

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. 217

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RE: FERC accounting for income taxes. Refer to the Rebuttal Testimony of Matthew Marcellia at page 62, lines 14-15, and to page 63.

- 1) Is it PSE's understanding that the classification of income taxes being referred to is for ratemaking purposes? If not, explain fully why not.
- 2) Please admit that all ratemaking adjustments for income tax expense made by PSE were made by PSE only to current income tax expense, and none were made to deferred income tax expense.
- 3) If your answer to part b is anything other than an unqualified admission, please explain fully and provide all documents relied upon.
- 4) At page 63, lines 3-8, Mr. Marcellia states that the impact of PSE's adjustments to income tax expense are "appropriately recorded to current income tax expense or benefit (as compared to deferred income tax or benefit) because it is unknown whether PSE will report taxable income or loss when it files a tax return ..."
Please Provide the journal entries where PSE actually recorded each of the 18 modifications to the SAP balances in the test year for income tax expense.

Response:

1. The adjustments referenced on pages 62 and 63 of the Prefiled Rebuttal Testimony of Matthew R. Marcellia, Exhibit No. ____ (MRM-14T), are for ratemaking purposes. However, there is some confusion about the difference between adjustments for ratemaking purposes and adjustments that are posted to SAP. The adjustments for ratemaking are posted to current tax expense because the underlying adjustments impact the revenue requirement. The revenue requirement is then grossed up for taxes – without distinction between current or deferred taxes. All of the adjustments modify revenue, which is subject to current tax since Puget Sound Energy, Inc. ("PSE") does not know whether it will report taxable income or taxable loss in the rate year. Where a

deferred tax impacts future rate base, such as the Lower Snake River ("LSR") addition, the deferred taxes are calculated using the IRS formula and the impacts are reflected in the LSR rate base analysis.

Regardless of whether the adjustments are posted to current or deferred tax, both current and deferred taxes are recovered for ratemaking purposes.

2. The statement in WUTC Staff Data Request No. 217(2) is not entirely correct. For example, see Exhibit No. ____ (JHS-4), Adjustment 6.04 related to income taxes – deferred taxes were adjusted. However, all of the others were made to current tax expense. See Exhibit No. ____ (JHS-4) for a list of adjustments and whether current or deferred taxes were adjusted.
3. See PSE's Response to WUTC Staff Data Request No. 217(2), above.
4. See PSE's Response to WUTC Staff Data Request No. 217(1), above. The modifications are for ratemaking purposes. The tax impact of the adjustments will be reflected in the SAP balances in future periods once new rates go into effect. As a result, the tax entries recorded in those future periods will reflect tax impacts of the adjustments in the rate case.