Agenda Date: January 31, 2013
Item Number: A1

Docket: UE-122001

Company: Puget Sound Energy, Inc.

Staff: EJ Keating, Regulatory Analyst
Kendra White, Regulatory Analyst

Recommendation

Issue a Complaint and Order suspending the tariff revision filed in Docket UE-122001 and set the matter for hearing.

Background

On December 31, 2012, Puget Sound Energy, Inc. (PSE or company) filed proposed tariff revisions to WN U-60, Tariff G, Schedule 95A[1] with the Washington Utilities and Transportation Commission (commission).

In this filing, PSE is proposing changes to Schedule 95A. Currently, Schedule 95A passes back the Treasury Grant monies it receives through rate credits over a 10 year amortization schedule. This proposal would increase the amortization schedule of the Wild Horse Treasury Grant from 10 years to 21 years (the remaining life of the plant) and would amortize monies received from the LSR Treasury Grant over the 24 years of the plants expected life.

The treatment of Treasury Grants was previously discussed in Dockets UE-111048 and UG-111049, PSE's most recent general rate case (GRC). The appropriate treatment of Treasury Grants was not determined in those Dockets as PSE had not yet received the monies related to its investment in Lower Snake River (LSR). However, in Order 08, the commission stated that the next Schedule 95A filing would be the proper time to address the treatment of Treasury Grants.[2]

Discussion

Consistent with Staff's testimony in Dockets UE-111048 and UG-111049,[3] Staff proposes to discontinue the practice of using Schedule 95A for the pass back of Treasury Grants to customers in the form of rate credits. Instead, Staff recommends rate base treatment of all remaining Treasury Grant amounts as a direct rate base offset to the capital costs of LSR and Wild Horse. In order to accomplish the rate base treatment, PSE should now be required to defer the amount of the LSR Treasury Grant as a regulatory liability, and accrue interest at the company's authorized rate of return. This deferred treatment is consistent with prior treatment given to regulatory assets and fixed plant related to LSR.[4,5] Upon PSE's next Power Cost Only

[1] Schedule 95A is the Federal Incentive Tracker for electric service.
[2] Order 08 at ¶176.
[3] Docket UE-111048 and Docket UG-111049, Cross-Answering Testimony of Thomas E. Schooley, Exhibit No. __ (TES-3T) at page1:11.
[4] In Order 08 in Dockets UE-111048 and Docket UG-111049, the Commission cites that the company "does not object to deferring the LSR Treasury Grant and reflecting the appropriate ratemaking treatment, with any associated impact of the Wild Horse Treasury Grant, in its [forthcoming] Schedule 95A filing," at ¶175.
[5] The treatment LSR received was under the provisions in Washington's Greenhouse Gas Emission Performance Standard codified at RCW 80.80 which allows deferral of costs for later inclusions in rates in a GRC recognized

Rate Case (PCORC) or GRC, staff proposes that the amount of the LSR Treasury Grant, with accrued interest, and the remaining unamortized balance of the Wild Horse Treasury Grant be used to offset rate base on the company's books

An alternative method of directly offsetting rate base is to account for the Treasury Grants similar to how the Uniform System of Accounts (USoA) treats Contributions in Aid of Construction (CIAC) whereby the asset is reduced on the books by the amount of the Treasury Grants.

Staff proposes rate base or CIAC treatment for the following reasons:

a) Alternative treatment of the Treasury Grant monies is now allowed due to an amendment to the American Recovery and Reinvestment Act of 2009.[6]
b) Offsetting rate base on the company's books will eliminate the administrative burden associated with annual tracker filings.
c) Staff's recommendation is consistent with our understanding that the grant was meant to reduce the cost of the plant, and is consistent with staff's prudency recommendation for the LSR plant in PSE's last GRC.
d) Staff's proposed treatment properly matches the grant life with the plant life. Staff believes the amortization of the Treasury Grant should exactly match the depreciation of the plant.[7]
e) Staff's proposal causes no harm to PSE.

<u>Alternatives</u>

Staff considered two alternatives to its preferred recommendation; 1) amortizing both Treasury Grants over 10 years as is currently done with Wild Horse, and 2), as proposed by the company, amortizing the Grants over the remaining life of Wild Horse and LSR, 21 and 24 years respectively.

<u>10-year Amortization using Schedule 95A</u>

Schedule 95A was initially set up to return Production Tax Credits (PTC's) received by PSE. Since PTC's accumulate with every megawatt-hour of generation, a tracking mechanism was appropriate to accommodate the variation that might occur over time. The ensuing credits are used to offset the taxes of the utility and can be taken for up to 10 years. The only problem is that any company would need to have taxable income to take advantage of a tax credit. Treasury then determined that issuing grants based on a percentage of the cost of the renewable resource was preferable, but at the time the Wild Horse Treasury Grant was received by PSE the law required

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under RCW 80.80.060(6). This provision covers costs for eligible renewable resources under Washington's renewable portfolio standard, and the Energy Independence Act codified at RCW 19.285.

[6] The amendment occurred through Section 1096 of the National Defense Act for Fiscal Year 2012, H.R. 1540, 112th Congress, 1st Session.

[7] One concern regarding Staff's proposed rate base treatment of the Treasury Grants as a regulatory liability is the potential treatment of this particular regulatory liability in PSE's power cost adjustment (PCA) mechanism. In the PCA, regulatory assets are considered a variable cost, amortized over a given life, and subject to the PCA sharing bands. The regulatory liabilities of both the LSR and Wild Horse Treasury Grants should directly match the benefits of the grants to the capitalized value of each facility. Therefore, to preserve a match between the benefits and the costs, the unamortized balances of the Treasury Grants should only be adjusted in a PCORC or GRC and treated the same as the underlying plant.

Grants to be normalized. There was no mechanism in place for returning Grant funds to ratepayers so a decision was made to use 95A to track the grants and return those monies as a credit similar to PTCs.

Characteristics:

- Currently, all of LSR's generation capacity isn't needed to meet Washington's renewable portfolio standards. Therefore, a 10 year amortization relieves current ratepayers from bearing all the high capital costs in the early years of a plant's life.
- There is considerable administrative burden with annual tracker filings.
- 10-year amortization does not directly match the benefit of grant with the life-cycle cost of the facility.

Life-of-Plant Amortization using Schedule 95A

The second alternative is PSE's proposal in this filing to track the grant over the remaining life of the Wild Horse and LSR facilities.

Characteristics:

- There is considerable administrative burden with annual tracker filings.
- Ratepayers will immediately receive a small rate credit that will be smaller due to the longer amortization of the grants.
- The grant will benefit all customers over the life of the plant.

Staff Determination

After analyzing the three scenarios outlined above, staff determined the LSR Grant should be deferred with interest accruing until the next GRC or PCORC. In that future filing the Treasury Grants should be treated as a regulatory liability and a direct rate base offset to the net rate base remaining on PSE's books at that time. As with the treatment of the underlying production plant, the regulatory liabilities should be treated as the underlying fixed assets. In the alternative, the LSR Grant should be deferred with interest accruing until the next GRC or PCORC whereby the unamortized balance of the Wild Horse Grant and the deferred balance of the LSR Grant should be given treatment similar to the USoA treatment of CIAC.

Conclusion

Issue a Complaint and Order suspending the tariff revision filed in Docket UE-122001 and set the matter for hearing.