

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. 268

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RE: Standard for recognizing the impact of actual tax deductions claimed on filed tax returns for ratemaking purposes. Refer to PSE's response to WUTC Staff Data Request 210(6).

1. Please admit that PSE's deductions for repairs on its 2008, 2009 and 2010 federal income tax returns are a "material item" for GAAP.
2. If your answer to part 2 is anything other than an unqualified admission, explain fully and identify and provide all documents relied upon.
3. Please admit that PSE's deductions for repairs for tax year 2011 will also be a "material item" for GAAP.
4. If your answer to part 3 is anything other than an unqualified admission, explain fully and identify and provide all documents relied upon.
5. Please admit that the Company was required by GAAP to evaluate its deductions for repairs for uncertainty.
6. If your answer to part 5 is anything other than an unqualified admission, explain fully and identify and provide all documents relied upon.
7. Please admit that the Company in fact did evaluate its repairs deductions under GAAP for uncertainty and on its audited financial statements for 2008, 2009 and 2010 did not report or record any amounts of repairs deductions on the basis that any portion of its repairs deductions were uncertain under GAAP.
8. If your answer to part 7 is anything other than an unqualified admission, explain fully and identify and provide all documents relied upon.
9. Please admit that the WUTC should be able to rely upon PSE's audited financial statements as a reliable source of accounting information in a rate case.

10. If your answer to part 9 is anything other than an unqualified admission, explain fully and identify and provide all documents relied upon.
11. Please admit that PSE management adopted conservative methodologies in implementing the repairs deduction/units of property tax accounting method change.
12. If your answer to part 11 is anything other than an unqualified admission, explain fully and identify and provide all documents relied upon.
13. Please admit that PSE's external auditors reviewed and concurred with PSE's determination that no portion of PSE's repairs deduction/units of property tax account method change was sufficiently uncertain to require recording and reporting under US Generally Accepted Accounting Principles.
14. If your answer to part 13 is anything other than an unqualified admission, explain fully and identify and provide all documents relied upon.

Response:

1. The Internal Revenue Code does not contain the concept of materiality. To the extent that WUTC Staff Data Request No. 268(1) relates to the Internal Revenue Code, the answer would be neither affirmative nor negative because the concept does not apply.

As for the Generally Accepted Accounting Principals ("GAAP"), there are qualitative factors and quantitative factors that flow into a materiality discussion with the overarching question being, "Would it make a difference to investors (i.e. the reader of the financial statements)?" Whether or not PSE's deductions for repairs on its 2008, 2009 and 2010 federal income tax returns are a "material item" for GAAP does not matter for purposes of Puget Sound Energy, Inc.'s ("PSE") Response to WUTC Staff Data Request No. 210. Please see PSE's Response to WUTC Staff Data Request No. 210 and Attachment A thereto for PSE's analysis of its repairs deduction, presuming it was a material item.

2. Please see PSE's Response to WUTC Staff Data Request No. 268(1), above.
3. It is unlikely that PSE's deduction for repairs in 2011 would be considered a "material item". Nevertheless, PSE will presume that it is a "material item" for purposes of its FIN 48 review.
4. Please see PSE's Response to WUTC Staff Data Request No. 268(3), above.

5. Please see Attachment A to PSE's Response to WUTC Staff Data Request No. 210.
6. Please see PSE's Response to WUTC Staff Data Request No. 268(5), above.
7. Please see Attachment A to PSE's Response to WUTC Staff Data Request No. 210.
8. See PSE's Response to WUTC Staff Data Request No. 268(7), above.
9. Audited financial statements are the bedrock of the financial community in the United States. Their reliability is of paramount importance. However, the applicability of audited financial statements in a rate case is another matter entirely. Generally, accounting information from the financial statements may be important. However, different rules and different conventions apply in a rate case filing. For instance, in paragraph 197 of Order 11 from PSE's last general rate case (Docket Nos. UE-090704 and UG-090705), the Commission ruled that PSE "should implement an increase to ADIT in a future case if the IRS approves its methodology for treatment of repair costs following an audit." The audited financial statements do not follow Paragraph 197 of Order 11 – thus, their applicability as it relates to repairs is severely limited, if not completely eliminated.
10. See PSE's Response to WUTC Staff Data Request No. 268(9), above.
11. At the time that PSE implemented the repairs and retirement method changes, PSE believed that its methodologies were just as conservative as when it adopted the Simplified Service Cost Method (SSCM) of accounting. However, PSE's conservatism did not prevent the IRS from disallowing the SSCM in its audit. As for conservatism in the repairs method change, the units of property in the safe harbor provisions of Rev. Proc. 2011-43 are smaller than those used by PSE. See Exhibit No. ____ (MRM-14T), page 53, lines 7-16.
12. See PSE's Response to WUTC Staff Data Request No. 268(11), above.
13. PSE's external audit firm is PricewaterhouseCoopers LLP ("PwC"). Over the course of its audit PwC reviews and analyzes many things according to its standards. The result of its audit is found on page 69 of PSE's 2010 Form 10-K in PwC's "Report of Independent Registered Public Accounting Firm". In PwC's report, it concludes that PSE's financial statements present fairly PSE's financial position in all material respects. It does not refer to PSE's repairs method change by name.
14. See PSE's Response to WUTC Staff Data Request No. 268(13), above.