EXH. MRM-7
DOCKETS UE-19___/UG-19___
2019 PSE GENERAL RATE CASE
WITNESS: MATTHEW R. MARCELIA

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-19____** **Docket UG-19____**

SIXTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF

MATTHEW R. MARCELIA

ON BEHALF OF PUGET SOUND ENERGY

JUNE 20, 2019

Audit risks and results

Significant Unusual Transactions – Tax Reform

Average Rate Assumption Method and Normalization

Excess accumulated deferred income tax normalization requirements apply to deferred taxes related to accelerated federal tax method/life depreciation differences on public utility property. The EADIT normalization provision requires that EADIT be used to reduce revenue requirements and revenue no sooner than would occur as the book/tax difference reverses. Under this method — referred to as the Average Rate Assumption Method (ARAM) — the utility identifies the deferred tax reversal pattern (comparing book depreciation versus tax depreciation) and reverses the EADIT beginning when book depreciation exceeds tax depreciation and the deferred tax turnaround occurs. IRS rules also require that Companies use a consistent method in determining book and tax depreciation.

During 2018, the Company began to amortize all plant-related EADIT using ARAM, and accordingly recorded a reduction to tax expense of $29.8 million. In order to comply with the consistency principle, the Company has not deferred the tax benefit. We have audited the calculation of amortization using ARAM, and concluded that the amortization recorded is not materially misstated. We have also reviewed the testimony filed by the Company with the WUTC in support of the expedited rate filing (ERF), noting that the current treatment of EADIT appropriately applies the normalization and consistency rules.

The normalization rules do not apply to EADIT on other temporary differences, referred to as unprotected differences. The Company has not begun amortizing the non plant-related unprotected portion of EADIT, as they do not have an order from the Commission approving an amortization period. As such, the non-plant related unprotected EADIT are deferred on the balance sheet. Once the Company receives a WUTC order, they will begin to amortize accordingly.