

**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 and
Northwest Pipeline Capacity

Docket No. UG-_____

ORDER (PROPOSED)

MEMORANDUM

1. On January 4, 2006, 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 Duke Energy Trading and Marketing ("DETM") in exchange for PSE's assumption of additional natural gas transportation capacity on the Westcoast Energy Inc. and Northwest Pipelines that was formerly held by DETM.

A. Background

2. PSE's Petition states that DETM was the holder of natural gas pipeline capacity on both the Westcoast Energy Inc. ("Westcoast") Pipeline and Northwest Pipeline that had originally been acquired by a Duke Energy ("Duke") affiliate to provide a portion of the supply

for the proposed (and partially built) Grays Harbor gas-fired generating plant. Duke's affiliate subsequently disposed of its interest in the plant. In 2004, DETM transferred the majority of its transportation position and “book” to an unaffiliated marketer. DETM retained only selected pipeline capacity in the Pacific Northwest and intended to develop and maintain a smaller marketing presence. Subsequently, in fall of 2005 Duke announced that it would discontinue its entire operations of DETM and liquidate its pipeline capacity holdings.

3. PSE's Petition further states that because of DETM's decision to liquidate its pipeline capacity holdings, and through subsequent negotiations with DETM, PSE had the opportunity to take permanent release of DETM's 54,450 Mcf/day of Westcoast Pipeline capacity and 55,000 MMBtu/day of Northwest Pipeline capacity in exchange for one-time payments from DETM to PSE of \$13 million for the Westcoast Pipeline release and \$42 million for the Northwest Pipeline release. The transactions necessary to complete the Northwest Pipeline release were completed on December 22, 2005, and PSE received DETM's payment of \$42 million from escrow on December 23, 2005. The transactions necessary to complete the Westcoast Pipeline release were completed on December 28, 2005, and PSE received DETM's payment of \$13 million from escrow on December 29, 2005.

4. 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. According to PSE, the Station 2 supply trading point is growing in volume and liquidity, as compared to the historic Sumas supply point. The contract that PSE

assumed has a remaining primary term through October 31, 2017, although the contract demand declines at both October 31, 2012 and October 31, 2014.

5. PSE states that the Northwest Pipeline capacity will provide firm transportation service from the Sumas gas-trading hub (or from the more liquid hub at Station 2 – when used with the Westcoast Pipeline capacity) to Grays Harbor Meter Station (near Olympia, Washington), and thus to nearly all of the gate stations serving PSE’s gas distribution system. The Northwest Pipeline capacity may be used alone to move incremental supplies from Sumas (when available) to PSE’s system — matching the Westcoast Pipeline capacity is not required. The contract PSE assumed has a remaining primary term through September 30, 2018.

6. Through analysis performed in conjunction with PSE's 2005 Least Cost Plan, PSE identified a strategic need for the Westcoast Pipeline capacity obtained in the DETM transaction from the winter of 2005-06 for the foreseeable future at Station 2. PSE also identified expanded Northwest Pipeline capacity as the least cost resource for continued natural gas service reliability, even if acquired at the full tariffed rate, starting in 2011. According to PSE, subsequent updating of these analyses indicated that acquisition of the DETM capacity can reasonably be expected to be the lowest cost resource addition to PSE's gas portfolio, based on reasonably available resource alternatives.

7. PSE's Petition states that PSE will provide additional details regarding its analyses and conclusions related to the DETM capacity acquisition in its next general rate case

filing, to be filed no later than mid-February 2006, and that the prudence of these capacity release acquisitions should be examined by the Commission at that time.

8. PSE states that its tax department has determined that the \$55 million that PSE received from DETM should be treated as taxable income for Federal Income Tax purposes. Consistent with that conclusion, \$19.25 million (35% of the \$55 million) will be remitted to the Internal Revenue Service in PSE's mid-March 2006 quarterly tax payment. While this \$55 million is taxable at the time of receipt, PSE is proposing to normalize those taxes over the time period proposed in this Petition for amortization of the \$55 million.

9. PSE states that its underlying intent with respect to acquisition of the Westcoast Pipeline DETM capacity release was to obtain gas transportation capacity that is immediately needed (and will be needed in the future) at a discount to prices that PSE's natural gas customers would otherwise have to pay for such transportation. \$13 million of the payment from DETM represents payment for PSE's assumption of the Westcoast Pipeline capacity. PSE seeks in this filing to obtain approval for deferred accounting treatment and amortization of this \$13 million such that the payment and related deferred tax receivable asset can be used to offset the capacity costs that will flow to PSE's natural gas customers over the remaining life of the Westcoast Pipeline contract assumed by PSE as the additional capacity is utilized within PSE's core gas portfolio.

10. The remaining \$42 million of the DETM payment represents payment to PSE for its assumption of the Northwest Pipeline capacity. PSE states that its underlying intent with

respect to acquisition of the DETM Northwest Pipeline capacity release was to obtain gas transportation capacity that will be needed in the future – likely beginning in the years 2010-11 - - at a discount to prices that PSE's natural gas customers would otherwise have to pay in the future for such transportation, while holding current customers harmless from the costs of capacity that may not be needed until 2010-11. In order to implement this intent, PSE seeks through its Petition to obtain approval for deferred accounting treatment and amortization of the \$42 million payment from DETM and related deferred tax receivables associated with the Northwest Pipeline capacity such that current customers are not impacted by the Northwest Pipeline capacity that is not needed between now and 2010-11.

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

B. Proposed Accounting and Ratemaking Treatment

12. For the Northwest Pipeline ("NWP") capacity from Sumas to the Grays Harbor metering station near Olympia, the Company proposes: (1) to defer the \$42 million payment from DETM as a regulatory liability together with deferred federal income taxes to offset the associated current income tax liability arising from the payment of the \$42 million; and (2) to amortize the deferred amounts against the NWP pipeline capacity payments through January 2011. Such deferral and amortization are intended to assure that there is no impact to customers associated with the capacity charges until the capacity is needed in 2010-2011. The details of

the proposed accounting are shown for the original deferral and first month's amortization in Exhibit A to PSE's Petition, which is also attached as Exhibit A to this Order.

13. For the Westcoast ("WEI") capacity from Station 2 to Sumas, the Company proposes to similarly defer and amortize: (1) \$6.4 million to reflect a 10% reduction in the effective cost of capacity from January 2006 through October 2017; and (2) \$6.6 million to smooth and mitigate anticipated higher tariff rates from January 2006 through December 2010. The details of the proposed accounting are shown for the original deferral of this \$13 million and the first month's amortization as Exhibit B to this Petition, which is also attached as Exhibit B to this Order.

FINDINGS

14. 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.

15. On January 4, 2006, PSE filed with the Commission a Petition for an order regarding accounting and ratemaking treatment related to PSE's receipt of funds from Duke Energy Trading and Marketing ("DETM") in exchange for PSE's assumption of additional natural gas transportation capacity on the Westcoast Energy Inc. and Northwest Pipelines that was formerly held by DETM.

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

17. The prudence of PSE's acquisition of the DETM capacity is to be addressed in the Company's next general rate case.

ORDER

WHEREFORE, THE COMMISSION HEREBY ORDERS:

18. Approval is hereby given for the accounting and ratemaking treatment requested in PSE's Petition dated January 4, 2006, with respect to funds received by PSE from DETM in exchange for PSE's assumption of additional natural gas transportation capacity on the Westcoast Energy Inc. and Northwest Pipelines that was formerly held by DETM, as described in PSE's Petition.

19. PSE is hereby authorized, for the Northwest Pipeline ("NWP") capacity from Sumas to the Grays Harbor metering station near Olympia: (1) to defer the \$42 million payment from DETM as a regulatory liability together with deferred federal income taxes to offset the associated current income tax liability arising from the payment of the \$42 million; and (2) to amortize the deferred amounts against the NWP pipeline capacity payments through January 2011. Such deferral and amortization are intended to assure that there is no impact to customers associated with the capacity charges until the capacity is needed in 2010-2011. The details of the proposed accounting are shown for the original deferral and first month's amortization in Exhibit A to this Order.

20. PSE is also hereby authorized, for the Westcoast ("WEI") capacity from Station 2 to Sumas, to similarly defer and amortize: (1) \$6.4 million to reflect a 10% reduction in the

effective cost of capacity from January 2006 through October 2017; and (2) \$6.6 million to smooth and mitigate anticipated higher tariff rates from January 2006 through December 2010. The details of the proposed accounting are shown for the original deferral of this \$13 million and the first month's amortization as Exhibit B to this Order.

21. 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 an acquiescence in any estimate or determination of costs claimed or asserted.

22. 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 ____ day of _____, ____.

MARK SIDRAN, Chairman

PATRICK OSHIE, Commissioner

PHILLIP JONES, Commissioner

Exhibit A
Puget Sound Energy
Amortization of Northwest Pipeline capacity pre-paid discount

Proposed Accounting	<u>Acc. No.</u>	<u>Debit</u>	<u>Credit</u>
1	Upon receipt of cash from DETM the Company will record a deferred regulatory liability to be amortized against the capacity demand charge until January 2011. The Company will record a deferred tax debit to offset the current taxes payable on the transaction.		
a	To record the receipt of cash and deferred liability.		
	Dr. Cash	\$42,000,000	
	Cr. Other regulatory liabilities		\$42,000,000
b	To record the current tax liability and related deferred taxes		
	Dr. Current income tax expense	14,700,000	
	Cr. Current income tax payable		14,700,000
	Dr. Accumulated deferred income taxes	14,700,000	
	Cr. Deferred income tax expense		14,700,000
2	Monthly, the deferred liability will be amortized against the monthly pipeline capacity charge related to the capacity acquired. (example of first month's transaction)		
a	To record the capacity charge and related taxes		
	Dr. Purchased gas demand charge	674,276	
	Cr.		
	Cash		674,276
	Dr. Current income tax payable	235,997	
	Cr. Current income tax expense		235,997
b	To record the amortization of the deferred regulatory liability against the demand charge and related deferred taxes		
	Dr. Other regulatory liabilities	674,276	
	Cr. Purchased gas amortization		674,276
	Dr. Deferred income tax expense	235,997	
	Cr. Accumulated deferred income taxes		235,997

Exhibit B
Puget Sound Energy
Amortization of Westcoast Pipeline capacity pre-paid discount

Proposed Accounting	<u>Acc. No.</u>	<u>Debit</u>	<u>Credit</u>
1	Upon receipt of cash from DETM the Company will record a deferred regulatory liability to be amortized against the capacity demand charge until December 2010 for a portion and until October 2017 for the remainder. The Company will record a deferred tax debit to offset the current taxes payable on the transaction.		
a	To record the receipt of cash and deferred liability.		
	Dr. Cash	\$13,000,000	
	Cr. Other regulatory liabilities		\$13,000,000
b	To record the current tax liability and related deferred taxes		
	Dr. Current income tax expense	4,550,000	
	Cr. Current income tax payable		4,550,000
	Dr. Accumulated deferred income taxes	4,550,000	
	Cr. Deferred income tax expense		4,550,000
2	Monthly, the deferred liability will be amortized against the monthly pipeline capacity charge related to the capacity acquired. (example of first month's transaction)		
a	To record the capacity charge and related taxes		
	Dr. Purchased gas demand charge	405,123	
	Cr.		
	Cash		405,123
	Dr. Current income tax payable	141,793	
	Cr. Current income tax expense		141,793
b	To record the amortization of the deferred regulatory liability against the demand charge and related deferred taxes		
	Dr. Other regulatory liabilities	40,512	
	Cr. Purchased gas amortization		40,512
	Dr. Deferred income tax expense	14,179	
	Cr. Accumulated deferred income taxes		14,179