

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

Petition of

Docket No. UE-131276

PUGET SOUND ENERGY, INC.

For an Order Authorizing the Regulatory and
Accounting Treatment of the Net Proceeds
from the sale of Biogas and Environmental
Attributes

REVISED PETITION

I. INTRODUCTION

1. Puget Sound Energy, Inc. ("PSE" or the "Company") is hereby requesting in this petition ("Petition") a revision to its original accounting petition in Docket No. UE-131276. The revision involves changes, as requested by Commission Staff and agreed upon by the Company, regarding treatment of the sale of biogas, which includes environmental attributes and associated costs ("Net Biogas Proceeds").

2. PSE is engaged in the business of providing electric and natural 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 are:

Puget Sound Energy, Inc.
Attn: Katherine J. Barnard
Director of Revenue Requirements and Regulatory Compliance
P.O. Box 97034
Bellevue, Washington 98009-9734

3. Rules and statutes that may be at issue in this Petition include WAC 480-07-370(1)(b).

II. BACKGROUND: BIOGAS IN PSE'S PORTFOLIO

4. In October 2008, PSE entered into a twenty year contract to purchase all of the pipeline quality natural gas supply produced from the landfill-gas recovery project at the Cedar Hills Landfill in King County. The arrangement was the result of a collaborative effort among PSE, Bio Energy Washington (“BEW”) and King County to develop a project that captures the waste methane gas produced at the Cedar Hills Landfill, processes it to achieve pipeline quality supply, and delivers the gas into the Northwest Pipeline (“NWP”) interstate system.

5. In February 2011, PSE entered into an arrangement with King County that gave PSE all rights to the environmental attributes of the pipeline quality natural gas. Obtaining the environmental attributes of the Cedar Hills pipeline quality processed landfill gas created a renewable resource, biogas (“Cedar Hills biogas”), and enabled PSE to begin monetizing the environmental attributes for the benefit of its customers. As a result of this development, PSE began to separately account for and inventory the Cedar Hills biogas effective February 2011.

III. ENVIRONMENTAL ATTRIBUTES OF BIOGAS

6. The environmental attributes of biogas are a marketable commodity – separate from the underlying fuel – though generally bundled with the physical biogas, and may be used to demonstrate compliance with various state and federal programs and corporate environmental commitments or with the Environmental Protection Agency’s (“EPA”) Renewable Fuel Standard

program¹. Upon PSE's arrangement with King County, market conditions were such that utilizing the Cedar Hills biogas to generate power at its Mint Farm Generating Station (to create Renewable Energy Credits ("RECs")), returned the highest value for PSE's customers and accordingly PSE certified the Mint Farm Generating Station for this application. However, market conditions quickly changed, and PSE determined that it was more economically advantageous for its customers to sell the Cedar Hills biogas (including the related environmental attributes) than to use it to generate RECs and entered into contracts with third-parties accordingly.

7. In July 2012, PSE recognized that Cedar Hills biogas may qualify for the Environmental Protection Agency's ("EPA") Renewable Fuel Standard program. This EPA program, which is independent of Washington's Renewable Portfolio Standard program, allows for the creation of a different commodity, Renewable Identification Numbers ("RINs"), when the biogas is used in a transportation application. Currently, this application provides for a significantly higher market value than would otherwise be received through the REC application or from obtaining a premium from selling the generic environmental attributes of biogas outside of the Renewable Fuel Standard program. Accordingly, in July 2012, PSE began storing Cedar Hills biogas produced in excess of that needed to fulfill existing contract obligations until the biogas was certified for the EPA program.

8. PSE obtained EPA certification in May 2013 which allowed all inventoried Cedar Hills biogas and all future Cedar Hills biogas production to be eligible for its Renewable Fuel

¹ See Renewable Fuel Standard page on EPA WEB site:
www.epa.gov/otaq/fuels/renewablefuels/

Standard program. With this certification, PSE's contracts to sell the Cedar Hills biogas under the EPA's Renewable Fuel Standard program commenced in June 2013. PSE has continued to enter into transactions with third parties for biogas sales contracts to extract the highest value for the Cedar Hills biogas.

IV. REVISED PROPOSED TREATMENT OF NET BIOGAS PROCEEDS

A. Background

9. Through October 31, 2013, the underlying costs of the physical biogas purchases from BEW and the sale proceeds from the physical biogas sold to third parties, or the Cedar Hills "mark-to-market" – which represented a "net cost" – were included in PSE's Power Cost Adjustment ("PCA") baseline rates. Accordingly, and as requested in PSE's original petition, these net costs were not used to offset the proposed Net Biogas Proceeds to be passed on to customers for the period up through October 31, 2013. The Cedar Hills mark-to-market costs were *removed* from power costs in the 2013 PCORC for which the PCA baseline rate went into effect on November 1, 2013. Commission Staff concurs with PSE on its proposed treatment of the net proceeds for the period through October 31, 2013. For this revised petition, Commission Staff has recommended, and PSE concurs, that beginning November 1, 2013, the effective date of the 2013 PCORC baseline rate, all net biogas proceeds, including the offset for the mark-to-market associated with Cedar Hills physical biogas produced after October 31, 2013 will be recognized by PSE below-the-line as an unregulated operation. This proposed treatment is outlined in more detail as follows.

B. Net Biogas Proceeds Through October 31, 2013

10. PSE defines Net Biogas Proceeds through October 31, 2013, the last day before the Company's 2013 PCORC rate under Docket UE-130617 took effect, to include revenues from the sale of the environmental attributes of the biogas, less the costs associated with achieving its value, or to facilitate such sale of biogas, including the associated incremental transaction costs and the incremental cost of transporting and storing the biogas. Such costs also include, but are not limited to, attorney fees, broker commissions, royalty payments or other third party costs associated with the transaction. These net proceeds *exclude* the underlying cost of the physical biogas purchased from BEW and the proceeds from the sale of the physical biogas to third parties, as these net costs were already included as the Cedar Hills mark-to-market adjustment in power costs in the Company's 2009 and 2011 GRCs, the last of which was in effect through October 31, 2013.

11. Through October 31, 2013, PSE has deferred net proceeds of approximately \$10.5 million related to the sale of environmental attributes from biogas². PSE proposes that these net proceeds plus interest based on PSE's after tax rate of return, grossed up for Federal Income Taxes for that period, be passed on to customers over one year under the Schedule 137 REC tracker. In addition to the net proceeds deferred through October 2013, PSE is expecting additional proceeds in the form of true ups related to the August, September and October 2013 RIN attribute revenues. PSE also anticipates sales in early 2014 of unbundled RINs in inventory that resulted from biogas produced prior to November 1, 2013. Finally, royalty payments to King County related to October net proceeds and the additional attribute revenues listed here will become offsets to the net proceeds. These transactions and any outstanding net proceeds related

² As previously mentioned, this amount is not offset by the mark-to-market that was included in PSE's PCA rates during that time.

to biogas produced before November 1, 2013, will be deferred as they are realized and interest will be accrued on them until they can be completely passed through to customers by way of next year's Schedule 137 REC re-set. PSE will provide further detail in the workpapers of its Schedule 137 REC filing that support the Cedar Hills Biogas net proceeds being passed through to customers for calendar year 2014.

C. Net Biogas Proceeds Beginning November 1, 2013 and Thereafter

12. PSE defines Net Biogas Proceeds beginning November 1, 2013, the day the 2013 PCORC rate under Docket UE-130617 took effect, and thereafter, to include revenues from the sale of the environmental attributes of the biogas produced after October 31, 2013, less the costs associated with achieving its value, or to facilitate such sale of biogas, including the associated incremental transaction costs and the cost of transporting and storing the biogas. Such costs also include, but are not limited to, attorney fees, broker commissions, royalty payments or other third party costs associated with the transaction. These net biogas proceeds will *include* the underlying cost of the physical biogas purchased from BEW and the proceeds from the sale of the physical biogas to third parties, as these net costs or the mark-to-market on Cedar Hills biogas are no longer included in the 2013 PCORC authorized power costs and PCA Baseline rate effective November 1, 2013.

13. Commission Staff recommends, and PSE concurs, that any net proceeds for biogas produced November 1, 2013 and thereafter be reflected as a PSE below-the-line item and be excluded from regulatory treatment. The risk and opportunities associated with biogas produced during this period will be absorbed entirely by PSE beginning November 1, 2013. PSE has available and shall maintain going forward, sufficient documentation to support that all

incremental costs and revenues related to the sale of biogas produced November 1, 2013 and thereafter, are accounted for below-the-line.

V. ACCOUNTING METHODOLOGY

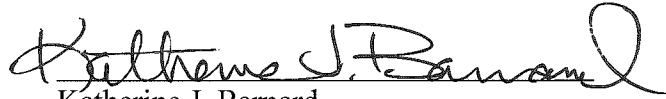
14. Pending the outcome of this petition, PSE has been deferring the revenues for the environmental attribute transactions in FERC account 253 "Other Deferred Credits". Additionally, PSE has been offsetting these deferred revenues with the costs (described in the above section named "Net Biogas Proceeds Through October 31, 2013"). Upon approval of this petition, PSE would transfer all of these Net Biogas Proceeds in FERC account 253 to a FERC Account 254, "Other Regulatory Liabilities". PSE proposes to include interest in the 254 account, calculated from the beginning of the deferral period, February 2011 through October 31, 2013, at PSE's after-tax rate of return, grossed up for FIT. PSE would provide these deferred Net Biogas Proceeds with interest to customers over a one year period in PSE's Schedule 137 REC Tracker, starting on January 1, 2014. As with the REC deferral accounting, PSE would amortize the 254 account as customers receive the credits. Additional net proceeds discussed above related to biogas produced before November 1, 2013 will be deferred in the 254 account as they are realized and this amount will be passed through to customers by way of next year's Schedule 137 REC Tracker re-set. Interest will continue to be calculated on the balance of 254 account until the total amount of proceeds are passed through to customers. Any over or under amortized balance would be subject to a one-time true-up for load variances in the subsequent year's REC 137 Tracker filing for the following rate period.

VI. PRAYER FOR RELIEF

15. Based on the foregoing, PSE respectfully requests that the Commission issue an Accounting Order authorizing the accounting treatment set forth in this Petition.

DATED this 20th day of November, 2013.

PUGET SOUND ENERGY, INC.

A handwritten signature in black ink, appearing to read "Katherine J. Barnard". The signature is fluid and cursive, with a large loop at the end.

Katherine J. Barnard
Director of Revenue Requirements and
Regulatory Compliance

VERIFICATION

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

Katherine Barnard, being first duly sworn, on oath deposes and says:

That she is Director of Revenue Requirements and Regulatory Compliance with Puget Sound Energy, Inc., that she has read the foregoing Petition of Puget Sound Energy, Inc. for An Accounting Order, that she knows the contents thereof, and that she believes the same to be true to the best of her knowledge and belief.


Katherine Barnard

SUBSCRIBED and SWORN to before me this this th day of November, 2013.

Print Name: _____
Notary Public in and for the State of Washington,
residing at _____
My commission expires: _____