

Exhibit No. ___ (RCS-4)
Dockets UE-111048/UG-111049
Witness: Ralph C. Smith

BEFORE THE WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**DOCKET UE-111048
DOCKET UG-111049
(Consolidated)**

**EXHIBIT TO
TESTIMONY OF**

RALPH C. SMITH

**ON BEHALF OF
STAFF OF WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

*Deferred Taxes Related to Bonus Depreciation
Illustration of Accounting and Ratemaking Treatment*

December 7, 2011

Deferred Taxes Related to Bonus Depreciation
Illustration of Accounting and Ratemaking Treatment

Line No.	Description	Amount	Description	Amount	
	Year 1:		Year 2:		
1	Plant in Service	\$ 6,500,000	Plant in Service	\$ 6,500,000	
2	Revenues	\$ 1,000,000	Revenues	\$ 1,200,000	
3	O&M Expenses	\$ 640,000	O&M Expenses	\$ 640,000	
4	Plant Additions During Year	\$ 500,000	Plant Additions During Year	\$ -	
5	<i>Assume all qualifying for bonus depreciation</i>		<i>Assume all qualifying for bonus depreciation</i>		
6	Bonus Depreciation	\$ 500,000	Bonus Depreciation	\$ -	
7	Other Accelerated Depr.	\$ 300,000	Other Accelerated Depr.	\$ 340,000	
8	<i>Accelerated Depr. On pre-year 1 additions</i>		<i>Accelerated Depr. On pre-year 1 additions</i>		
9	Book Depreciation	\$ 160,000	Book Depreciation	\$ 160,000	
10	<i>Straight-line on total plant</i>		<i>Straight-line on total plant</i>		
11					
12	Current FIT:		Current FIT:		
13	Revenues	\$ 1,000,000	Revenues	\$ 1,200,000	
14	O&M	\$ 640,000	O&M	\$ 640,000	
15	Tax Depreciation	\$ 800,000	Tax Depreciation	\$ 340,000	
16	Taxable Income (Loss) NOL Carry-forward	\$ (440,000)	Taxable Income (Loss) NOL Carry-forward	\$ 220,000	
17	Current FIT	\$ -	Loss Carry-Forward Used	\$ (220,000)	
18			Net Taxable Income	\$ -	
19			Current FIT:	\$ -	
20					
21	Deferred FIT		Deferred FIT		
22	Tax Depreciation	\$ 800,000	Tax Depreciation	\$ 340,000	
23	Book Depreciation	\$ 160,000	Book Depreciation	\$ 160,000	
24	Difference	\$ 640,000	Difference	\$ 180,000	
25	x 35% tax rate	\$ 224,000	x 35% tax rate	\$ 63,000	
26					
27	Excess Tax Depreciation	\$ 640,000	\$ 1 Total Loss Carry-forward Year 1	\$ 440,000	
28	Tax Loss Carry-forward	\$ (440,000)	\$ 1 Loss Carry-forward Used Year 2	\$ 220,000	
29	Deduction used in Year 1	\$ 200,000	\$ 0 Percentage Loss Carry-Forward Used	\$ 1	
30					
31	Deferred FIT Expense Total	\$ 224,000	\$ 1 Deferred FIT Carry-forward Year 1	\$ 154,000	
32	Deferred FIT Carry-Forward	\$ 154,000	\$ 1 Deferred FIT Carry-forward Used Year 2	\$ 77,000	
33	Deferred FIT for Deductions Used in Year 1	\$ 70,000	\$ 0 Remaining FIT Carry-forward Year 1	\$ 77,000	
34			FIT Carry-forward Year 2	\$ 63,000	
35					
36	Entries to record deferred income taxes		Entries to record deferred income taxes		
37		Debit	Credit	Debit	Credit
38					
39	Deferred FIT Expense	\$ 224,000		Carry-forward Used	
40	ADIT		\$ 224,000	Deferred FIT Expense	\$ 77,000
41				Deferred FIT Asset	\$ 77,000
42	Deferred FIT Asset	\$ 154,000		Year 2 Deferred FIT	
43	Deferred FIT Expense		\$ 154,000	Deferred FIT Expense	\$ 63,000
44				ADIT	\$ 63,000
45					
46				Deferred FIT Asset	\$ 63,000
47				Deferred FIT Expense	\$ 63,000
48					
49		Debit	Credit	Debit	Credit
50	2 year cumulative balances				
51	ADIT Year 1		\$ 224,000	Deferred FIT Expense Year 1	\$ 224,000
52	ADIT Year 2		\$ 63,000	Deferred FIT Expense Year 1	\$ 154,000
53					
54	Deferred FIT Asset Year 1	\$ 154,000		Deferred FIT Expense Year 2	\$ 77,000
55	Deferred FIT Asset Year 2		\$ 77,000	Deferred FIT Expense Year 2	\$ 63,000
56	Deferred FIT Asset Year 2	\$ 63,000		Deferred FIT Expense Year 2	\$ 63,000
57					
58	Total	\$ 217,000	\$ 364,000	\$ 364,000	\$ 217,000
59				Net Income Statement Impact	
60	Net balance sheet impact (net ADIT)		\$ 147,000	Net Deferred FIT Expense	\$ 147,000

Source: Original illustration similar to this was from a presentation by a KPMG representative at the NARUC 2011 Fall Accounting Conference in Denver, CO