Agenda Date: December 23, 2009
Item Number: A1

Docket: **UE-091703**
Company Name: Puget Sound Energy, Inc.

Staff: Roland Martin, Regulatory Analyst
Kathryn Breda, Regulatory Analyst
Michael Foisy, Regulatory Analyst

Recommendation

Issue an order suspending proposed Schedule 95A- Production Tax Credit Tracker tariff revisions filed by Puget Sound Energy in Docket UE-091703.

Discussion

On October 30, 2009, Puget Sound Energy, Inc. (PSE or company), filed with the Washington Utilities and Transportation Commission (commission) revisions to its currently effective electric Tariff G, Schedule 95A – Production Tax Credit Tracker (Tracker), effective January 1, 2010. The purpose of the annual filing is to update the Tracker as provided for in Order 04 in Docket UE-050870. The proposed tariff revisions flow through to customers the benefits of the 2010 forecast of production tax credits (PTCs) allowed under Section 45 of the Internal Revenue Code (IRC) for PSE's Hopkins Ridge and Wild Horse wind generation resources. The filing also includes recovery of interest on the PTC deferred tax asset and accounts for the true up of prior period amounts of PTC generated, credited back to customers, and related interest on the over and under recoveries. The proposed PTC rates are lower than the existing credits, resulting in an average overall rate increase of .46 percent for all customers. The effect on a residential customer using 1,000 kWh per month is a bill increase of $0.44 per month or 0.48 percent.

PSE started crediting the benefits of the PTC on November 1, 2005, and can continue to do so during the initial ten years of commercial operation of the wind projects, which is the period the PTC can be claimed. The company credits PTCs using Schedule 95A based on actual generation and the customers receive the benefit based on their energy consumption. However, the real value of a PTC is realized only when it is used to reduce PSE's current tax liability and that use is restricted under the IRC rules to either 75 percent of the tax liability before the credit or the level of alternative minimum tax, whichever results in higher tax. Any unused PTC can be carried back one year and forward up to twenty years.

Staff's review of the Tracker's past and forecasted operational performance as a mechanism to pass through tax benefits to ratepayers raises concern because of the increasing gap between the generated PTC credited to customers and the level of PTC actually used to reduce PSE's income tax liability. The ratepayers receive PTC cash benefits in the past, despite the fact the passed-through benefits greatly exceeded the realized or used credits. Specifically, the 2007 Tracker filing forecasted that there would be equal amounts of PTC generated (thereby passing through cash benefits to ratepayers) and PTC used by PSE to reduce its tax liability in 2008. However, it turned out that PSE was unable to use the generated PTC due to a lack of tax liability. Through June 30, 2009, the company has generated and passed through $61.2 million to customers. However, PSE has been able to use only $24 million to reduce the company's tax liability. PSE expects this disparity to continue in the near future.

Staff questions the reasonableness of basing the tracker benefits on generated PTC and allowing PSE to continue advancing cash and collecting interest at the net of tax rate of return. Staff believes that the current PTC approach warrants a reevaluation and modification, if necessary.

Recommendation

Staff recommends the commission issue an order suspending proposed Schedule 95A-Production Tax Credit Tracker tariff revisions filed by Puget Sound Energy in Docket UE-091703.