

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**Docket Nos. UE-111048 and UG-111049  
Puget Sound Energy, Inc.'s  
2011 General Rate Case**

**WUTC STAFF DATA REQUEST NO. 206**

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**RE: Standard for recognized the impact of actual tax deductions claimed on filed tax returns for ratemaking purposes. Refer to the Rebuttal Testimony of Matthew Marcellia at pages 46 and 47-48 and elsewhere concerning the tax impact of repairs deductions and the related ratemaking treatment.**

- 1) Please explain fully and in detail why the completion of an IRS audit "it is not a good standard to employ in the normal course of business with common, recurring book/tax differences."
- 2) Please admit that, in *PacificCorp* Docket UE-100749, Order 6, cited at pages 47-48 by Mr. Marcellia, the Commission specifically rejected an argument by the utility that no adjustment could be made to rate base until after an IRS audit.
- 3) If your answer to part b is anything other than an unqualified admission, please explain fully and provide all documents relied upon.
- 4) Please admit that for financial reporting purposes, the tax impact of the repairs deductions claimed by PSE is known and measureable.
- 5) If your answer to part d is anything other than an unqualified admission, please explain fully and provide all documents relied upon.
- 6) Please admit that there is no realistic possibility that the IRS would entirely disallow the repairs deductions claimed by PSE.
- 7) If your answer to part f is anything other than an unqualified admission, please explain fully and provide all documents relied upon.
- 8) Please admit that the standard that PSE seeks to employ in the current case of providing no benefit to ratepayers of repairs deductions claimed by PSE has exactly the same impact in the current case as if PSE had not changed its tax accounting method for repairs.

- 9) If your answer to part h is anything other than an unqualified admission, please explain fully and provide all documents relied upon.
- 10) Please admit that the standard that PSE seeks to employ in the current case of providing no benefit to ratepayers of repairs deductions claimed by PSE has exactly the same impact in the current case as if all of the deductions for repairs claimed by PSE were entirely disallowed by the IRS.
- 11) If your answer to part j is anything other than an unqualified admission, please explain fully and provide all documents relied upon.

**Response:**

1. As explained on page 46 to the Prefiled Rebuttal Testimony of Matthew Marcellia, Exhibit No. \_\_\_\_ (MRM-14T), the "completion of an IRS audit" is not a good standard for common, recurring book/tax differences. However, it is the standard that the Commission has ordered Puget Sound Energy, Inc. ("PSE") to follow for repairs method change. This standard, which the Commission adopted, makes sense because the repairs method change is not a common, recurring book/tax difference. Currently, it remains unique, complex, and an estimate.

The normal ratemaking treatment for common, recurring book/tax differences looks to the activity recorded in the test year. That activity is then modified in an appropriate manner to reflect only activity that is relevant to a general rate case. An IRS audit is not relevant to those items because they are common and recurring. However, when an IRS audit is relevant (for example, when a new method is unique and complex), the Commission may look to a final IRS audit, as it has chosen to do with the repairs method change.

2. PSE objects to WUTC Staff Data Request No. 206(2) as calling for a legal conclusion and as misleading with regard to the implication that Mr. Marcellia's testimony contradicts Order 6 in Docket UE-100749. As stated on pages 47-48 of Exhibit No. \_\_\_\_ (MRM-14T), the PacifiCorp order explicitly states that PSE is to reflect the repairs method change "after an IRS audit".
3. Please see PSE's Response to WUTC Staff Data Request No. 206(2), above.
4. PSE does not admit that "for financial reporting purposes, the tax impact of the repairs deductions claimed by PSE is known and measurable" because the statement is based on a false premise. It attempts to apply the "known and measurable" standard from WAC 480-07-510(3)(e)(iii) to the financial reporting standards. The two are unrelated. The standards for financial reporting are governed by federal generally accepted accounting principals (GAAP), not the

ratemaking provisions of the Washington Administrative Code. U.S. GAAP does not contain a "known and measurable" standard.

5. Please see PSE's Response to WUTC Staff Data Request No. 206(4), above.

6. PSE objects to WUTC Staff Data Request No. 206(5) to extent is calls for speculation. Without waiving the objection, and subject thereto, PSE responds as follows:

PSE cites its experience with the simplified service cost method change. PSE did not expect the IRS to disallow the entire simplified service cost method – yet, that is exactly what the IRS did. All that is certain at this time is that IRS audit of the repairs and retirement method changes has not yet been completed.

7. Please see PSE's Response to WUTC Staff Data Request No. 206(6), above.

8. PSE objects to WUTC Staff Data Request No. 206(8) as misrepresenting facts. First, "the standard that PSE seeks to employ" should be rephrased as "the standard PSE was ordered to employ". See PSE Order 11 and PacifiCorp Order 06. Second, the statement is inaccurate. Without waiving such objections, and subject thereto, PSE responds as follows:

Almost all of the repairs method change has been collected in cash. See Exhibit No. \_\_\_MRM-04 and Exhibit No. \_\_\_MRM-05. To the extent PSE received cash, it was able to incur less debt and issued less equity. No adjustment has been made to eliminate the benefit of receiving the cash from the IRS – less debt and less equity. The only adjustments that have been made for the general rate case are reflected on Exhibit No. \_\_\_MRM-07, as instructed in PSE Order 11.

9. Please see PSE's Response to WUTC Staff Data Request No. 206(8), above.

10. PSE objects to WUTC Staff Data Request No. 206(10) as misstating and misrepresenting facts. First, an IRS disallowance would have additional consequences, including the incurrence of interest and penalties. PSE has not reflected interest and penalties from an IRS disallowance in this proceeding. Second, "the standard that PSE seeks to employ" should be rephrased as "the standard PSE was ordered to employ". See PSE Order 11 and PacifiCorp Order 06.

11. Please see PSE's Response to WUTC Staff Data Request No. 206(10), above.