BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY For an Order Authorizing Deferred Accounting associated with Federal Tax Act on Puget Sound Energy's Cost of Service	Docket No. UE-171225 Docket No. UG-171226 AMENDED PETITION OF PUGET SOUND ENERGY FOR AN ACCOUNTING ORDER

I. INTRODUCTION

1. This Amended Petition filed by Puget Sound Energy ("PSE" or the "Company") updates and amends the petition filed by PSE on December 29, 2017 seeking approval to defer the expected impacts associated with the Tax Cuts and Jobs Act[1] enacted by Congress and signed into law on December 22, 2017 ("the Tax Act"). Among the most notable changes associated with the Tax Act is a reduction in the federal corporate income tax rate from 35 percent to 21 percent. Other impacts of the Tax Act that have been identified through PSE's analysis, thus far, include the impact of the rate change on excess deferred income tax assets and liabilities. In addition, there are a number of smaller tax law changes resulting from the tax act that impact tax expense.

2. In the original accounting petition, the Company requested deferral of the costs and savings associated with the difference between the prior tax law upon which PSE rates were

set and the impacts of the new tax law. The differences would be tracked and preserved for later ratemaking treatment.

3. On March 30, 2018, the Company filed tariff updates to its electric and natural gas base rates, Dockets UE-180282 and UG-180283, to implement the 35 percent to 21 percent tax reduction on a going forward basis, thus preventing any further collection of excess income tax expense. The Commission took no action allowing the tariff changes to become effective May 1, 2018 through operation of law. The filing utilized rates approved in the recent general rate case order in Dockets UE-170033 and UG-170034 and updated four of the items impacted by tax reform. The implementation of those tariff rate changes reduced PSE's electric and natural gas rates by approximately $72.9 million [2] and 23.6 million respectively.

4. The lower income tax rate also caused PSE to have excess deferred income taxes ("EDIT"). EDIT occur when a utility records accumulated deferred income taxes at one rate (e.g. 35 percent) and then the tax rate is changed to a lower rate (e.g. 21 percent). Because PSE is in a net deferred tax liability position, its liability for the deferred tax is too large (i.e. it is in an "excess" position). That excess can be passed to customers in a manner that complies with Internal Revenue Service rules.

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[1] H.R.1 - An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018.

[2] PSE concurrently filed to update its Federal Incentive Tracker, Schedule 95A, to incorporate the impacts of the lower tax rates resulting from TCJA. Schedule 95A, provides the benefits of the wind related treasury grants and includes a gross up for income tax benefits. Therefore, the impact of TCJA on Schedule 95A was to lower the credit to electric customers by $8.1 million. *See* Docket UE-180284.

5. The Company's EDIT falls into two general categories: (i) non-plant related timing differences in FERC Accounts 190 and 283; and (ii) plant related timing differences in FERC Account 282. The Company has addressed the proper treatment of its EDIT balances in FERC Account 282 in its November 7, 2018 expedited rate filing[3]. This petition will address the Company's balances in FERC Account 190 and FERC Account 283.

6. PSE is now updating this petition to address (a) the over-collection of taxes for the period of January 1 to April 30, 2018 and (b) the EDIT balances that are created by the Tax Act.

7. PSE is engaged in the business of providing electric and natural gas service within the State of Washington as a public service company and is subject to the regulatory authority of the Commission as to its retail rates, service, facilities and practices. Its full name and mailing address are:

Puget Sound Energy
Attn: Katherine J. Barnard,
Director, Revenue Requirement & Regulatory Compliance
P.O. Box 97034
Bellevue, Washington 98009-9734

8. Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040, RCW 80.28.020, and WAC 480-07-370(3)(b).

[3] Dockets UE-180899 & UG-180900.

II. PROPOSED ACCOUNTING & RATEMAKING TREATMENT

9. The following paragraphs describe the accounting treatment PSE proposes to record deferred amounts related to the reduction in the federal corporate income tax rate, effective January 1, 2018.

A. Over-Collection in Rates for the January 1 Through April 30, 2018 period

10. To address the interim period prior to the incorporation of the lower tax rate into base rates, the Company calculated the over collection by applying the difference in base rates from the Company's 2017 general rate case compliance filing and those approved May 1, 2018, which reflect the lower tax rates to the actual billed volumes for the individual rate schedules for the January 1, 2018 through April 30, 2018 period. The resulting differences have been deferred through the following entries:

FERC Acct.No.	Account Description	Debit	Credit
449.1	Provision for Rate Refunds-Electric	xxx	
496	Provision for Rate Refunds-Gas	yyy	
229	Accum. Provision for Rate Refunds-Electric		xxx
229	Accum. Provision for Rate Refunds-Gas		yyy
	To record deferral associated with change in tax rate from 35% to 21% for January 1, 2018 thru April 30, 2018		

11. The Company proposes that the deferred balance be included in the Company's working capital calculation until it is refunded to customers. Including the deferred balance in the working capital calculation is similar to the treatment of other deferred balances (both assets

and liabilities), such as the deferred balances associated with the Company's environmental remediation programs and the storm mechanism.

12. The deferred balance for the January 1 through April 30, 2018 period is $24.1 million for electric and $10.5 million for natural gas. Because the deferral is a finite amount, amortizing the deferred balance would provide a temporary rate credit to customers, which at the completion of the amortization would result in customers' rates increasing when the credit is reset to zero. Rather than subject customers to this rate volatility, the Company proposes to hold these balances in working capital until the Company files a general rate case, at which time the balances could be utilized to offset other regulatory assets (which are also currently included in the working capital calculation) that would otherwise increase customer rates, thereby minimizing the volatility of customer rates. For example, there are currently over $12 million of 2017 deferred Storm balances that are not currently in rates that will be reviewed for recovery in the Company's next general rate case. Similarly, on the gas side, the Company has additional deferred balances associated with its environmental remediation program that will be reviewed for recovery. Holding the January through April 2018 deferred balance and applying it against other regulatory assets will minimize the overall rate volatility that customers would otherwise experience and therefore serves the public interest. In the meantime, these balances will serve as an offset to working capital in the rate base calculation, which will continue to provide some value to customers.

B. Excess Deferred Tax Balances

13. As discussed earlier, PSE categorizes its EDIT resulting from the Tax Act into two categories: 1) the non-plant related deferred tax balances that were booked to either FERC Account 190 or FERC Account 283, Accumulated Deferred Taxes - Other, depending upon whether the balance is a deferred tax asset or liability; and 2) the plant related balances which were booked to FERC Account 282 – Accumulated Deferred Income Taxes – Other Property.

1. Non-plant related balances (FERC Accounts 190 and 283)

14. The EDIT relating to non-plant differences was $38.6 million at December 31, 2017. The Company proposes the EDIT balances remain in FERC Account 283 – Accumulated Deferred Income Taxes – Other and FERC Account 190 – Accumulated Deferred Income Taxes-Other, respectively. However, the Company also proposes to aggregate the EDIT balances into “holding” 190 and 283 accounts, which will ease the administrative burden of tracking the excess across 61 different subaccounts.

15. The Company proposes these balances be held as an offset to rate base, as is their current treatment; and similar to the January through April 2018 deferral, the Company proposes that the balances be held until the next general rate case in order to allow the balances to be applied against other outstanding regulatory assets, thus minimizing rate volatility for customers. Because these balances are not subject to the IRS normalization provisions, there is no risk of normalization violations by holding these balances until a future time period when their reversal can be timed to minimize future rate volatility for customers.

16. The transfer of the net balance associated with the excess deferred tax assets and liabilities will result in no change to the Company's overall rate base as the balances are simply moving from Accumulated Deferred Income Tax liabilities/assets to a new subaccount of the same FERC account and classification. Since the balances are currently embedded in the Company's rate base calculation and will continue until a future general rate case, customers continue to receive the benefit of the lower rate base, and no interest should be accrued on these excess deferred tax balances.

2. Plant Related EDIT

17. The Company's accumulated EDIT related to its FERC Account 282 balances as measured at December 31, 2017 is $816,045,179. The IRS normalization provisions, in large part, dictate how these balances should be addressed. The normalization rules have two components. First, the IRS normalization requirements require that the change in the accumulated deferred income taxes be passed back to customers no more quickly than ratably over the remaining book life of the underlying assets. This limitation is achieved by requiring the Company to use the average rate assumption method ("ARAM"). The second key provision is referred to as the Consistency Rule, which is set forth in section 168(i)(9)(B) of the Internal Revenue Code and requires consistency in the treatment of costs for rate base, regulated depreciation expense, tax expense, and deferred tax for revenue purposes. Therefore, in order to ensure that the IRS normalization provisions are met, the excess deferred taxes associated with

the FERC Account 282 balances are being addressed in PSE's expedited rate filing[4] where the company is proposing a method of passing back a full year of excess deferred income taxes under ARAM in a manner that will not violate the IRS normalization requirements or the Consistency Rule.

IV. PRAYER FOR RELIEF

18. Puget Sound Energy respectfully requests that the Commission authorize the Company to:

a. utilize the methodology proposed in this Amended Petition to calculate the deferrals associated with the over collection of income taxes in rates for the January 1 through April 30, 2018 period;

b. allow the deferred balance associated with the over collection of taxes for the period January 1 through April 30, 2018 to remain on the Company's books until the amortization period can be timed with a future general rate case proceeding, as explained further in this amended petition; and

c. allow PSE to transfer the unprotected EDIT balances associated with non-plant book-tax differences to separate holding 190 and 283 accounts that will continue to offset rate base until addressed in a future general rate case proceeding.

[4] See Dockets UE-180899 & UG-180900.

DATED this 26th day of November, 2018.

Puget Sound Energy

By /s/ Katherine J. Barnard
Director, Revenue Requirements & Regulatory Compliance
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VERIFICATION

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

Katherine J. Barnard, being first duly sworn, on oath deposes and says:

That she is Director of Revenue Requirement and Regulatory Compliance with Puget Sound Energy, that she has read the foregoing Petition of Puget Sound Energy, for An Accounting Order, that she knows the contents thereof, and that she believes the same to be true to the best of her knowledge and belief.

Katherine J. Barnard

SUBSCRIBED and SWORN to before me this 26th day of November 2018.

DENISE K SCHROEDER
COMMISSION EXPIRES
NOTARY
PUBLIC
8-01-21
STATE OF WASHINGTON

DENISE K SCHROEDER
Print Name: Denise K Schroeder
Notary Public in and for the State of Washington,
residing at SNOQUALMIE WA
My commission expires: 8-1-2021