

**Exh. CRM-4  
Dockets UE-170033/UG-170034  
Witness: Chris R. McGuire**

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY,**

**Respondent.**

**DOCKETS UE-170033 and  
UG-170034 (*Consolidated*)**

**EXHIBIT TO  
TESTIMONY OF**

**Chris R. McGuire**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

***Report to the Audit Committees (Excerpt)***

**June 30, 2017**

Puget Energy, Inc. and Puget Sound Energy, Inc.  
Report to the Audit Committees of the Boards of Directors

## ***Required Communications With the Audit Committees***

Matter to be communicated	Auditor's response
Fraud	We did not identify any potential or known fraud.
Illegal acts	We did not identify any potential illegal acts.
Accounting policies and practices, critical accounting estimates and significant unusual transactions	<ul style="list-style-type: none"> <li>■ Critical accounting policies and practices <ul style="list-style-type: none"> <li>– There were no noted significant modifications to critical accounting policies except for the item noted below.</li> </ul> </li> </ul> <p><i>Presentation of Debt Costs</i></p> <p>The Companies adopted ASU No. 2015-03 which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated term debt, consistent with the presentation of a debt discount. The Companies have adopted the new standard retrospectively. The Companies has disclosed the change in the 10-K.</p> <p><i>Presentation of Financial Statements –Going Concern (Subtopic 205-40)-Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.</i></p> <p>This Accounting standard requires management to assess conditions and events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued. This assessments is required annually. Disclosure is required if there is substantial doubt about the entity's ability to continue as a going concern. The Companies adopted ASU 2014-15 on January 1, 2016 and the adoption did not have a material impact on the Companies' consolidated financial statements.</p> <ul style="list-style-type: none"> <li>■ Critical accounting estimates, including: <ul style="list-style-type: none"> <li>– See below section "Summary of Accounting Judgements, Estimates and Transactions"</li> </ul> </li> <li>■ Significant unusual transactions: <ul style="list-style-type: none"> <li>– There was a significant transaction related to the settlement with Sierra Club regarding the shutdown of Colstrip 1 and 2 , no later than July 2022. Management concluded that Colstrip 1 and 2 became probable of abandonment as a result of the settlement, and as a result reclassified the estimated net book value of</li> </ul> </li> </ul>

Puget Energy, Inc. and Puget Sound Energy, Inc.  
Report to the Audit Committees of the Boards of Directors

## ***Required Communications With the Audit Committees***

(continued)

Matter to be communicated	Auditor's response
	<p>\$176.8 million at the expected retirement date to a regulatory asset, as it will no longer qualify as Plant in Service upon retirement.</p> <ul style="list-style-type: none"> <li>- Management believes all costs associated with the anticipated retirement of Colstrip 1 and 2, including the NBV of the plant, will be recovered through rates along with a return on the regulatory asset based on prior precedent</li> <li>- There were no changes in the policies and practices management used to account for significant unusual transactions.</li> </ul>
Quality of the Companies' financial reporting	<ul style="list-style-type: none"> <li>■ The Companies' significant accounting policies have been deemed appropriate.</li> <li>■ The results of our evaluation of the differences between (i) estimates best supported by the audit evidence and (ii) estimates included in the financial statements, which are individually reasonable, do not indicate a possible bias on the part of the Companies management.</li> <li>■ In our assessment, management's disclosures related to the critical accounting policies and practices are appropriate.</li> <li>■ In our assessment, the business purpose for significant unusual transactions is appropriate.</li> <li>■ Based on our audits, the presentation of the financial statements and the related disclosures are in conformity with the applicable financial reporting framework, including our consideration of the form, arrangement, and content of the financial statements (including the accompanying notes).</li> </ul> <p>No significant issues were identified with respect to particularly sensitive financial statement disclosures.</p>
Alternative accounting treatments	<p>We did not identify any alternative treatments permissible under US GAAP for accounting policies and practices related to material items, including recognition, measurement, and presentation and disclosure.</p>