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April 16, 2007

FILED ELECTRONICALLY

Hon. Kimberly D. Bose, Secretary
Office of the Secretary
Federal Energy Regulatory Commission
Room 1-A, East
888 First St., N.E.
Washington, DC 20426

**Re: *Puget Sound Energy, Inc.*, Docket No. OA07-_____
Optional Implementation Section 205 Filing Pursuant to Paragraph 139 of
Order No. 890**

Dear Hon. Posey:

Pursuant to 18 C.F.R. Part 35, Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Order No. 890, *Preventing Undue Discrimination and Preference in Transmission Service*, 72 Fed. Reg. 12,266 (Mar. 15, 2007) ("Order No. 890"), Puget Sound Energy, Inc. ("PSE") hereby submits for filing with the Federal Energy Regulatory Commission ("Commission") PSE's optional implementation section 205 filing pursuant to paragraph 139 of Order No. 890.

1. Contents of Filing

PSE respectfully tenders for filing an electronic copy of the following documents:

1. this transmittal letter;
2. pages redlined against the Order No. 890 *pro forma* Open Access Transmission Tariff ("OATT") to illustrate the non-rate deviations previously requested by PSE and accepted by the Commission that (i) may have been substantively affected by the reforms adopted in Order No. 890, (ii) continue to be consistent with or superior to the

revised *pro forma* OATT adopted in Order No. 890, and (iii) PSE seeks to preserve for inclusion in its OATT; and

3. Form Notice of the Section 205 Filing suitable for publication in the *Federal Register*.

2. Correspondence

PSE respectfully requests that the following persons be included on the official service list in these proceeding and that all communications concerning this filing be addressed to them:

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3. Description and Basis for Filing

- a. **Non-rate Deviations to the Order No. 888 *Pro Forma* OATT Previously Requested by PSE and Accepted by the Commission that May Have Been Substantively Affected by Order No. 890 and That PSE Seeks to Preserve for Inclusion in Its OATT**
 - i. **Deviations to Reflect Use of the Dow Jones Mid-Columbia Firm Power Index as a Market Proxy Price for PSE's Incremental and Decremental Costs in Schedule 4**

As shown in proposed Original Sheet Nos. 127 and 128 of Attachment A, PSE proposes to retain the use of the Dow Jones Mid-Columbia Firm Power Index as a market proxy price for PSE's incremental and decremental costs for the provision of imbalance service pursuant to Schedule 4 of the OATT. (As shown on such pages, the deviation bands in Schedule 4 will be those established in the Order No. 890 *pro forma* OATT.) Preserving this index as a market proxy price for PSE's incremental and decremental costs in Schedule 4 may well not constitute a non-rate deviations to the Order No. 888 *pro forma* OATT required to be included in this filing if it is to be preserved. However, if and to the extent the Commission considers that its inclusion is required for its preservation, the following information is provided.

In Commission Docket No. ER01-2745-000, PSE filed revisions to Schedule 4 of its OATT to implement a market pricing mechanism for imbalance service based upon the Dow Jones Mid-Columbia Firm Power Index. By letter order dated September 24, 2001, the Commission accepted such revised Schedule 4 for filing and stated as follows:

Puget Sound's revised Schedule 4 implements a *market pricing mechanism for imbalance service*. The intent of the revised Schedule 4 is to ensure full cost recovery for Energy Imbalance Service provided to Puget Sound's transmission customers through clearer pricing signals that encourage customers to schedule energy deliveries as accurately as possible. Under the revised Schedule 4 Puget Sound will retain the existing deviation band of +/- 1.5 % or +/- 2 MW, whichever is greater. Imbalances that occur within the deviation band will be settled at 100% of the price reported on the *Dow Jones Mid-Columbia Firm Power Index*. In addition, Puget Sound eliminated the return-in-kind provision for deviations within the bandwidth, and replaced it with a financial settlement mechanism. Outside of the bandwidth, Puget Sound will charge customers the higher of 100 mills per kilowatt hour or 105% of the index price. Puget Sound will credit customers 95% of the index price for over-deliveries outside of the deviation bandwidth. The proposed provisions are consistent with the Commission's discussion of Energy Imbalance Service in Order No. 888.

Letter Order, dated September 24, 2001, in Commission Docket No. ER01-2745-000 (emphasis added).

Consistent with the Commission's acceptance of the Dow Jones Mid-Columbia Firm Power Index as a market proxy price for filing in Commission Docket No. ER01-2745-000, this index is reliable, verifiable, and also indicative of the prevailing price in liquid non-redispach markets in the Pacific Northwest. *See* Order No. 890 at fn. 402 (citing *RockGen Energy, LLC*, 100 FERC ¶ 61,261 (2002)). Moreover, use of this index in the Pacific Northwest as a market proxy price is typical for energy imbalance service pursuant to Schedule 4.

ii. Deviations to Preserve (i) PSE's Retail Network Integration Transmission Service Agreement, (ii) PSE's Retail Network Operating Agreement, and (iii) PSE's Schedule 4R Energy Imbalance Service for Retail Customers

As shown in proposed Original Sheet Nos. 129, 130, 131, 166, 167, 168, 173, 174, 175, and 176 of Attachment A, PSE proposes to retain (i) a Retail Network Integration Transmission Service Agreement, (ii) Retail Network Operating Agreement, and (iii) a Schedule 4R Energy Imbalance Service for Retail Customers. Retaining these deviations may well not constitute non-rate deviations to the Order No. 888 *pro forma* OATT that are substantively affected by Order

No. 890 and thus required to be included in this filing if they are to be preserved. However, if and to the extent the Commission considers that their inclusion is required for their preservation, the following information is provided.

In its submittal letter to the Commission in Docket No. ER01-2149-000, PSE explained that such revisions reflect settlement of dispute between PSE and certain large retail customers regarding such customers' contracts and stated as follows:

On March 9, 2000, the Parties entered into a Settlement to resolve essentially all disputes between PSE and the Schedule 48 and Special Contract Customers concerning the Schedule 48 and Special Contract agreements. The Settlement provided that certain Schedule 48 and Special Contract Customers with demands greater than 2.4 MW can elect to take service pursuant to Schedule 449, a retail rate schedule on file at the WUTC [the Washington Utilities and Transportation Commission]. . . . Under Schedule 449, the Customer will arrange to purchase power directly from one or more suppliers other than PSE and the Customer, or its appropriate designee, will arrange the transmission service. . . .

In addition, the Settlement also provided that those Customers with demands greater than 2.4 MW can alternatively elect to take service under Schedule 448, another retail rate schedule on file at the WUTC. . . . Under Schedule 448, these Customers shall purchase power from one or more suppliers through a buy/sell contract. Under the buy/sell contract, PSE will purchase the power from the supplier or suppliers selected by the Schedule 448 Customer and resell the power to the Schedule 448 Customer. Pursuant to the Settlement, PSE will arrange the transmission on behalf of the customer under Schedule 448. PSE will pass through to the Schedule 448 Customer the costs of the buy/sell contract, grossing up all energy charges for taxes.

Filing letter, dated May 25, 2001, in Commission Docket No. ER01-2149-000 (footnote omitted).

By letter order dated July 11, 2001, the Commission accepted such revisions for filing and stated as follows:

Puget states that retail customers will make power supply arrangements to meet their long-term requirements under Puget's Retail Rate Schedule 448 and Retail Rate Schedule 449. With the transmission component under these schedules being provided under Puget's Open Access Transmission Tariff (OATT), Puget submitted a blanket Integration Agreement,

Operating Agreement and separate Energy Imbalance Service Schedule to meet the variations of supplied power. Puget will charge retail customers 105 percent of the Mid-Columbia firm index for negative imbalances outside a deviation bandwidth equal to the greater of +/- 1MW or +/- 7.5 percent of the scheduled hourly supplied power, and a credit of 95 percent for positive imbalances outside the deviation bandwidth.

Letter Order, dated July 11, 2001, in Commission Docket No. ER01-2149-000.

These deviations should be preserved consistent with the settlement with PSE customers on which such deviations were based and are consistent with the Commission's acceptance of these deviations in Commission Docket No. ER01-2149-000. In that regard, the Industrial Customers of Northwest Utilities has argued that Schedule 4R should be preserved without modification:

the Commission's new imbalance provisions should not apply to imbalance provisions (typically Schedule 4R) that have been implemented pursuant to a retail access program.

Comments of the Industrial Customers of Northwest Utilities, dated September 20, 2006, in Commission Docket Nos. RM05-25-000 and RM05-17-000.

iii. Deviations to Reflect Preservation of PSE's Current Attachment C (Methodology to Assess Available Transmission Capability) Until the Effective Date of the Replacement Attachment C

As shown in proposed Original Sheet No. 159 of Attachment A, PSE proposes to retain the provisions of Attachment C (Methodology to Assess Available Transmission Capability) of PSE's OATT, until such Attachment C is revised and becomes effective pursuant to Order No. 890. Paragraph 140 of Order No. 890 requires PSE to submit a proposed revised Attachment C on or before September 11, 2007. Retaining PSE's current Attachment C until its replacement becomes effective may well not constitute a non-rate deviation to the Order No. 888 *pro forma* OATT required to be included in this filing if it is to be preserved until replaced. However, if and to the extent the Commission considers that its inclusion is required for it is to be preserved until replaced, such preservation until replacement is necessary to specify the ATC Methodology to be used prior to the effective date of the replacement Attachment C.

b. Other Deviations to the Order No. 888 *Pro Forma* OATT Previously Requested by PSE and Accepted by the Commission

PSE's current OATT contains a number of other deviations to the Order No. 888 *pro forma* OATT previously requested by PSE and accepted by the Commission that are not

substantively affected by Order No. 890 but that continue to be consistent with or superior to the revised *pro forma* OATT adopted in Order No. 890. Consistent with paragraph 139 of Order No. 890, these other deviations are not submitted as part of this optional implementation section 205 filing, but such deviations that PSE believes should be preserved will be submitted as part of the May 14, 2007, section 206 compliance filing. The two primary of such deviations are the following.

i. Deviations to Reflect Three Geographic Components of PSE's Transmission System

In Commission Docket Nos. OA96-161-000, ER96-697-000, ER96-1456-001, and ER97-4468-000 (consolidated), PSE, two customers (the Port of Seattle and the Industrial Customers of Northwest Utilities), and Commission Trial Staff negotiated a global settlement to PSE's rates and rate design issues (the "Settlement"). The Settlement specified the previously agreed to revenue requirements at \$81 million and rates for ancillary services. The Settlement resolved segmentation issues by agreement to separate revenue requirements, billing determinants and rates for each of three geographic components of PSE's transmission system.

PSE, the Port of Seattle and the Industrial Customers of Northwest Utilities jointly filed the Settlement on June 29, 2001, in Commission Docket Nos. OA96-161-000, ER96-697-000, ER96-1456-001, and ER97-4468-000 (consolidated). Commission Trial Staff filed comments in support of the Settlement on July 19, 2001. On December 20, 2001, the Commission approved the Settlement and PSE's OATT as proposed. *See Puget Sound Energy, Inc.*, 97 F.E.R.C. ¶ 61,309 (2001).

ii. Deviations to Reflect Wholesale Transmission and Distribution Segments

In Commission Docket No. ER01-2149-000, PSE submitted for filing with the Commission revisions to its OATT to reflect a reclassification of PSE's transmission and distribution facilities. By letter order dated February 15, 2002, the Commission accepted PSE's revisions for filing and stated as follows:

Puget proposes to separate its transmission rate under its existing OATT into two components: (1) one for transmission service for high voltage lines, and (2) one for wholesale distribution service for lower voltage lines. The rates Puget proposes for these services consist of a split of its existing transmission rate of \$10.84/kW per year, (which was adopted in a Settlement), into a transmission service rate of \$2.10/kW per year, and a wholesale distribution rate of \$8.74/kW per year. These proposed rates reflect the proportions of the facilities Puget proposes to reclassify. If a customer uses only high voltage facilities, it will pay only the \$2.10/kW

per year transmission rate, whereas, if a customer uses both low voltage and high voltage facilities, it would continue to pay the combined Settlement rate of \$10.84/kW per year.

Prior to the filing of the OATT rate changes at issue in this proceeding, Puget states that it obtained the Washington Utilities and Transportation Commission (WUTC) approval to reclassify its transmission and distribution facilities in order to implement a retail access program in the state of Washington. Puget requests that the Commission defer to the WUTC's approval of the proposed reclassification of facilities.

Letter order, dated February 15, 2002, in Commission Docket No. ER01-2149-000 (footnote omitted).

4. Proposed Designation of Tariff Changes

In accordance with the Commission's Order No. 614, *Designation of Electric Rate Schedule Sheets*, FERC Stats. & Regs. Preamble ¶ 31,096 (2000), PSE has designated the pages attached as Attachment A as proposed Eighth Revised Volume 7 Open Access Transmission Tariff, Original Sheet Nos. 127, 128, 129, 130, 131, 159, 166, 167, 168, 173, 174, 175, and 176. Please note that this will be the volume designation for the July 13, 2007, section 206 compliance filing and that the pagination indicated above may change in such compliance filing.

5. Persons Served

PSE will post an electronic copy of this filing on PSE's Open Access Same-Time Information System (OASIS).

6. Proposed Effective Date and Requested Waiver of Notice Requirements

Consistent with paragraph 139 of Order No. 890, PSE respectfully requests an effective date for this filing of July 13, 2007, the date on which PSE will submit its section 206 compliance filing. Notwithstanding the requested effective date for this filing of July 13, 2007, PSE states in accordance with paragraph 139 of Order No. 890 "that the Commission has 90 days following the date of submission of the filing to act under section 205."

7. Compliance with Section 35.13(a)(iii)

No third-party agreement is required to effect this optional implementation section 205 filing pursuant to paragraph 139 of Order No. 890. No rates of general applicability are being changed in this filing. No expenses or costs in this tariff have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative or unnecessary costs that are demonstrably the product of discriminatory employment practices. To the extent not otherwise included in this filing, PSE

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requests waiver of any other applicable filing requirements of Part 35 of the Commission's regulations.

8. Conclusion

For the reasons set forth above, PSE respectfully requests that the Commission accept the proposed Eighth Revised Volume 7 Open Access Transmission Tariff, Original Sheet Nos. 127, 128, 129, 130, 131, 159, 166, 167, 168, 173, 174, 175, and 176 for filing with an effective date of July 13, 2007.

Thank you for your consideration of the documents submitted herewith.

Respectfully submitted,

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Enclosures