

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. 212

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RE: Safe harbor method. Refer to the Rebuttal Testimony of Matthew Marcellia at pages 53-54.

- 1) Would PSE consider all repairs deductions taken pursuant to the IRS safe harbor method described in IRS Rev Proc 2011-43 to be known and measureable before an IRS audit is completed. If not, explain fully why not.
- 2) Approximately what percent and amount of PSE's claimed repairs deductions for each year, 2008, 2009, 2010 and 2011, relate to electric transmission and distribution. Please provide the Company's best estimates and show any related calculations in Excel.
- 3) Approximately what percent and amount of PSE's claimed repairs deductions for each year, 2008, 2009, 2010 and 2011, relating to electric transmission and distribution comport with the IRS safe harbor method described in IRS Rev Proc 2011-43? Please provide the Company's best estimates at this time and show any related calculations in Excel.
- 4) Does PSE intend to retroactively calculate its repairs deductions for transmission and distribution using the Rev Proc 2011-43 safe harbor method for years for which it has already filed corporate income tax returns? If not, explain fully why not.
- 5) Does PSE intend to follow the Rev Proc 2011-43 safe harbor method for transmission and distribution repairs deductions for all years in which corporate tax returns have not yet been filed? If not, explain fully why not.

Response:

1. Puget Sound Energy, Inc. ("PSE") objects to WUTC Staff Data Request No. 212 as calling for speculation. Without waiving such objection, and subject thereto, PSE responds as follows:

WUTC Staff Data Request No. 212 cannot be answered with any certainty. PSE is not subject to the safe harbor provisions of Rev. Proc. 2011-43 and has not completed an evaluation at this time. See Exhibit No. ____ (MRM-14T), page 53 through page 54, line 6. However, if PSE files an accounting method change which it believes to be in compliance with well defined safe harbor provisions, it seems likely that such a method change would pass the known and measureable standard for setting rates, and that customers and PSE would have reasonable certainty about avoiding the interest and penalty provisions of the Internal Revenue Code. In addition, Rev. Proc. 2011-43 only covers electric transmission and distribution. All other parts of the repairs method change remain subject to IRS audit.

2. Attached as Attachment A to PSE Response to WUTC Staff Data Request No. 212, please find rough estimates of the amount of PSE's repair method change that relates to electric transmission and distribution.
3. None of PSE's 2008 through 2011 repairs deductions complies with the safe harbor provisions of Rev. Proc. 2011-43. As explained in Exhibit No. ____ (MRM-14T), page 53, lines 7-16 and at page 54, lines 1 - 6, PSE's units of property are different from those in the safe harbor. As a result, PSE's entire analysis will have to be redone using the smaller unit of property and correcting for the other computational differences required by the safe harbor.
4. No, PSE does not intend to follow the Rev Proc 2011-43 safe harbor method to the extent WUTC Staff Data Request No. 212 contemplates re-filing or amending prior tax returns. Rev. Proc. 2011-43 lays out the computational requirements under which a taxpayer can adopt the safe harbor provisions. If PSE ultimately decides to use the safe harbor provisions, it would follow those provisions to the fullest extent possible. One of those requirements is to calculate the Section 481(a) amount, which requires that a taxpayer determines the effect of its method change as if it has always used the new method. This is not a "retroactive" calculation. It is a calculation in the current year's tax return (for example, in the 2011 tax return) that is designed to avoid duplicating deductions or income relative to what has been reported on prior tax returns.
5. Please see Exhibit No. ____ (MRM-14T), page 53, lines 17 - 20.

Puget Sound Energy
Tax Repairs Deduction
Electric T&D as a Percentage of Total Repairs
Prepared for WUTC Staff Data Request No. 212 Question 2

Based on gross eligible repair

	Tax Return			
	2008	2009	2010	2011
Elec Dist		41,643,764	21,052,965	14,956,658
Elec T&D Subs		1,829,488	1,416,982	1,006,667
Elec Trans		5,588,583	5,192,875	3,689,174
Subtotal T&D	176,404,498	49,061,835	27,662,822	19,652,499
Elec Gen	17,940,910	6,078,028	8,670,418	6,159,725
Gas Dist	73,586,028	19,253,301	13,579,144	9,647,031
Total All	267,931,436	74,393,164	49,912,384	35,459,255
T&D % of Total	66%	66%	55%	55%