EXHIBIT NO. MRM-5
DOCKET NOS. UE-090704/UG-090705
2009 PSE GENERAL RATE CASE
WITNESS: MATTHEW R. MARCELIA

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UE-090704** **Docket No. UG-090705**

FIRST EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
MATTHEW R. MARCELIA
ON BEHALF OF PUGET SOUND ENERGY, INC.

DECEMBER 17, 2009

PROPERTY TAXES

How values are determined:

Puget Sound Energy ("PSE") is centrally assessed by the Department of Revenue ("DOR"). PSE's operating properties are assessed en masse by the DOR. This means they determine the total value of all of the company's operating assets as one, single unit regardless of where its property is located. Assets are not assessed individually.

Each year, the DOR arrives at an overall value for all of PSE's operating property by using three basic approaches: cost approach, income approach, and the stock and debt approach. Once each approach has been calculated, the DOR reconciles the approaches to come up with the reconciled Unit Value ("UV"). The final UV is the result of negotiations between the DOR and PSE. The UV is allocated to each state, where the company has operating assets, by using the percentage of original cost of property in that state, to the total original cost on all of PSE's operating properties. Each state's value is then apportioned to its counties, then to the tax code area. The DOR notifies the county of the assessed values by tax code area. PSE receives a property tax bill from each county by tax code area regardless of the number of parcels located within its boundary.

How the Company accrues its property tax expense:

In order to understand how the Company accrues its property tax expense, it may be helpful to walk through the property tax life-cycle. For illustrative purposes, the year 2009 will be used as an example.

In order to estimate the property tax expense for 2009, the Company must estimate three items: (a) the unit value, (b) the system ratio, and (c) the levy rate. Each item will become known at a different point during the year. A change to any item changes the property tax accrual.

January 1, 2009: The lien date – on January 1st a property tax lien attaches to all property, even though the amount of the tax lien is not yet known.

January 2009: The Company estimates the amount of tax it expects to pay in 2010 for the property tax associated with the January 1, 2009 lien date. The Company records 1/12th of the estimate as the property tax accrual for January 2009. That estimate usually proves to be accurate until March/April 2009.

March/April 2009: The Company receives the tax bills associated with the 2008 property tax year. This is when the Company finds out the precise levy rates that applied to 2008. The 2008 property tax accrual is trued up to the actual liability. Once the new levy rates are known, the Company updates its estimate for the 2009 accrual to reflect the most current and accurate information available.

July 2009: The Company receives its appraisal from the DOR and negotiates the appropriate unit value which covers all of the Company's operating assets. Once the new value has been determined, the Company updates its estimate for 2009 accrual to reflect the new unit value.

December 2009/January 2010: The DOR publishes the county ratios (also called a system ratio). Because the Company is appraised every year and other taxpayers in the counties are not, the counties reduce our value so that PSE's valuation is on-par with every other taxpayer in the county. Once the new ratios are known, the Company updates its estimate for the 2009 accrual.

January 1, 2010: Another lien attaches to the property, even though we're not done with 2009. The Company starts the process all over again for the 2010 cycle by estimating the 2010 property tax expense.

March/April 2010: The final bills come in for the 2009 property tax year and the Company now knows the actual levy rates. PSE knows the exact property tax liability for 2009. The Company makes its final adjustment to the 2009 estimate to bring it into agreement with the property tax bills. In addition, the Company modifies the 2010 estimate to reflect the most accurate information available.

And so, the process continues for the 2010 cycle.

How the Company pays property taxes:

Property taxes are due on April 30th and October 30th. The property taxes that the Company accrues in 2009 (associated with the January 1, 2009 lien date) are paid in two installments: The first in April 2010 and the second in October 2010.

How are property taxes accrued for individual projects:

Neither the Company nor the DOR refer to individual projects when establishing the unit/system value. Individual assets do not factor into the calculation in a direct fashion. As indicated in the example above, the Company does not look to individual assets when it estimates the annual property tax or when it updates the estimate.

The only exception is when the Company acquires a significant existing asset (*e.g.* Sumas, Mint Farm). In a situation like that, the asset would not have been included in the Company's central assessment. The property taxes for the year of the purchase would typically be allocated between the seller and the buyer (PSE). In order to capture this additional property tax, the Company will look to the locally assessed value and add the Company's share of the property tax to its property tax estimate for the year, until such time as the asset rolls into the Company's central assessment. Once the asset joins the Company's central assessment, it falls from view and no longer receives special attention as it has become part of the unit value that is established by the DOR.

Finally, when allocating a portion of test year and proforma property taxes from the overall property tax adjustment to stand alone production plant adjustments shown separately in Exhibit No. JHS-10, PSE uses either the locally or centrally assessed calculation as applicable, using an estimate of the unit value, system ratio and levy rate applicable to the subject property at the point in time the adjustment is compiled.