

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

In the Matter of the Petition of)
)
PUGET SOUND ENERGY, INC.)
) Docket No. UE-132027
For an Accounting Order Approving the)
Allocation of Proceeds of the Sale of Certain)
Assets to Public Utility District #1 of)
Jefferson County.)
_____)

EXHIBIT NO. ____ (MPG-3)

**PSE RESPONSES TO ICNU DATA REQUEST NOS. 3.6 AND 6.1;
EXCERPT OF PSE RESPONSE TO ICNU DATA REQUEST NO. 5.1;
PSE RESPONSE TO WUTC STAFF DATA REQUEST NO. 11**

March 28, 2014

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket No. UE-132027
Puget Sound Energy, Inc.'s
Petition for an Accounting Order Approving the Allocation of Proceeds of the
Sale of Certain Assets to Public Utility District #1 of Jefferson County**

ICNU DATA REQUEST NO. 03.6

ICNU DATA REQUEST NO. 03.6:

Please respond to this hypothetical which illustrates PSE's investment risk for utility plant investment. Assume PSE has an investment in utility plant and equipment of \$1 million, \$500,000 has been accumulated in accumulated depreciation, and the net plant amount is \$500,000. If PSE decides that an early retirement of this hypothetical asset is justified, please describe the impact on PSE's gross plant-in-service, accumulated depreciation and net plant-in-service, if this hypothetical asset is retired.

Response:

Puget Sound Energy, Inc. follows FERC accounting guidance. In the FERC Code of Federal Regulations, Title 18, Part 101, Uniform System of Accounts, the guidance for asset retirements is as follows:

***108 Accumulated provision for depreciation of electric utility plant
(Major only).***

B. At the time of retirement of depreciable electric utility plant, this account shall be charged with the book cost of the property retired and the cost of removal and shall be credited with the salvage value and any other amounts recovered, such as insurance. When retirement, costs of removal and salvage are entered originally in retirement work orders, the net total of such work orders may be included in a separate subaccount hereunder. Upon completion of the work order, the proper distribution to subdivisions of this account shall be made as provided in the following paragraph...

In the hypothetical example provided in ICNU Data Request No. 03.6, the retirement entry would be as follows:

The plant-in-service Account 101 would be credited \$1 million and the accumulated depreciation Account 108 would be debited (charged) \$1 million.

For continuing operations, the impact on gross plant in service would be to remove/retire the asset entirely from the gross balance, the impact on accumulated depreciation would be to retain a debit balance of \$500,000 in Account 108, and the impact on net plant in service would be unchanged (net plant would remain a debit balance of \$500,000 as before the retirement).

In normal continuing operations, the un-depreciated debit in accumulated depreciation would be studied along with like-kind assets to establish an appropriate new depreciation rate in the next periodic Depreciation Study to subsequently fully depreciate this hypothetical early-retired asset along with like kind assets.

The depreciation rates do not account for discontinued operations.

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ICNU DATA REQUEST NO. 05.1

ICNU DATA REQUEST NO. 05.1:

Please identify any major storm, earthquake or other natural event that caused significant damage to PSE's transmission, distribution or production facilities over the last 15 years. For each such natural event, please provide the following:

- a. Identify the year the event occurred.
- b. Identify the cost of damage to distribution, transmission and production facilities that were in-service at the time of the event.
- c. Identify the total cost of service restoration for the event.
- d. Identify the ratemaking treatment for restoration costs (accounting deferral, rate tracker/surcharge, or other (explain)). Also, separately describe the difference in accounting and ratemaking treatment, if any, for damage to in-service assets identified in "b" above, and other restoration costs.

Response:

For purposes of this Response, Puget Sound Energy, Inc. ("PSE") is considering the question to be requesting information related to O&M on its electric system. PSE does not flag or track O&M repairs to its generation, transmission or distribution facilities by the nature of the incident that necessitated the repair. Therefore, PSE's accounting system is not set up in a manner that allows for systematic tracking of costs from significant damage caused by any natural event. Thus, there is no way to effectively identify all costs associated with O&M repairs to PSE's electric facilities caused by major storms, earthquakes or other natural events.

However, PSE has made an effort to manually identify the types of natural events that would be responsive and then to identify as many of the costs associated with each type of event as could be readily determined. The following natural events have been

identified that could potentially have occurred and could potentially have caused significant damage for purposes of answering this Data Request:

1. Storms
2. Earthquakes
3. Wildfires
4. Landslides

1. Storms

PSE has had a storm deferral mechanism on O&M related to its Transmission and Distribution (“T&D”) system in place during the time period requested. The storm deferral mechanism has operated differently during that time period. The following is an overview of the way the deferral mechanism operated during this time period:

- Prior to March 2005, PSE’s storm deferral mechanism allowed for deferral of costs related to storms in which more than 25% of PSE’s electric customers were without power due to weather-related causes. PSE requested and was granted a change to its storm deferral mechanism in its 2004 general rate case (UE-040641). Of note, is that in the 2004 general rate case, PSE also requested the ability to defer costs associated with non-storm events such as earthquakes for both its electric and natural gas system. This part of PSE’s request was denied and so the systematic reporting capabilities and cost tracking for these types of events are not built in to PSE’s accounting system as was mentioned above.
- Since March 2005, PSE is allowed to defer storm restoration O&M costs associated with any days that meet or exceed the major event threshold as defined in the Institute of Electrical and Electronics Engineers (“IEEE”) standard 1366-2003. Currently, when O&M costs that qualify under the IEEE standard (“qualifying costs”) reach \$8 million or more, qualifying costs in excess of the \$8 million are allowed to be deferred for later recovery. Currently, storm damage deferrals are typically amortized over four years, except in extraordinary cases—such as the Hanukkah Eve storm in 2006—in which, at Commission Staff’s request, the Commission allowed for a longer amortization period of 10 years. Qualifying costs that are below the \$8 million threshold and normal storm damage costs that do not meet the IEEE standard are charged to O&M as incurred and for rate making purposes are normalized over a six-year period. Currently, the normalized storm damage amount built into rates is \$8 million.

As stated above the definition of deferrable costs before and after March 2005 differ. Accordingly, PSE’s accounting records were structured over the time period requested to track qualifying O&M costs for the mechanism in place at the time. Therefore, it is not possible to report on storm related O&M costs using a different definition of “significant damage” than existed at the time the costs were originally tracked. Accordingly, for purposes of providing information for this response, PSE can only

provide information based on what qualified for deferral under the mechanism that existed prior to March 2005 (25% customer outage) and under the mechanism that existed after March 2005 (IEEE standard).

Attached as Attachment A to PSE Response to ICNU Data Request No. 5.1, please see the Adobe PDF document showing the final reports for qualifying storm events filed for each year since 2005. These reports include the total cost of all qualifying events for the year. These reports include the amount of qualifying events that were both deferred for later recovery and those that were under the threshold and not deferred. Those O&M costs that were not deferred were charged directly to O&M expense accounts in the month in which they were incurred.

Attached as Attachment B to PSE Response to ICNU Data Request No. 5.1, please see the MS Excel file showing the details of costs deferred under PSE's storm deferral mechanism in place prior to March 2005 that are applicable to the period requested. There were two storms deferred under the prior mechanism that relate to the period requested, they are the January 16, 2000 Windstorm and the December 4, 2003 Windstorm. Attachment B contains the total deferred costs for each of these storms.

The following damage to PSE's production facilities from storm events were identified during the period. Although not significant, they are being provided since they were specifically identified.

- Damage to overhead transmission lines at the Wild Horse wind powered electric generation facility as a result of an ice storm in January 2014, \$104,000. Repairs charged to transmission maintenance expense in the month incurred.
- Storm repair of headworks at Electron Hydroelectric Project, January 2009, \$52,760. Repairs were charged to production O&M expense in the months the charges were incurred.
- Glover Mountain Rock Scaling at Glover Mountain, Upper Baker hydroelectric plant, December 2007, \$102,715. This project was intended to stabilize an area where rocks were falling on an access road. Repairs were charged to production O&M expense in the months the charges were incurred.

2. Earthquakes

Although not performed on a systematic basis, PSE has occasionally used a specified field in its accounting system called a cause code to identify O&M orders for work performed on its T&D facilities that are a result of earthquake damage. The only costs that were identified during the period requested related to the 2001 Nisqually Earthquake. Although not significant, they are being provided since they were specifically identified. Attached as Attachment C to PSE Response to ICNU Data

Request No. 5.1, please the MS Excel file showing detail of these expenses which were charged directly to O&M in the period incurred and were not deferred.

PSE was not able to locate any significant costs associated with earthquake damage to its production facilities during the time period requested.

3. Wildfires

PSE does not systematically track the O&M cost of wildfires in its accounting system. However, one recent event that is known to have occurred is the Taylor Bridge fire, which was a wildfire that impacted over 23,000 acres between the eastern Washington cities of Cle Elum and Ellensburg. The O&M costs on PSE's T&D system associated with this natural disaster were approximately \$4 million, with substantially all of the costs being recovered through insurance proceeds. Both the costs and the insurance proceeds, which together essentially net to zero, were charged to FERC 186 "Miscellaneous deferred debits" and so were never included for recovery in rates. Attached as Attachment D to PSE Response to ICNU Data Request No. 5.1, please see the MS Excel file showing detail of the costs and insurance recoveries associated with this natural event.

Besides the Taylor Bridge wildfire, PSE was unable to identify any other significant damage to its T&D or production facilities related to wildfires for the time period requested.

4. Landslides

Periodically, PSE's hydroelectric facilities experience damage related to landslides. Only one event was identified for inclusion in this response. Beginning in January 2006, slide remediation was performed at the Electron hydroelectric project totaling \$168,455. Repairs were charged to production O&M expense in the months the charges were incurred.

For the time period requested, there were no major O&M repairs identified associated with landslides damaging PSE's T&D facilities.

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Sale of Certain Assets to Public Utility District #1 of Jefferson County**

ICNU DATA REQUEST NO. 06.1

ICNU DATA REQUEST NO. 06.1:

Please identify each asset sale or disposition PSE has made in the past 10 years where the net book value of the asset(s) exceeded the sale or disposition price by at least \$500,000. For each instance, identify:

- a. PSE's requested accounting treatment regarding the difference between net book value and sale/disposition price; and
- b. The approved accounting treatment regarding the difference between net book value and sale/disposition price.

Please provide all documents filed at the WUTC relevant to the above requests.

Response:

Puget Sound Energy, Inc. ("PSE") objects to ICNU Data Request No. 06.1 to the extent it seeks information that is publicly available or is obtainable from another source that is more convenient, less burdensome, or less expensive. Without waiving such objection and subject thereto, PSE responds as follows:

PSE was able to identify three transactions in the past ten years where the net book value of the assets exceeded the sale or disposition price by at least \$500,000. Note that none of the below transactions resulted in a loss of customers, nor did these transactions occur under threat of condemnation (i.e., they were prudent business decisions made in the interest of PSE customers). Additionally, the White River transaction was entered into as the least cost alternative to serve customers, and the building and land divestitures resulted in cost savings associated with consolidation of operating facilities.

White River Hydroelectric Plant

In Docket No. UE-032043, PSE requested approval of accounting and ratemaking treatment of White River Hydroelectric plant and related costs that were deferred during

Federal Energy Regulatory Commission (“FERC”) proceedings related to PSE’s license application for the project. PSE declined a FERC license because certain provisions of the federal agency’s approval made the project uneconomic. Thus, White River ceased operation on January 15, 2004. PSE’s accounting petition was eventually consolidated into PSE’s 2004 general rate case, Docket No. UE-040640.

As the above-referenced dockets are no longer available on the Washington Utilities and Transportation Commission (“Commission”) records center website, PSE is unable to verify that its internal records contain all documents filed at the Commission relevant to this transaction. In lieu of providing all internal documents related to this proceeding, PSE hereby provides the following:

- Attached as Attachment A to PSE’s Response to ICNU Data Request No. 06.1, please find a copy of the WUTC Staff memo regarding the accounting petition, which provides a good overview of PSE’s proposal and WUTC Staff’s recommendation.
- Attached as Attachment B to PSE’s Response to ICNU Data Request No. 06.1, please find a copy of Order 01, consolidating Docket Nos. UE-032043 and 040640.
- Attached as Attachment C to PSE’s Response to ICNU Data Request No. 06.1, please find a copy of the final order in Docket No. UE-040640, which discusses the interim resolution at the time of PSE’s 2004 general rate case.

Subsequent to its 2004 general rate case, PSE sold certain of the assets of the White River Hydroelectric Project to the Cascade Water Alliance. PSE filed an application to transfer the assets in Docket No. UE-090399. Because information filed in Docket No. UE-090399 is still publicly available on the WUTC records center website, ICNU is able to review all relevant documents filed with the WUTC.

Issaquah Operating Base:

On May 19, 2004, pursuant to Docket No. UE-040921, PSE filed a letter seeking an Order under WAC 480-143-120 and WAC 480-143-180 requesting authorization to transfer its Issaquah Operating Base to its subsidiary, Puget Western, Inc. (“PWI”). The Issaquah Operating Base was determined to be no longer “used and useful” as a direct result of PSE’s efforts to consolidate Issaquah operations to Redmond. Based on an October 22, 2003 property appraisal, there was an estimated pre-tax loss exceeding \$500,000 for the land and the building. The loss associated with non-depreciable plant was booked to FERC account 187 for later recovery and amortization. On January 12, 2005, pursuant to Order 01 of Docket No. UE-040921, the deferral treatment requested in PSE’s letter was approved.

As Docket No. UE-040921 is no longer available on the WUTC records center website, PSE is unable to verify that its internal records contain all documents filed at the WUTC relevant to this transaction. PSE's internal records indicate that the following items were filed in connection with this docket, and copies of these items are included in Attachment D to PSE's Response to ICNU Data Request No. 06.1:

- Original PSE letter to the WUTC dated May 19, 2004;
- PSE's Responses and Attachments to Staff Informal Data Requests 1 – 6, and
- Final Order No. 01

Subsequent to the Commission approval to defer the loss, PSE requested and was granted recovery of this deferral over three years in its 2006 general rate case, Docket No. UE-060266. Because information filed in Docket No. UE-060266 is still publicly available on the Commission's website, ICNU is able to review all relevant documents filed with the WUTC.

Seaway Property (Everett Building and Property)

On September 23, 2005, PSE filed an application seeking an Order under WAC 480-143-120 and WAC 480-143-180 requesting authorization to sell its Everett Building and Property (Docket No. UE-051437). The Everett Building was determined to be no longer "used and useful" as a result of PSE's efforts to centralize operations.

Based on a June 6, 2005 property appraisal, there was an estimated pre-tax loss exceeding \$500,000 for the property. The loss associated with non-depreciable plant was booked to FERC account 187 for later recovery and amortization. On November 30, 2005, per Order No. 01 of Docket No. UE-051437, the deferral treatment requested in PSE's application was approved. Because information filed in Docket No. UE-051437 is still publicly available on the Commission's website, ICNU is able to review all relevant documents filed with the WUTC.

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Sale of Certain Assets to Public Utility District #1 of Jefferson County****WUTC STAFF INFORMAL DATA REQUEST NO. 011****WUTC STAFF INFORMAL DATA REQUEST NO. 011:**

In the Company's Petition for Accounting Order on page 15, section E, paragraph 33, states "This transaction was a forced sale of Assets that deprives PSE and its shareholders of future revenues from approximately 18,000 customers and the future growth of that customer base."

- A. Is it the Company's position that PSE and its shareholders are guaranteed these "future revenues" and "future growth". If so, please provide all support for the Company's position.
- B. Please reconcile the cited statement on page 15, paragraph 33 with the statement on page 20, paragraph 42, that "PSE intends to treat the sale of the Assets as an involuntary conversion for purposes of the tax code. . . . In order to avail itself of this treatment, on or before December 31, 2015, PSE will reinvest an amount equivalent to the proceeds of this sale in property that is similar or related in service or use to the property that was converted." If the Company is reinvesting an amount equivalent to that sold, then how is the Company deprived of "future revenues"?

Response:

- A. No, it is not Puget Sound Energy, Inc.'s ("PSE") position that its shareholders are guaranteed future revenues from the Jefferson County service area. However, PSE did serve this area for approximately 96 years, and while that is no guarantee of future revenues, PSE had a reasonable expectation that revenues from this area would continue to be earned if not for the acquisition of the means to serve this area by threat of condemnation.

As far as future growth is concerned, the Washington State Office of Financial Management ("OFM") prepares a reasonable range of possible population growth for Washington counties planning under the Growth Management Act ("GMA"), including Jefferson County. The "medium range" of growth currently projected by OFM for Jefferson County is as follows:

Census Projections

Year	2010	2015	2020	2025	2030	2035	2040
Population	29,872	30,469	32,017	33,678	35,657	37,914	40,093

OFM states that "[t]he medium series is considered the most likely because it is the best foreseeable future based on assumptions that have been validated with past and current information." OFM 2012 Projection, County Growth management Population Projections by Age and Sex: 2010-2040 at p iii. Based upon OFM projections, PSE had a reasonable expectation of future growth in revenues from this area if not for the acquisition of the means to serve this area by threat of condemnation. Independent of PSE's reasonable expectations, a feasibility study undertaken by Jefferson County PUD prior to acquisition of the service territory predicts that, over a five year period, the number of connections served by the PUD is estimated to increase at an average annual growth rate of approximately 2.0% per year.

- B. Reinvesting of the proceeds of this sale in property that is similar or related in service allows PSE to defer the tax gain that would otherwise be due on this sale and, as noted in PSE's Accounting Petition, the deferred tax will be subtracted from the rate base calculation. These are investments PSE would otherwise be required to make in order to serve its remaining customers. Applying the proceeds in this manner in order to obtain the desired tax treatment does not replace or compensate PSE for revenues lost from approximately 18,000 customers, nor does it replace or compensate PSE for future revenues that, by reference to OFM growth projections, could reasonably be expected to grow over the next 20 years.