

**EXHIBIT NO. ___(MRM-3)
DOCKET NO. UE-11___/UG-11___
2011 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-11___
Docket No. UG-11___**

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

JUNE 13, 2011

Normalization of Certain Book/Tax Differences Related to Electric Operations

Part 1 - Activity in the Test Year (normalized):

	current tax expense	deferred tax expense	Net tax expense	@ 35%
debit/(credit)				
Capitalized property taxes	1,984,097	(1,984,097)	0	0
Bad Debts	1,409,011	(1,409,011)	0	0
Reserve for Injuries and Damages	0	0	0	0
subtotal	3,393,108	(3,393,108)	0	0

Part 2 - Activity to convert the existing flowthrough balance:

	Balance at Jan 1, 2010	Reversal period of prior flowthrough	Benefit in this filing	@ 35%
debit/(credit)				
Capitalized property taxes	10,149,285	remaining tax lives of the affected assets	(449,008)	(157,153)
				estimated, built into "Plant Depreciation - Flow Through"
Bad Debts	5,895,758	2 years	(2,947,879)	(1,031,758)
Reserve for Injuries and Damages	300,000	2 years	(150,000)	(52,500)
subtotal	16,345,043		(3,546,887)	(1,241,410)

	Test Year Activity (from Part 1, above)	Conversion (from Part 2, above)	Total New Way	Difference	@ 35%
debit/(credit)					
Capitalized property taxes	0	(449,008)	(449,008)	1,984,097	(851,587)
Bad Debts	0	(2,947,879)	(2,947,879)	1,409,011	(4,356,890)
Reserve for Injuries and Damages	0	(150,000)	(150,000)	0	(150,000)
Total	0	(3,546,887)	(3,546,887)	3,393,108	(6,939,995)

By switching to normalization for these three book/tax difference, tax expense in the GRC is reduced and NOI is improved by \$2,428,998.