

Agenda Date: October 8, 2008  
Item Number: A1, A2 and A3

**Docket:** UE-070724, UE-072060, & UE-081016

company: Puget Sound Energy, Inc

Staff: William Weinman, Acting Assistant Directory, Telecom  
Michael Parvinen, Assistant Director, Energy

### **Recommendation**

Issue separate orders approving Staff's recommendation for deferred accounting of costs and recoveries associated with environmental remediation incidents in Dockets UE-070724, UE-072060, and UE-081016.

### **Discussion**

#### **PSE Petitions**

On April 16, 2007, Puget Sound Energy, Inc. (PSE or company) filed an accounting petition in Docket UE-070724 requesting authorization to defer all costs, net of third party recoveries, from certain sites that had been added to the company's environmental remediation program. The purpose of the request for deferred accounting treatment is to match the expenses the company records for environmental remediation at the sites with the recovery of the reimbursements from insurance or third parties for these expenses. The requested accounting treatment is consistent with previous company filings for environmental remediation sites dating back to the first environmental order entered in Docket UE-911476 on April 1, 1992. In its petition, the company requests the Utilities and Transportation Commission (commission) issue an order that:

Authorizes the company to defer the costs incurred in connection with recently added sites, "Lower Baker Power Plant Site," "Electron Flume Site," "Crystal Mountain Diesel Spill Site," "Puyallup Service Center Site," and "Floyd Equipment company Site".

The petition in Docket UE-070724 originally came before the commission at its June 27, 2007, open meeting. The Commissioners had concerns with the Crystal Mountain site and the fact that the spill occurred on November 2, 2006, but the company made its filing on April 16, 2007. The Commissioners were also concerned that the company was requesting deferred accounting for other sites when the costs expended were not material. The commission did not approve the petition at that open meeting..

On March 26, 2008, PSE sent a letter to the commission withdrawing the Crystal Mountain site from the filing, explaining that the company's insurance carrier agreed that this site was covered by PSE's general liability policy.

Since the June 27, 2007, open meeting concerning Docket UE-070724, the company has filed two other petitions requesting accounting deferrals due to environmental remediation incidents. In Docket UE-072060, the company requests an accounting petition for the "Snoqualmie Hydro Generation Site". The company filed this petition on October 17, 2007. On June 6, 2008, the company petitioned the Commission for another accounting deferral for the "Bellingham Manufactured Gas Site" in Docket UE-081016. The company seeks an accounting deferral for this site because the manufactured gas site was owned by a predecessor to Puget Power, and PSE was informed that the site provided service to the company for electricity production.

PSE asserts that its environmental remediation program is a required by both federal and state statutes. The primary applicable federal statute is the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). The primary applicable state statute is the Model Toxic Control Act (MTCA).

The company's petitions state that the requested accounting treatment is necessary to insulate the company's customers from fluctuations in rates due to the variability of environmental remediation costs and recoveries from insurance or third parties. A significant amount of time occurs between when costs are incurred for the remediation of the site and the recovery of those costs from insurance or third parties.

PSE states that in the commission's order in Docket UE-911476, entered on April 1, 1992, and the commission's Merger Order entered in Docket UE-960195, the commission authorized deferred accounting treatment for certain costs and a five year amortization of the net costs after insurance or third party recovery.

The company requests authorization to defer to account number 182.3, Other Regulatory Assets, the costs associated with its electric environmental remediation program with respect to the sites described in Dockets UE-070724, UE-072060, and UE-081016. The environmental remediation costs deferred under the requested accounting orders would be subject to the following conditions:

- (a) Any net deferred costs existing at the time of the company's general rate proceedings will be subject to review and net deferred costs shown to be imprudent or inappropriate will be subject to disallowance for rate recovery purposes. Net deferred costs are the total project expenditures (as defined in (e) below) less any recoveries from third parties and/or insurance proceeds.

- (b) Costs that are deferred will be reduced by any insurance proceeds or payments from other responsible third parties received by the company.
- (c) Allowed net deferred costs will be amortized over a five-year period commencing on the date that all costs net of recoveries become known, consistent with Docket UE-960195.
- (d) Any deferred costs will be included in working capital in future rate proceedings.
- (e) Costs eligible for deferred accounting treatment will include only those amounts paid to outside vendors or contractors (i.e., investigation and feasibility studies, sampling, evaluation, monitoring, remediation and removal) and will not include internal employee expenses and legal costs.
- (f) The company will normalize the tax benefits associated with these costs.
- (g) The company will submit quarterly reports detailing the status of the various remediation projects, activities involving insurance and third party recoveries, and the level of costs incurred.

### **Prior Commission Orders Addressing Accounting Petitions**

**Staff proposes the following the deviations from the previous orders. These recommended changes will allow both the electric and gas business units to have the same conditions for processing environmental remediation projects.**

- (a) PSE will record the deferred costs in account 186, Miscellaneous Deferred Debits. In the previous orders the company was allowed to record the costs in account 182.3, Other Regulatory Assets.
- (b) Previous electric orders required the company to file an accounting petition for each environmental remediation site or group of sites. Staff's recommendation would allow the company to defer environmental remediation only if they meet the criteria in the federal and/or the state statutes listed above
- (c) The Company will no longer be required to expense all costs incurred before the filing date.

- (d) When the deferred costs are ready to be amortized, the company will file a petition with the commission requesting a determination of prudence and to transfer the costs from account 186 to account 182.3.

### **Staff Discussion:**

As discussed above, the commission has established certain criteria for approving accounting petitions, such as materiality and timing of the filing. Both of these criteria became issues with this filing and conflict with each other. When a site is first determined to require remedial investigation under the applicable federal or state environmental laws (e.g., CERCLA and/or MTCA), commonly very little has been spent and the potential cost is unknown. By the time the potential cost is known, time and actual expenditures have been incurred to assess the nature of the potential remediation and PSE's potential portion of the responsibility. To resolve this conflict, staff recommends revising treatment for environmental remediation costs associated with these dockets and future environmental remediation sites to allow the company to record the costs and all associated recoveries to Account 186, Miscellaneous Deferred Debits. This treatment is consistent with the Uniform System of Accounts. It is also consistent with the commission's accounting order for gas remediation sites, Docket UG-920781, approved by commission order dated November 25, 1992. The treatment also allows the company to defer costs and match the expenditures with the future recovery from insurance or other third parties. The company may petition the Commission to transfer any net costs to Account 182.3, Other Regulatory Assets at the time they become known and no other offsets are expected.

### **Conclusion**

Staff's recommendation will put limits on the environmental remediation incidents by allowing only projects that qualify under the two specific federal and state statutes listed above. The recommendation also matches the net costs with recoveries without requiring special treatment as do previous petitions for accounting deferral treatment of electric environmental remediation sites. Finally, both electric and gas business operations will now be treated the same for PSE's environmental deferrals..

Staff recommends the commission issue separate orders approving the accounting petitions, subject to the conditions set forth above in Dockets UE-070724, UE-072060, and UE-081016 and not require PSE to file accounting deferrals in the future for the electric operations.