

**BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For an Accounting Order Authorizing the
Appropriate Tracking of Treasury Grants
Received Under Section 1603 of the American
Recovery and Reinvestment Act of 2009
Associated with the Wild Horse Expansion
Project

Docket No. UE-09_____

ORDER (PROPOSED)

1. On September 30, 2009, in accordance with WAC 480-07-370(b), Puget Sound Energy, Inc. ("PSE" or the "Company") filed a petition for an accounting order authorizing the appropriate tracking of grants that PSE expects to receive from the U.S. Treasury Department ("Treasury") under Section 1603 of the American Recovery and Reinvestment Act of 2009 ("ARRA") associated with the Wild Horse Expansion Project.

BACKGROUND

2. PSE currently receives a production tax credit ("PTC") pursuant to Section 45 of the Internal Revenue Code ("IRC"). The PTC is an incentive to facilitate the construction and operation of renewable energy resources. This incentive is currently 2.1 cents per kilowatt hour for wind generation placed in commercial service prior to January 1, 2013. The PTC is available for the first ten years the qualifying facility is in commercial service. PSE passes its PTC

benefits on to customers through its Schedule 95A, a rate tracker that passes through to the customer the actual PTC benefits over the ten-year period as they are generated by the Company.

3. PSE explains that its use of the PTC is restricted under IRC rules in that PTCs can only be used to reduce a taxpayer's current taxes payable to either (a) 75% of the taxpayer's tax payable before considering the credit or (b) the level of the alternative minimum tax, whichever causes the taxpayer to pay more tax. To the extent that a taxpayer has excess PTCs (*i.e.* PTCs that cannot be utilized in the current year), the unused PTCs can be carried back one year and forward for up to twenty (20) years. PSE states through June 30, 2009, the Company has passed through to customers \$61.2 million of cash benefits and has only been able to use \$24.0 million as a credit to reduce tax payments with respect to the electricity generated from wind farms that qualify for the PTC.

4. PSE states that this inability to use PTCs in a timely fashion had raised concerns in Congress as to whether companies would continue to invest in alternative or renewable energy projects. PTCs, as a tax incentive, required taxpayers to have significant positive taxable incomes in order to stimulate their investment in alternative or renewable energy projects.

Congress addressed this restriction in the ARRA by

- Allowing taxpayers the right to forego claiming the PTC and, in lieu thereof, to elect to receive (a) a nontaxable cash grant from the Department of Treasury or (b) an investment tax credit ("ITC"), in each case equal to thirty percent (30%) of the amount of their qualifying investment in eligible facilities, including wind farms, provided certain time deadlines can be satisfied in each case; and
- Reducing the amount of accelerated tax depreciation available for the renewable energy facility by an amount equal to one half of the cash grant received or the ITC claimed.

5. Upon review of these new incentives in relationship to the PTCs previously available, the Company concluded that claiming the ITC would have a similar problem to the PTCs, in that it could only be used if a taxpayer had sufficient taxable income.

6. The Company analyzed the benefits of the PTC and the Treasury grant, and ultimately determined that it would apply for a Treasury grant upon placing the Wild Horse Expansion in service in November 2009. PSE has, through its Petition, proposed an accounting methodology to track the proceeds from this Treasury grant. PSE's proposed accounting treatment is detailed in its Petition.¹

7. PSE proposes revisions to Schedule 95A, the rate tracker that currently passes through to the customer the actual PTCs as they are generated. PSE included, as an attachment to its Petition, a revised version of Schedule 95A, which would allow the benefits of Treasury grants to be tracked and passed through to customers.

FINDINGS AND CONCLUSIONS

8. PSE is engaged in the business of furnishing electric and gas service within the state of Washington as a public service company and is subject to the jurisdiction of this Commission.

¹ PSE filed certain sections of its Petition as confidential, pursuant to WAC 480-07-160 because the Company considers these sections to contain proprietary business strategy that should be treated as confidential.

9. On September 30, 2009, PSE filed with the Commission a petition for an accounting order authorizing the appropriate tracking of treasury grants received under Section 1603 of the American Recovery and Reinvestment Act of 2009 associated with the Wild Horse Expansion Project

10. The accounting treatment methodology proposed in the Petition is reasonable and in the public interest, and should be approved.

DETERMINATION AND ORDER

WHEREFORE, THE COMMISSION HEREBY:

11. Approves the accounting treatment requested in PSE's Petition dated September 30, 2009, with respect to Treasury grants related to PSE's Wild Horse Expansion Project. PSE shall file a revised Schedule 95A, which tracks and passes through benefits from Treasury grants to customers. Commission Staff shall have five days to review the filing of the revised Schedule 95A before it becomes effective.

12. This order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of cost or any matters whatsoever that may come before it, nor shall anything herein be construed as an acquiescence in any estimate or determination of costs claimed or asserted.

13. The Commission retains jurisdiction over the subject matter of the Petition and PSE to effect the provisions of this order.

DATED at Olympia, Washington, and effective this ____ day of _____, ____.

JEFFREY D. GOLTZ, Chairman

PATRICK J. OSHIE, Commissioner

PHILIP B. JONES, Commissioner