

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF
RESPONSE TO DATA REQUEST

DATE PREPARED: December 27, 2011
DOCKETS: UE-111048/UG-111049
REQUESTER: Puget Sound Energy

WITNESS: Kenneth L. Elgin
RESPONDER: Kenneth L. Elgin
TELEPHONE: (360) 664-1194

PSE Data Request No. 042 to WUTC Staff:

RE: Ken Elgin, Exhibit No. ___(KLE-1T), page 20, lines 17-20.

When interest costs are reflected in rates, are they recovered on a pre-tax or after-tax basis?

RESPONSE:

Mr. Elgin does not understand the phrase "reflected in rates". It is his understanding that interest costs are recorded as an item of expense prior to determining the taxable income of any firm. Therefore, the effective cost of debt, for any firm, is reduced by its marginal tax rate. The calculation of PSE's cost of service or revenue requirements recognizes this principle. The same theory applies to any item that is recognized as an item of expense for the calculation of Federal income tax liability. A good example of this concept is the mortgage interest deduction available to individuals for purposes of calculating federal income tax liability. The effective cost of the loan is reduced by the individual's marginal tax rate.