity pre-paid discount

Proposed Accounting

	<u>Acc. No.</u>	<u>Debit</u>	<u>Credit</u>
1	<b>Upon receipt of cash from BNP the Company will record a deferred regulatory liability to be amortized against the capacity demand charge through October, 2018. The Company will record a deferred tax debit to offset the current taxes payable on the transaction.</b>		
a	<b>To record the receipt of cash</b>		
	Dr. Cash	131	\$ 4,614,625
	Cr. Deferred credits	253	\$ 4,614,625
b	<b>To transfer the deferred liability to regulatory credits upon Commission approval of the accounting petition</b>		
	Dr. Deferred credits	253	\$ 4,614,625
	Cr. Other regulatory liabilities	254	\$ 4,614,625
c	<b>To record the current tax liability and related deferred taxes</b>		
	Dr. Current income tax expense	409	1,615,119
	Cr. Current income tax payable	236	1,615,119
	Dr. Accumulated deferred income taxes	190	1,615,119
	Cr. Deferred income tax expense	411	1,615,119
2	<b>Monthly (starting April 1, 2010), the deferred liability will be amortized against the monthly pipeline capacity charge related to the capacity acquired. (example of first month's transaction)</b>		
a	<b>To record the capacity charge and related taxes</b>		
	Dr. Power Costs	547	333,131
	Cr. Cash	131	333,131
	Dr. Current income tax payable	236	116,596
	Cr. Current income tax expense	409	116,596
b	<b>To record the amortization of the deferred regulatory liability and related deferred taxes</b>		
	Dr. Other regulatory liabilities (See Note 1)	254	44,802
	Cr. Power Cost amortization	547	44,802
	Dr. Deferred income tax expense	410	15,681
	Cr. Accumulated deferred income taxes	190	15,681

**Note 1:**

**Monthly amortization = US\$4,614,625 : 103 months**