

**EXHIBIT NO. ___(JHS-18)
DOCKET NO. UE-072300/UG-072301
2007 PSE GENERAL RATE CASE
WITNESS: JOHN H. STORY**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-072300
Docket No. UG-072301**

**FOURTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
JOHN H. STORY
ON BEHALF OF PUGET SOUND ENERGY, INC.**

JULY 3, 2008

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-072300 and UG-072301
Puget Sound Energy, Inc.'s
2007 General Rate Case**

PUBLIC COUNSEL DATA REQUEST NO. 318

“CONFIDENTIAL” Table of Contents

DR NO.	“CONFIDENTIAL” Material
318	The _____ in Public Counsel Data Request No. 318 is CONFIDENTIAL/HIGHLY CONFIDENTIAL per Protective Order in WUTC Docket Nos. UE-072300 / UG-072301 and per WAC 480-07-160

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-072300 and UG-072301
Puget Sound Energy, Inc.'s
2007 General Rate Case**

PUBLIC COUNSEL DATA REQUEST NO. 318

PUBLIC COUNSEL DATA REQUEST NO. 318:

RE: RATE BASE

The following questions are related to the Company's policies regarding accounting for CWIP, plant in service and depreciation:

- a. For each item of CWIP which the Company has transferred into utility plant in service for purposes of this filing, has a full 12 months of depreciation expense been included in the cost of service?
- b. For each item of CWIP which the company has transferred into utility plant in service for the purposes of this filing, has an amount representing a full 12 months of depreciation expense been added to the total accumulated depreciation by which rate base is reduced?
- c. Provide the same information as requested in subsection b. above for the deferred taxes related to the depreciation timing differences.

Response:

The following refers to unadjusted plant additions relating to the test year:

- a. Plant additions follow a mid-year convention for calculating depreciation so only six months of depreciation is typically incurred during the year of the addition. For plant additions in excess of \$10 million, the actual number of days in service is used to calculate depreciation.

Attached as Attachment A to Puget Sound Energy, Inc.'s ("PSE's") Response to Public Counsel Data Request No. 318, please find a PDF file of PSE's depreciation and amortization policy.

In this filing, if a particular project was closed to plant in the last quarter of 2006, it would accrue half year of depreciation plus nine months of depreciation in 2007. Therefore it is conceivable that one project could have more than 12

months of depreciation within the test year. Conversely if a project is added at the beginning of January 2006, which falls outside of the test year, it would only accrue 1/8 [1/2 year of depreciation * 3 months/12 months in a year] year of depreciation in the last quarter 2006 plus 9 months in 2007. Assuming plant additions are spread evenly throughout the year the timing effects on depreciation offset each other.

For plant additions in 2007 the accrued depreciation within the test year is [1/2 year of depreciation * remaining months in the year / 12 months in the year] * number of months in service during the test period].

- b. The plant balance as well as accumulated depreciation balance associated with plant additions impacts the ratebase through the average of the monthly averages (AMA) calculation. It takes 13 months for a plant to be fully in ratebase along with it's associated accumulated depreciation balance.
- c. When an asset is placed in service for tax purposes, it typically receives a half year of depreciation as reflected in the applicable MACRS rate. The half-year convention or mid-quarter convention when applicable, applies regardless of which month the asset is placed in service. The deferred taxes that are provided would reflect the difference between the amount of book depreciation claimed and the amount of tax depreciation claimed, tax affected at 35%.

For further discussion on ratebase treatment of known and measurable proforma adjustments for generating plants refer to the prefiled direct testimony of John Story, Exhibit No. ____ (JHS-1CT) Page 14 to 28.

ATTACHMENT A to PSE's Response to Public Counsel Data Request No. 318



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references

key words			
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Approvals

/s/ James W. Eldredge
Vice President,
Corporate Secretary & Controllor

/s/ Michael J. Stranik
Assistant Controllor

/s/ Bruce Bollert
Manager Property Accounting

DISCUSSION

Asset depreciation is recorded in FERC Balance Sheet Account 108, Accumulated Provision for Depreciation and includes current year depreciation expense amounts charged to account 403, Depreciation Expense. The amount related to salvage, cost of removal, and credit to plant are also included in Account 108. Account 403 is further divided into functional groups such as Steam, Hydraulic, Other Production, Transmission, Distribution, and General Plant. These functional groups may be further subdivided by individual plant for ease of identification. Another segregation required by the Washington Utilities and Transportation Commission (WUTC) is to identify the state where the asset is located. Depreciation is calculated at a group level, which allows the accumulated depreciation to be segregated by location at the subledger level per the WUTC requirement.

The annual percentage rates used to calculate the depreciation expense Account 403 are based on periodic studies prepared by a Depreciation Consultant every 5-10 years. Rates are filed with and approved by the WUTC. Approved rates are loaded into PowerPlant, PSE's fixed asset system. Within PowerPlant, each asset is assigned to a depreciation utility account and depreciation group that identifies them by FERC account and location. Depreciation is then calculated on each group using the approved percentage rates and allocated to the individual assets within the group. Plant additions and retirements follow a mid-year convention for calculating depreciation. For all plant additions in excess of \$10,000,000, the actual number of days in service is used to calculate depreciation.

In a similar manner, asset amortization is recorded in FERC Balance Sheet Account 111, Accumulated Provision for Amortization. Current year amortization is charged to account 404, Amortization of Limited-Term Plant. This account may be further divided by function such as Franchises, Licenses and Computer Software. The useful life of each asset type is determined from periodic studies or is based on the life of the franchise, license or software. These assets begin to amortize the month following their in service date. For all plant additions in excess of \$10,000,000 the



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DISCUSSION actual number of days in service are used to calculate amortization.

PROCEDURE Property Accounting initiates the PowerPlant depreciation calculation of Plant assets and posting to the general ledger as identified in the schedule of monthly closing activities as published by the General Accounting Department. This process starts after overheads are posted, orders are settled to the appropriate assets, and retirements are processed.

Once the retirement process has been completed, the "Calculate Depreciation" process is initiated in PowerPlant. PowerPlant calculates planned monthly depreciation using the depreciation rates that are entered in the system. Planned monthly depreciation is the ordinary depreciation expected for the asset based on the asset acquisition value (adjusted for additions, retirements and transfers) and the system depreciation rate divided by 12. For assets that are individually amortized to zero net book value, the calculation is ending plant balance less accumulated reserve divided by number of months in remaining service life. PowerPlant will retire the assets that reach zero net book value on a quarterly basis.

Once depreciation has been calculated, any variance in depreciation groups greater than \$100K and 10% from the prior month is evaluated to identify the cause of the variance for reasonableness. Once the variances have been determined to be within normal operations, the "Approve Depreciation" process is initiated in PowerPlant to post depreciation and create journal entries. An interface is run between PowerPlant and SAP to post the journal entries to the general ledger.

After depreciation is posted to the general ledger, the Depreciation and Amortization Fluctuation Analysis is prepared for inclusion in management reports Appendix Page 4.