

**BEFORE THE  
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

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

For an Accounting Order Authorizing  
Accounting Treatment of Payment of \$89  
million by PSE to Chelan County Public  
Utility District No. 1 for the Purchase of  
Power.

Docket No. UG-\_\_\_\_\_

ORDER (PROPOSED)

**MEMORANDUM**

1. On April 7, 2006, Puget Sound Energy, Inc. ("PSE" or "the Company") submitted a Petition for an order regarding accounting treatment related to PSE's purchase of power from Chelan County Public Utility District No. 1 ("Chelan PUD") under a new power sales agreement (the "Chelan Contract").

**A. Background**

2. PSE and Chelan PUD are parties to two separate cost-based power sales agreements pursuant to which PSE purchases significant portions of the aggregate output of the Chelan PUD's Rocky Reach and Rock Island hydroelectric projects on the Columbia River.

These existing contracts are set to expire, in the case of output from Rocky Reach, on October 31, 2011, and in the case of output from Rock Island, on June 7, 2012.

3. PSE's Petition states that output from Chelan PUD's Rocky Reach and Rock Island hydroelectric projects has for decades been the backbone of PSE's existing resource base, providing seasonal and daily load shaping energy and capacity benefits in addition to necessary ancillary services. This output helps to ensure PSE's ability to meet base-load, daily and seasonal peaking requirements, integrate existing and incremental wind or other variable production resources into PSE's supply portfolio, and provides increased certainty related to modeling and determination of PSE's future resource needs and supply alternatives.

4. PSE and Chelan PUD recently entered into a new agreement effective February 1, 2006, which provides for the cost-based sale of 25 percent of the output of both the Rocky Reach and Rock Island projects to PSE. PSE's Petition states that PSE will also receive specified ancillary services under the new contract. In exchange, PSE is obligated to pay 25 percent of the projects' costs during the term of the Agreement. PSE states that it is also obligated to make a one-time, upfront capacity reservation payment to Chelan PUD of \$89 million by April 27, 2006.

5. The new power sales agreement is for 20 years, commencing on November 1, 2011, for the Rocky Reach hydroelectric project and on July 1, 2012 for the Rock Island hydroelectric project. The new contract will expire on October 31, 2031.

**B. Proposed Accounting Treatment**

6. PSE is requesting in this Petition that the Commission approve: (1) deferred accounting treatment of the \$89 million payment; and (2) the booking of carrying charges on that payment at PSE's approved net of tax rate of return.

7. PSE's Petition states that PSE has and will continue to provide additional details regarding its analyses and conclusions related to the power sales agreement in its general rate case proceeding, which was filed on February 15, 2006, and assigned Docket No. UE-060266 et al. PSE states that the prudence of this electric resource acquisition should be examined by the Commission in that general rate case proceeding. PSE also states that the Commission should consider in PSE's pending general rate case PSE's proposal to amortize over the life of the contract (20 years) the \$89 million deferred amounts, plus accrued interest, as well as PSE's proposal regarding rate base treatment of such amounts.

8. PSE's Petition states that in the meantime, it is appropriate that the Commission authorize deferred accounting treatment of the \$89 million payment since PSE must make this payment to Chelan PUD by April 27, 2006, long before the general rate case concludes. PSE's Petition also states that authorization of inclusion of PSE's carrying costs for the deferred \$89 million is appropriate because the Company must borrow the funds to make this payment by April 27, 2006, and will not have such funds available for other purposes.

## **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 April 7, 2006, PSE filed with the Commission a Petition for an order regarding accounting treatment related to PSE's new power sales agreement with Chelan PUD, and specifically with respect to a one-time, upfront capacity reservation payment of \$89 million that PSE is obligated to make to Chelan PUD by April 27, 2006.

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

12. The prudence of PSE's entry into the Chelan Contract and PSE's proposed ratemaking treatment are to be addressed in the Company's pending general rate case.

## **ORDER**

WHEREFORE, THE COMMISSION HEREBY ORDERS:

13. Approval is hereby given for the accounting treatment requested in PSE's Petition dated April 7, 2006, with respect to PSE's \$89 million payment to Chelan PUD, as described in PSE's Petition.

14. PSE is hereby authorized to defer the \$89 million payment to Chelan PUD as a regulatory asset together with carrying charges on that payment at PSE's approved net of tax rate of return.

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 an 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 \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

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MARK SIDRAN, Chairman

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PATRICK OSHIE, Commissioner

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PHILLIP JONES, Commissioner