



# PUGET SOUND ENERGY

The Energy To Do Great Things

Puget Sound Energy  
P.O. Box 97034  
Bellevue, WA 98009-9734  
PSE.com

August 11, 2011

Washington Utilities and Transportation Commission  
Mr. David Danner, Secretary and Executive Director  
1300 S. Evergreen Park Drive SW  
P.O. Box 47250  
Olympia, WA 98504-7250

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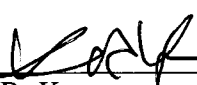
**Re: Petition for the Modification of the Order in Docket UE-001157  
regarding Authorization to Sell Sulfur Dioxide Emission Allowances and an  
Associated Accounting Order**

Dear Mr. Danner,

Enclosed for filing are an original and three copies of the Petition of Puget Sound Energy for the modification of an order related to the authorization to sell sulfur dioxide emission allowances and an associated accounting order. In this petition, the Company is requesting that it be allowed to discontinue deferred accounting treatment for the gain on SO<sub>2</sub> emission allowances sold after 2011.

Thank you for your assistance.

Very truly yours,  
PUGET SOUND ENERGY, INC.

By   
Karl R. Karzmar  
Director, Revenue Requirements

Enclosures  
cc: Simon ffitich

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For the Modification of an Order regarding  
the Authorization to Sell Sulfur Dioxide  
Emission Allowances and an Associated  
Accounting Order.

Docket NO. UE-001157

PETITION FOR MODIFICATION OF  
AN ORDER

**I. INTRODUCTION**

1. In accordance with RCW 80.12.020 and WAC 480-143-120, Puget Sound Energy, Inc. ("PSE" or the "Company"), hereby petitions the Washington Utilities and Transportation Commission ("Commission" or "WUTC") for the modification of an order related to the authorization to sell sulfur dioxide emission allowances and an associated accounting order.

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 is:

Puget Sound Energy, Inc.  
Attn: Karl Karzmar  
Director of Regulatory Relations  
P.O. Box 97034  
Bellevue, Washington 98009-9734

## II. BACKGROUND AND STATEMENT OF FACTS

3. On July 27, 2000, PSE filed a Petition with the Commission under RCW 80.12.020 and WAC 480-143-120 seeking an order regarding the authorization to sell excess sulfur dioxide (“SO<sub>2</sub>”) emission allowances to the extent excess allowances were available to be sold. The Petition also requested an accounting order setting forth the proper regulatory reporting of the proceeds from the SO<sub>2</sub> allowance transactions for which regulatory authority was being sought.

4. The Company is subject to Environmental Protection Agency (“EPA”) laws and, in order to avoid a penalty under its laws or to avoid costs related to the purchase of additional allowances, the Company’s coal plants are limited to the level of emissions allowed by Title IV of the Clean Air Act Amendments of 1990. At the time the Company filed its petition, emission allowances held by the Company were deemed to be in excess of its emissions allowance needs. The excess developed as a result of conservation efforts conducted by the Company and emission reduction activities of the Company and its Colstrip Project partners within the State of Montana.

5. The Company's Petition requested authorization under the Commission's property transfer statute RCW 80.12.020 and WAC 480-143-120, to sell excess SO<sub>2</sub> allowances. Additionally, the Company sought an accounting order proposing that the proceeds associated with selling excess SO<sub>2</sub> allowances be deferred and amortized over a ten-year period, with deferral of taxes to match the amortization period and an equal amount to be amortized annually, beginning with the year of each sale.

6. On October 25, 2000, the Commission issued an order authorizing the Company to sell the excess SO<sub>2</sub> emission allowances and defer the gain for amortization over a ten-year period, as requested.

7. At the time the order was issued, the emissions market was strong, and of the \$4.2 million in total SO<sub>2</sub> sales by the Company subject to the order, nearly \$3.5 million occurred in 2001 alone. Subsequently however, the market has dramatically declined. In order to reduce emissions and control costs, companies across the country have reduced facility usage, added pollution control technologies, switched to lower sulfur fuel, or developed other alternative strategies. The resulting abundance of allowances freed up, and now available for sale, has brought the market value down from \$700 per allowance in 2005, for example, to just a few dollars today. In 2010, PSE received allowance proceeds of only \$5,173 and 2011 proceeds to date have been only \$386. The current spot offer for 2011 and 2012 vintage allowances is trading in only the \$2.00 range.

### **III. PROPOSED ACCOUNTING TREATMENT**

8. The Company does not expect this market to change significantly, and since the level of SO<sub>2</sub> emission sales have become insignificant for rate making purposes, it is no longer important to continue deferred accounting treatment. Accordingly, the Company is requesting that the gain on sales of SO<sub>2</sub> emission allowances after 2011 no longer be deferred for subsequent amortization. The Company proposes to continue amortization of the less than \$300 thousand remaining unamortized amount. As with the deferred balance, which is being amortized to FERC account 411.8, gains from disposition of allowances, SO<sub>2</sub> emissions gains subsequent to 2011 will be credited to the same account, but directly as they occur.

#### IV. REQUEST FOR RELIEF

9. The Company respectfully requests therefore, that the Commission enter an order in the form attached as Exhibit A (1) approving the Company's request to discontinue deferral accounting treatment for the gain on SO<sub>2</sub> emission allowances sold after 2011, and (2) continue amortization of amounts deferred through December 31, 2011 in accordance with the Commission's original order.

DATED this 11th day of August, 2011.

PUGET SOUND ENERGY, INC.

By   
Karl R. Karzmar  
Director, Regulatory Regulations

VERIFICATION

STATE OF WASHINGTON )  
 )ss.  
COUNTY OF KING )

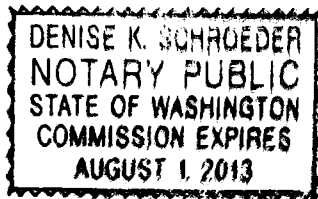
KARL R. KARZMAR, being first duly sworn, on oath deposes and says:

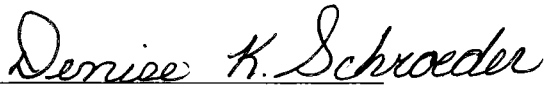
That he is Director, Regulatory Relations of Puget Sound Energy, Inc., that he has read the foregoing Petition requesting modification of an order related to the authorization to sell sulfur dioxide emission allowances and an associated accounting order, that he knows the contents thereof, and that he 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 11th day of August, 2011.



  
Print Name: Denise K. Schroeder  
Notary Public in and for the State of  
Washington, residing at Snoqualmie  
My appointment expires 8-1-2013

**EXHIBIT A**

**PUGET SOUND ENERGY**

**In the Matter of the Petition of Puget Sound Energy, Inc. for the Modification of an Order  
regarding the Authorization to Sell Sulfur Dioxide Emission Allowances and an Associated  
Accounting Order**

**EXHIBIT A**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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

For the Modification of an Order Regarding  
the Authorization to Sell Sulfur Dioxide  
Emission Allowances and an Associated  
Accounting Order.

Docket NO. UE-001157

ORDER (PROPOSED)

**BACKGROUND**

1. On July 27, 2000, Puget Sound Energy, Inc. ("PSE" or the "Company") filed a Petition with this Commission under RCW 80.12.020 and WAC 480-143-120 seeking an order regarding the authorization to sell excess sulfur dioxide (SO<sub>2</sub>) emission allowances if and to the extent excess allowances were available to be sold. The Petition also requested an accounting order setting forth the proper regulatory reporting of the proceeds from the SO<sub>2</sub> allowance transactions for which regulatory authority was being sought. On October 25, 2000, the Commission issued an order authorizing the Company to sell the excess SO<sub>2</sub> emission allowances and defer the gain for amortization over a ten-year period, as requested. On August \_\_\_\_, 2011, the Company filed a Petition with this Commission under RCW 80.12.020 and WAC 480-143-120 seeking the Modification of the Order Regarding the Authorization to Sell Sulfur Dioxide Emission Allowances and an Associated Accounting Order.



2. The Company's Petition states that it is subject to Environmental Protection Agency (EPA) laws. The Petition states that to avoid a penalty under such laws or to avoid costs related to the purchase of additional allowances, its plants are limited to the level of emissions allowed by Title IV of the Clean Air Act Amendments of 1990. The Petition states further that as a result of conservation efforts by the Company and emission reduction activities of the Company and its Colstrip Project partners within the State of Montana, emission allowances held by the Company are deemed to be in excess of its emission allowance needs from time to time.

3. The Company's petition states that at the time the order was issued, the emissions market was strong, and nearly \$3.5 million, of the total SO<sub>2</sub> sales by the Company, occurred in 2001 alone. Subsequently however, the market has dramatically declined. The petition states that in order to reduce emissions and control costs, companies have reduced facility usage, added pollution control technologies, switched to lower sulfur fuel, or developed other alternative strategies; and the resulting abundance of allowances available for sale has brought the market value down from \$700 per allowance in 2005, to just a few dollars today. In 2010, PSE received allowance proceeds of only \$5,173 and 2011 proceeds to date have been only \$386. The current spot offer for 2011 and 2012 vintage allowances is trading in the \$2.00 range.

4. The Company states that it does not expect this market to change significantly and since the level of SO<sub>2</sub> emission sales have become insignificant for rate making purposes, it is no longer important to continue deferred accounting treatment. It is therefore requesting that sales of emission allowances after 2011, no longer be deferred for subsequent amortization. The Company proposes to continue amortization of the less than \$300 thousand remaining unamortized amount.

## **FINDINGS**

THE COMMISSION FINDS:

1. PSE is a public service company within the State of Washington and is subject to the regulatory authority of this Commission.
2. On August \_\_\_, 2011, PSE filed with the Commission a Petition for the modification of the order regarding the authorization to sell sulfur dioxide emission allowances and an associated accounting order.
3. After examination of the Petition and having given due consideration to all relevant matters and for good cause shown, the Commission finds that it is consistent with the public interest to grant a modification of the order and that the Company's request to discontinue deferral and amortization of the gain on SO<sub>2</sub> emissions sales after 2011 should be approved.

**ORDER**

THE COMMISSION ORDERS:

1. Authorization is hereby given for Puget Sound Energy, Inc. to:
  - a. discontinue deferral accounting treatment for the gain on SO<sub>2</sub> emission allowances sold after 2011, and
  - b. continue amortization of amounts deferred through December 31, 2011 in accordance with the Commission's original order.
2. 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, Inc.

3. The Commission, under its general ratemaking authority has the ability in subsequent Puget Sound Energy's general rate proceedings to evaluate the reasonableness of the Company's sales of excess SO<sub>2</sub> emission allowances. The Company bears the burden of proof in any such proceeding regarding these matters.

4. The Commission retains jurisdiction to effectuate the provisions of this Order.

DATED at Olympia, Washington and effective this \_\_\_ day of September, 2011.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

David Danner,  
Executive Secretary