

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)	DOCKET NO. UE-051527
)	DOCKET NO. UG-051528
PUGET SOUND ENERGY, INC.)	
)	ORDER NO. 01
Petitioner,)	
)	
For An Accounting Order)	
Authorizing Deferral of Financing)	
Costs Necessary to Remit Deferred)	ORDER APPROVING
Taxes)	ACCOUNTING PETITION
.....)	

BACKGROUND

1 On October 5, 2005, Puget Sound Energy (PSE or Company) filed tariff revisions proposing to increase electric revenues by \$5,839,185 (0.4%) and natural gas revenues by \$4,182,029 (0.6%) on an LSN basis to become effective November 1, 2005. Subsequently, on October 19, 2005, Puget Sound Energy filed a petition seeking an Accounting Order under WAC 480-07-370(b)(i) in these same Dockets.

2 In its Petition PSE is requesting accounting and ratemaking treatment for the financing costs associated with the early repayment of deferred Federal income taxes in the amount of \$72 million that was treated as a rate base reduction in the company’s last general rate case, Docket UG-040640, UE-040641, UE-031471 and UE-032043, Order No. 6 (the Order).

3 In that Docket the \$72 million rate base adjustment was not at issue. However, in the Company’s rebuttal testimony on behalf of PSE Mr. John Story stated that, “The Company agrees that such an adjustment could be appropriate, provided that if any such deductions are subsequently disallowed by the Internal Revenue Service, the Company will then be able to immediately adjust rates to recover any revenue loss, including any assessed interest...”

4 The Commission resolved the issue in its Order No. 6 at paragraph 159 by stating that:

“We cannot lawfully prejudge future rates. However, we do find it appropriate to recognize in principle that if the IRS successfully challenges in court the adjustment PSE and other utilities have taken, and requires future repayment of the current benefits taken, presumably with interest, PSE should file an accounting petition asking for appropriate treatment of any back taxes and interest assessed.”

5 According to PSE, they have already paid back approximately \$6 million of the total \$72 million liability. Under the IRS’s decision, PSE will be required to pay back the remaining \$66 million deferred tax liability to the treasury over the 2005 and 2006 tax years. PSE will pay back the first half (\$33 million) on December 15, 2005, and the remaining half over equal quarterly payments on March 15, June 15, September 15, and December 15, 2006.

6 PSE seeks in its Petition to establish a deferred account that will accumulate financing costs using the Company’s allowed net-of-tax rate of return (currently 7.01%) associated with these capital borrowings based on the date the payments are made. PSE is proposing to begin deferring the finance costs on the \$6 million it has already repaid on November 1, 2005. The Company estimates, according to Exhibit C of its Petition, that the total deferred financing costs will be approximately \$6 million by the end of December 2006.

7 PSE is also seeking in its Petition the Commission’s approval of the recovery of the amount of the deferred account in its rates. The approval and timing of recovery of the amounts in the deferral account and the methods of such recovery will be an issue addressed in the Company’s next general rate case to be filed in February 2006.

FINDINGS AND CONCLUSIONS

- 8 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, accounts, securities, and transfers of public service companies, including electric and gas companies. *RCW 80.01.040; Chapter 80.04 RCW and Chapter 80.28 RCW.*
- 9 (2) PSE is an electric and gas company and is a public service company subject to the jurisdiction of the Commission.
- 10 (3) WAC 480-07-370(b)(i), allows companies to file a petition including that for which PSE seeks approval.
- 11 (4) Staff has reviewed the petition in Docket UE-051527 and Docket UG-051528 including related workpapers. Staff believes the proposed accounting petition requested by PSE is reasonable and should be approved.
- 12 (5) This matter was brought before the Commission at its regularly scheduled meeting on October 26, 2005.
- 13 (6) After examination of the petition filed in Docket UE-051527 and Docket UG-051528 by PSE on October 19, 2005, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the Petition filed should be approved.

ORDER

THE COMMISSION ORDERS:

- 14 (1) PSE's request to defer financing costs associated with the repayment of \$72 million of deferred taxes is approved, conditioned upon the Company's withdrawal of its proposed tariffs in these dockets.
- 15 (2) This Order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of costs on 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.
- 16 (4) The Commission retains jurisdiction over the subject matter and Puget Sound Energy, Inc., to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this 26th day of October, 2005.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

PATRICK J. OSHIE, Commissioner

PHILIP B. JONES, Commissioner