**BEFORE THE**
**WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

| | |
|---|---|
| In the Matter of the Petition of<br><br>PUGET SOUND ENERGY, INC.<br><br>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____<br><br>PETITION OF<br>PUGET SOUND ENERGY, INC.<br>FOR AN ACCOUNTING ORDER |

**REDACTED**
**VERSION**

**BEFORE THE**
**WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

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| In the Matter of the Petition of<br><br>PUGET SOUND ENERGY, INC.<br><br>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____<br><br>PETITION OF<br>PUGET SOUND ENERGY, INC.<br>FOR AN ACCOUNTING ORDER |

## I. INTRODUCTION

1. In accordance with WAC 480-07-370(b), Puget Sound Energy, Inc. ("PSE" or the "Company") respectfully petitions the Commission to issue an 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. Treasury grants are tax free grants that are

available in lieu of the production tax credit ("PTC") allowed under Section 45 of the Internal Revenue Code ("IRC").

2. PSE is engaged in the business of providing electric and gas service within the State of Washington as a public service company, and is subject to the regulatory authority of the Commission as to its retail rates, service, facilities and practices. Its full name and mailing address are:

> Puget Sound Energy, Inc.
> Attn: Tom DeBoer,
> Director, Federal and State Regulatory Affairs
> P.O. Box 97034
> Bellevue, Washington 98009-9734

3. Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040, RCW 80.28.020, and WAC 480-07-370(b).

## II. BACKGROUND

4. The PTC is an incentive provided by the U.S. Government under section 45 of the IRC for the construction and operation of renewable energy resources such as wind generation facilities. The amount of the incentive is currently 2.1 cents per kilowatt hour for wind generation and is adjusted over time for inflation. This incentive can be claimed for wind generation from a qualifying facility during the initial ten years of commercial operation of the project. The qualifying facility must be placed in commercial service prior to January 1, 2013. The PTC is based on the actual generation from the qualifying facility.

5. The use of the PTC is restricted under IRC rules in that it 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.

6. To flow the PTC benefit through to the customer, the Company uses Schedule 95A, a rate tracker that passes through to the customer the actual PTC benefits as they are generated by the Company. This tracker is used so that the PTCs are not subject to the sharing bands in the Power Cost Adjustment ("PCA") mechanism. The amount of PTC benefits passed through to customers is adjusted by the carrying costs of the PTC-related cash advanced to customers but that have not been utilized to reduce the Company's tax payment to the Internal Revenue Service ("IRS"). Since the customer receives the cash benefit of the tax credits when they are generated, even though the Company does not receive a credit from the IRS until the tax credits are utilized, the Company is reimbursed its carrying costs on cash advanced to customers through this calculation.

7. 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. [redacted]

REDACTED

[redacted]

8. The inability to use PTCs in a timely fashion has raised significant concerns in Congress as to how to encourage development of renewable energy facilities. This concern was heightened, particularly in light of the economic downturn that reduced the taxable incomes of many energy companies. Congress was concerned that the PTCs, as a tax subsidy, required taxpayers to have significant positive taxable incomes in order to stimulate their investment in alternative or renewable energy projects. Congress addressed this concern in the ARRA by, in relevant part:

- 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.

9. 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 as it could only be used if a taxpayer had sufficient taxable income. [redacted]. The use of ITCs by a utility would require normalization of the ITC under Section 50 of the IRC which, taking

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into account application of the sections cross referenced therein, would require a utility to normalize the benefit of the ITC over the book life of the plant through either a rate base offset or amortization of the benefit to cost of service, but not both. [redacted]

Section 1603(f) provides:

> In making grants under this section, the Secretary of the Treasury shall apply *rules similar to the rules of section 50* of the Internal Revenue Code of 1986. In applying such rules, if the property is disposed of, or otherwise ceases to be specified energy property, the Secretary of the Treasury shall provide for the recapture of the appropriate percentage of the grant amount in such manner as the Secretary of the Treasury determines appropriate. (emphasis added)

The guidance subsequently issued by the Treasury to implement Section 1603 of the ARRA refers taxpayers to "see" former section 46(f) of the IRC (the ITC normalization rules, which are referenced by section 50 of the IRC) for guidance with respect to the normalization of the grant;

[redacted] REDACTED [redacted]

[redacted]

12. Attachment A to this Petition provides an analysis of the benefits associated with a Treasury grant versus the benefit associated with PTCs for the Wild Horse Expansion Project, [redacted]

REDACTED

[redacted]

13. The Treasury grant is calculated at 30% of the eligible costs. [redacted]

[redacted]

14. Upon placing the Wild Horse Expansion in service in November 2009, the Company plans to apply for the Treasury grant. [redacted]

## III. REQUESTED ORDER

[redacted] The customer benefit of this amortization will be included in Schedule 95A, the rate tracker that currently passes through to the customer the actual PTCs as they are generated. Please see Attachment B to this Petition for the proposed changes to Schedule 95A so that it properly describes the treatment of Treasury grants. By this Petition, the Company requests that the Commission approve the accounting and ratemaking treatment regarding

**REDACTED**

Treasury grants received for the Wild Horse Expansion Project and the proposed changes to Schedule 95A.

## IV. PROPOSED ACCOUNTING AND RATEMAKING TREATMENT

16. The Company proposes that upon receipt of the Treasury grant that a liability will be credited to Account 228.4, Accumulated miscellaneous operating provisions. [redacted] of the amount originally credited to Account 228.4 will be transferred to Account 242, Miscellaneous current and accrued liabilities. This transferred amount will be included in the Schedule 95A tracker calculation and passed through to customers on an annual basis.

17. The remaining balances in Account 228.4 and Account 242 will be included in the nonoperating section of the working capital adjustment for electric operations so that there is no ratebase offset for ratemaking purposes. This working capital treatment is necessary to comply with the ITC normalization rules that apply to the Treasury grants.

## V. PRAYER FOR RELIEF

18. Based on the foregoing, PSE respectfully requests that the Commission issue an Accounting Order in the form attached hereto as Attachment C.

**REDACTED**

DATED this 30 th day of September 2009.

**PUGET SOUND ENERGY, INC.**

By Tom DeBoer
Tom DeBoer, Director, Federal and State Regulatory Affairs

**VERIFICATION**

STATE OF WASHINGTON )
) ss.
COUNTY OF KING )

Tom DeBoer, being first duly sworn, on oath deposes and says:

That he is Director, Federal and State Regulatory Affairs with Puget Sound Energy, Inc., that he has read the foregoing 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, that he knows the contents thereof, and that he believes the same to be true to the best of his knowledge and belief.

Tom DeBoer

Tom DeBoer

SUBSCRIBED and SWORN to before me this 30 day of September 2009.

DENISE K. SCHROEDER
NOTARY PUBLIC
STATE OF WASHINGTON
COMMISSION EXPIRES
AUGUST 1, 2013

Denise K Schroeder

Print Name: DENISE K SCHROEDER
Notary Public in and for the State of Washington,
residing at SNOQUALMIE, WA
My commission expires: 8-1-2013

# ATTACHMENT A

REDACTED VERSION

## The Wild Horse Expansion is a 44MW Wind Project with a total cost of $102.4MM

| | |
|---|---|
| 96% | Assumed percentage of qualifying property |
| 30% | Grant percentage of qualifying property |
| $29,431,616.33 | Grant $ = 28.8% of total investment cost |

## Benefit to utility customers under various assumptions (1)

| | | Net present value | After FIT adjustment |
|---|---|---|---|
| [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] |

| | | Net present value | After FIT adjustment |
|---|---|---|---|
| [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] |

(1) All benefits reflect reduction in accelerated depreciation benefit due to basis reduction

| | |
|---|---|
| [redacted] | [redacted] |

| | | | | |
|---|---|---|---|---|
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |

# ATTACHMENT B

**PUGET SOUND ENERGY**
**Electric Tariff G**

## SCHEDULE 95A
## PRODUCTION TAX CREDIT TRACKER

APPLICABILITY:

1. This Production Tax Credit Tracker rate shall be applicable to the electric energy delivered to Customers under any schedule contained in this tariff except those Customers served on Schedules 448 and 449. This Production Tax Credit Tracker rate shall not be applicable to the electric energy delivered to Customers under any special contract unless specifically ~~excluded~~ included by such special contract.
2. The rates in this schedule shall be adjusted so that the amount of the production tax credit and other credits/grants (“Credits”) associated with specified energy property as defined in Section 1603 (d) of the American Recovery and Reinvestment Act of 2009 (“the Act”). Credits will include items such as the Treasury grant as provided for in Section 1603(f) of the Act. The Credits will also reflect any tax benefits allowed under §199 of the Internal Revenue Code that ~~is~~ are available to the Company for generating electricity ~~from wind is passed through to Customers,~~ as such ~~credit~~ tax benefits become~~s~~ available ~~irrespective of when the Company applies for tax recovery of the credit amount~~.

PURPOSE:

1. To pass the benefits ~~of the production tax credit to Customers as it is generated. The credit is available for a ten-year period and will expire on December 31, 2015.~~ associated with specified energy generation through to Customers. The Credits available for each eligible plant will be passed through as provided in the Commission’s order regarding treatment of available Credits for each plant. The Company may adjust the ~~credit~~ rates in this schedule annually based on the differences between the ~~c~~Credits provided to Customers and the ~~c~~Credits actually earned due to wind generation or construction of wind generation, plus the estimated ~~c~~Credits for the next year~~, less the interest associated with the deferred tax balance for the credits. If the difference is estimated to be~~ and Credits obtained through tax deductions in the past year, all as provided in the Commission’s orders. At any time, if the actual Credits are different from estimated Credits by greater than twenty five percent (25%) in a given year, the Company may file to update the ~~credit~~ rates more often than annually.

ADJUSTMENT:
In addition to the rate specified in the otherwise applicable rate schedules:

MONTHLY RATE:

| | | |
|---|---|---|
| SCHEDULE 7* | Energy Charge: | (0.1684) cents per kWh |
| SCHEDULE 24* | Energy Charge: | (0.1534) cents per kWh |
| SCHEDULE 7A, 25* | Energy Charge: | (0.1505) cents per kWh |
| SCHEDULE 26* | Energy Charge: | (0.1466) cents per kWh |
| SCHEDULE 29* | Energy Charge: | (0.1331) cents per kWh |
| SCHEDULE 31* | Energy Charge: | (0.1440) cents per kWh |
| SCHEDULE 35* | Energy Charge: | (0.1135) cents per kWh |

*Rate applies to the schedule(s) as well as equivalent schedules such as Residential and Farm Schedules.

~~1, 2009~~
**Advice No.**: 2009-XX~~2008-28~~

**Issued By Puget Sound Energy**

By: ______________________ Tom DeBoer **Title**: Director, Rates & Regulatory Affairs

**PUGET SOUND ENERGY**
**Electric Tariff G**

**SCHEDULE 95A**
**PRODUCTION TAX CREDIT TRACKER**
(Continued)

MONTHLY RATE:

SCHEDULE 58 - Directional Metal Halide Lighting Service*

| Lamp Wattage | |
|---|---|
| 175 Watt | $(0.11) |
| 250 Watt | $(0.15) |
| 400 Watt | $(0.24) |
| 1000 Watt | $(0.56) |

SCHEDULE 58 - Horizontal Sodium Vapor Lighting Service*

| Lamp Wattage | |
|---|---|
| 100 Watt | $(0.06) |
| 150 Watt | $(0.09) |
| 200 Watt | $(0.12) |
| 250 Watt | $(0.15) |
| 400 Watt | $(0.24) |

SCHEDULE 58 - Horizontal Metal Halide Lighting Service*

| Lamp Wattage | |
|---|---|
| 175 Watt | $(0.11) |
| 250 Watt | $(0.15) |
| 400 Watt | $(0.24) |

*Rate applies to the schedule(s) as well as equivalent schedules such as Residential and Farm schedules.

BASIS:
The purpose of this schedule is to adjust rates, to the extent that ~~Production Tax~~ Credits for electricity generated by wind power are available from the U.S. Government.

ADJUSTMENTS:
Rates in this schedule and those rates reflected in the schedules for electric service to which the ~~c~~Credit in the Applicability section above applies, are subject to adjustment by such other schedules in this tariff as may apply.

GENERAL RULES AND PROVISIONS:
Service under this schedule is subject to the General Rules and Provisions contained in this tariff (Schedule 80) as they may be modified from time to time and other schedules of such tariff that may from time to time apply as they may be modified from time to time.

# ATTACHMENT C

Attachment C
PROPOSED ORDER

**BEFORE THE**
**WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

| | |
|---|---|
| In the Matter of the Petition of<br><br>PUGET SOUND ENERGY, INC.<br><br>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____<br><br>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.

[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.

## 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.

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

## SCHEDULE 95A
## PRODUCTION TAX CREDIT TRACKER
(Continued)

MONTHLY RATE:

SCHEDULE 58 - Directional Metal Halide Lighting Service*

| Lamp Wattage | |
|---|---|
| 175 Watt | $(0.11) |
| 250 Watt | $(0.15) |
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SCHEDULE 58 - Horizontal Sodium Vapor Lighting Service*

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| 175 Watt | $(0.11) |
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*Rate applies to the schedule(s) as well as equivalent schedules such as Residential and Farm schedules.

BASIS:
The purpose of this schedule is to adjust rates, to the extent that ~~Production Tax~~ Credits for electricity generated by wind power are available from the U.S. Government.

ADJUSTMENTS:
Rates in this schedule and those rates reflected in the schedules for electric service to which the ~~c~~Credit in the Applicability section above applies, are subject to adjustment by such other schedules in this tariff as may apply.

GENERAL RULES AND PROVISIONS:
Service under this schedule is subject to the General Rules and Provisions contained in this tariff (Schedule 80) as they may be modified from time to time and other schedules of such tariff that may from time to time apply as they may be modified from time to time.