

**EXHIBIT NO. ___(MJS-7)
DOCKET NO. UE-072300/UG-072301
2007 PSE GENERAL RATE CASE
WITNESS: MICHAEL J. STRANIK**

**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**

**SIXTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
MICHAEL J. STRANIK
ON BEHALF OF PUGET SOUND ENERGY, INC.**

JULY 3, 2008

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FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

OCA-AD
Docket No. AC91-96-000
November 22, 1991

Bruder, Gentile & Marcoux
Attn: Albert R. Simonds, Jr.
1350 New York Avenue, N.W.
Suite 600
Washington, DC 20005-4702

Dear Mr. Simonds:

By letter dated August 16, 1991, you filed a request on behalf of Florida Power Corporation (Florida Power) asking that we confirm your understanding of the FERC's accounting policy concerning the elimination of surpluses and deficiencies in the depreciation reserves.

In the letter you state that a recent depreciation study showed that Florida Power's book depreciation reserves in some accounts were either over or under accrued. The Florida Public Service Commission (FPSC) ordered "corrective transfers" of Florida Power's reserves in the overaccrued accounts to offset deficiencies in the reserves of the underaccrued accounts. Florida Power subsequently informed the staff of the FPSC that it believed the FERC would not permit the transfers of depreciation reserves under its depreciation accounting policies. You ask that I provide you guidance on whether the FERC would permit the "corrective transfers" under its depreciation accounting policies.

You did not provide any specific details explaining what "corrective transfers" were at issue in the Florida Power case. Therefore, the following response is intended to provide you with general policy guidance and not an answer to Florida Power's situation.

Under the Commission's Uniform System of Accounts, depreciation is viewed as an allocation process. It allocates the costs of depreciable property in a systematic and rational manner over the property's estimated service life. There are several acceptable methods that can be used to allocate the cost of an asset over the period expected to benefit from its use, but the method most widely used by utilities and the one most readily accepted by the Commission is the straight-line remaining life method. Under this method, over and under accruals of depreciation recorded in past accounting periods are corrected over the remaining life of

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the related property by adjusting the book depreciation rates prospectively.

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The Uniform System of Accounts does not explicitly address the question of transferring overaccrued amounts of depreciation in certain accounts to offset underaccrued amounts recorded in certain other accounts. However, such transfers could, and in my view should be viewed as restatements of the previously recorded depreciation expense applicable to both accounts. The Commission has addressed the question of restatements of depreciation expense in at least two cases. One was a 1976 decision involving Equitable Gas Company and the other was a 1984 decision involving Eastern Edison Company. In both cases the Commission concluded that restatements of previously recorded depreciation expense was inappropriate. Copies of those decisions are enclosed.

Authority to act on this matter is delegated to the Chief Accountant pursuant to 375.303 of the Commission's regulations. This letter order constitutes final agency action. Requests for rehearing by the Commission may be filed within 30 days of the date of issuance of this letter order, pursuant to 18 C.F.R. 385.713.

On June 28, 1991, the Commission issued a "Notice Designating New Docket Prefixes for Letters issued by the Chief Accountant". As part of this notice, the Commission informed applicants to file an original and seven copies of each request for an approval or an interpretation from the Chief Accountant. Accordingly for all future filings, please submit an original and seven copies of your request.

Sincerely Yours,

Russell E. Faudree, Jr.
Chief Accountant

Enclosures

DATE	DATE	DATE	CONCURRENCES DATE	DATE	DATE
DATE					
INITIAL	INITIAL	INITIAL	INITIAL	INITIAL	INITIAL
INITIAL					