



PUGET
SOUND
ENERGY

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November 27, 2002

Ms. Carole J. Washburn , Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250

Re: Petition for Accounting Order for Certain Electric Regulatory Studies

Dear Ms. Washburn:


Enclosed for filing are an original and nineteen (19) copies of the Petition of Puget Sound Energy for an order regarding the accounting treatment for costs of certain electric regulatory studies.

The Company will incur costs associated with certain studies required by the Federal Energy Regulatory Commission to maintain the Company's licenses for hydroelectric plants. The studies are required for compliance with the FERC Code of Federal Regulations, Part 12, Safety of Water Power Projects and Project works.

Thank you for your assistance.

Very truly yours,

PUGET SOUND ENERGY, INC.

By 
Karl R. Karzmar
Manager, Rates and Regulations

Enclosures
cc: simon ffitich

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

Petition of

PUGET SOUND ENERGY, INC.

For an order Regarding the Accounting
Treatment for Costs of Certain Electric
Regulatory Studies

Docket No. UE-02_____

PETITION

RECORDED
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UTILITIES & TRANSPORTATION COMMISSION

In accordance with WAC 480-09-420(7). Puget Sound Energy, Inc. (“PSE” or “the Company”) respectfully petitions the Washington Utilities & Transportation Commission (the “Commission”) for an order regarding the treatment of costs incurred by the Company associated with certain studies required by the Federal Energy Regulatory Commission (FERC) to maintain the Company’s licenses for hydroelectric plants. The studies are required for compliance with the FERC Code of Federal Regulations, Part 12 (FERC Part 12), Safety of Water Power Projects and Project Works. Per FERC Part 12, certain water power projects are subject to inspection by an independent consultant for the purpose of achieving or protecting the safety and integrity of the project. Under FERC Part 12, the Company must submit reports regarding the design and operation of certain water power projects as well as any condition affecting the safety of a project or any plan of corrective measures after the inspection of an independent consultant. After reviewing the report, FERC may require the Company to implement corrective measures as deemed appropriate. Following a dike failure in 2002 at the Swift 2 Project (not associated with the Company) located on the Lewis River in southwest Washington State, FERC has been more aggressive in its requirement of studies and related corrective measures associated with Part 12.

FERC's recommendations regarding Company facilities as they relate to FERC Part 12 are described in Exhibit A, attached hereto.

Related FERC Order No. 390, issued August, 1984, and effective January 1, 1985 authorizes deferral of Regulatory Study costs until the studies are completed and subsequent amortization in rates. The amortization period is five years, with inclusion of the unamortized balance in rate base. Specifically, the Company requests that the Commission issue an order which:

authorizes the Company to record such costs in FERC Account 183, Preliminary Survey and Investigation Charges. Should it be determined later that any of the studies would lead to construction then such amounts would be transferred to FERC Account 107, Construction Work in Progress. Should it be determined that no construction would result, then such amounts would be transferred to FERC Account 182.2 Unrecovered Plant and Regulatory Study Costs to be subsequently recovered in rates to be established in future rate proceedings consistent with the treatment provided such costs in the Commission's Order U-85-53, issued on May 16, 1986. Specific study costs to be deferred are described in Exhibit A attached hereto.

In support of this Petition, the Company states as follows:

INTRODUCTION AND BASIS FOR REQUESTING ORDER

1. The Company is engaged in the business of furnishing electric and 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 rates, service, facilities and practices.
2. Per Commission Order No. U-85-53, issued May 16, 1986, the Company was authorized to amortize, for full recovery, costs deferred associated with a regulatory study.

3. The costs were incurred in compliance with FERC Part 12, Safety of Water Power Projects and Project Works. FERC issued Order 390 in August of 1984 to provide accounting treatment for such costs. Exhibit B attached hereto includes excerpts from FERC Order 390.
3. The Company expects to incur costs related to certain regulatory studies within the next few months. The costs will be incurred to ensure compliance with licensing requirements under FERC Part 12. Accounting prescribed in FERC Order 390 would be appropriate for such costs. Should it be determined that construction will not occur as a result of the studies, the Company proposes to defer such costs until the next rate case at which time the cost will be amortized over the following five years in accordance with the Commission order issued under Docket No. 85-53.

REQUESTED ORDER

4. By this Petition, the Company requests that the Commission, with respect to costs incurred in connection with the regulatory studies identified in Exhibit A attached hereto, approve the accounting treatment regarding deferral of costs incurred related to certain regulatory studies when it is determined that construction will not occur. Costs so deferred, would be recovered in rates established in future rate proceedings consistent with the Commission's Order U85-53, issued on May 16, 1986.

Approval of Accounting Treatment

5. The Company proposes to defer the costs associated with the regulatory studies identified in Exhibit A to this petition if it is determined that construction will not occur. Costs so deferred, would be recovered in rates established in future rate proceedings consistent with the Commission's Order U85-53, issued on May 16, 1986.
6. The Company proposes that the regulatory study costs identified be deferred pursuant to the requested accounting order subject to the following conditions:

- (a) Any deferred costs existing at the time of the Company's general rate proceedings would be subject to review.
- (b) Any deferred costs at the time of the next general rate proceeding will be amortized and recovered in rates using a five year amortization period;
- (c) Any deferred costs will be included in the calculation of working capital in future rate proceedings.
- (d) The Company will submit annual reports detailing the status of the identified regulatory studies and the level of costs being incurred.

WHEREFORE, the Company respectfully requests that the Commission enter an order in the form attached as Exhibit D (1) approving the Company's accounting treatment for costs incurred in connection with the regulatory studies identified in its petition, and (2) authorizes the Company to defer the costs incurred in connection with the studies should it be determined that construction will not occur.

DATED: November 27, 2002

PUGET SOUND ENERGY, INC.

By 

Karl R. Karzmar
Manager, Rates and Regulation

STATE OF WASHINGTON)
)ss.
COUNTY OF KING)

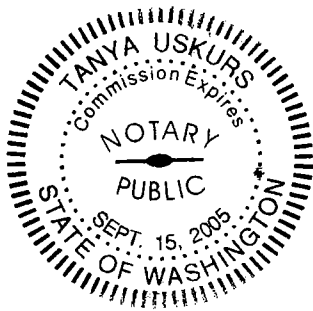
KARL R. KARZMAR, being first duly sworn, on oath deposes and says:

That he is Manager, Rates and Regulation of Puget Sound Energy, Inc., that he has read the foregoing Petition for an Order Regarding the Accounting Treatment for Costs of its Electric Regulatory Studies, that he knows the contents thereof, and that he believes the same to be true and the best of his knowledge and belief.


KARL R. KARZMAR

State of Washington
County of King

SUBSCRIBED AND SWORN to before me this 27 day of November 2002.



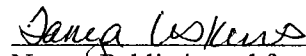

Notary Public in and for the State of
Washington, residing at Bellevue
My appointment expires Sept 15, 2005

EXHIBIT A**PUGET SOUND ENERGY
ELECTRIC REGULATORY STUDIES**

Project	Baker River Project – Seismic Study Update	
<u>Driver</u>	FERC Part 12/FERC Order	
Description	<p>The Company plans to perform a seismic study, analysis and engineering update for the Upper and Lower Baker dams, West Pass Dike and Depression Lake. The FERC has ordered this work to be completed by the next Part 12 inspection, which is due in 2004. Work must commence in 2003 in order to meet the Part 12 inspection requirement.</p> <p>The last seismic study of the Baker River Project was conducted in 1984. Since then, existing critical faults have been further analyzed and the FERC has recently changed its dam safety criteria with respect to cohesion values and safety factors. The FERC is now challenging the prior analysis conducted for the Baker River Project and the degree to which it represents a seismic hazard.</p> <p>Scope of work includes drain efficiency analyses, boring samples for cohesion analyses, and re-creation of the dam failure model. Funding requirements for 2005 and beyond will be determined based upon outcome of the seismic analysis. Funding levels may be modified based upon the outcome of the drain efficiency analysis.</p>	
Cost Estimate	<ul style="list-style-type: none">▪ Contracted seismic analysis and engineering▪ Contracted dam boring costs▪ Contracted Depression Lake dike investigation and analysis▪ Contracted drain efficiency analysis▪ Total investigation and analysis budget	<p>\$760,000</p> <p>\$54,000</p> <p>\$108,000</p> <p><u>\$54,000</u></p> <p>\$ 976,000</p>

Project	Baker River Project – Depression Lake Study	
<u>Driver</u>	FERC Part 12/FERC Order	
Description	<p>The Company plans to perform investigation of sinkholes and potential dike failure at Depression Lake, including analysis of the overflow pipeline materials for condition and integrity. Tracking of sinkholes is mandated as part of the Part 12 inspection process. Dike inspection and analysis as it relates to sinkholes is in addition to the investigation performed as part of the seismic analysis.</p> <p>The FERC has repeatedly requested during annual operating inspections that PSE investigate the recurrence of sinkholes in Depression Lake. The 2002 failure of the Swift 2 Project forebay dike, located on the Lewis River in southwest Washington State, due to sinkholes has elevated the urgency of this project with the FERC. PSE has agreed to perform an investigation and analysis into potential migration of sinkholes toward the toes of impoundment dikes with emphasis on failure impacts and to identify potential repairs.</p>	
Cost Estimate	<ul style="list-style-type: none">▪ Contracted sinkhole exploration and engineering	<p>\$242,000</p>

Project	White River Project – Tunnel and Penstock Inspection	
<u>Driver</u>	FERC Part 12/FERC Order	
Description	The Part 12 Inspection conducted in 1997 called for inspection and stress analysis of the White River Project tunnel and penstocks prior to completion of the next Part 12 inspection, which was completed earlier this year. PSE has deferred this project due to uncertainty surrounding the White River Project license. The 2002 Part 12 inspection again calls for inspection and analysis of the tunnel and inspection and PSE has agreed to complete the analysis in 2003.	
Cost Estimate	<ul style="list-style-type: none"> ▪ Purchase steel bulkheads for intake ▪ Engineering and structural improvements to intake gate house ▪ Contracted non-destructive testing and engineering analysis 	<p>\$32,000</p> <p>\$37,000</p> <p><u>\$393,800</u></p>
	Total investigation and analysis budget	<u>\$462,000</u>

rate levels. Specifically, the rule adds to Parts 101 and 201 the following: (1) Account 228.1 for recording amounts accrued and collected for possible property losses through accidents, fire, flood, or other hazards that are not covered by insurance; (2) Account 228.2 for recording the probable liability, not covered by insurance, for deaths or injuries to employees and others and for damages to property not owned or leased by the regulated company; (3) Account 228.3 for recording provisions made and amounts contributed for employee pensions and benefits; (4) Account 228.4 for recording accumulated miscellaneous operating provisions not provided for elsewhere; and (5) Account 229 for recording estimated refunds when the regulated company is collecting monies subject to refund.

Many commenters agree with the Commission's proposal to reclassify operating reserves as other non-current liabilities. Commenters did, however, request guidance for account classification of amounts of operating reserves accrued pursuant to the provisions of FASB 5 which are not currently authorized to be collected in rates. The Commission does not believe that guidance is needed because these amounts would not meet the requirements of FASB 5 since, without regulatory approval, these contingencies should not be recorded.

The commenter suggests retaining current Accounts 261-265 and the present caption of "Operating Reserves" because self-insurance reserves that are established in conformance with FASB 5 may not be resolved within one year (due to litigation). The Commission did not adopt this suggestion because it conflicts with FASB 71, and no provision requires that "reserve" amounts for self-insurance must be resolved within one year.

F. Editorial and Technical Changes

1. New Account 182.2, Unrecovered Plant and Regulatory Study Costs

The rule subdivides Account 182, Extraordinary Property Losses, by redesignating Account 182 as 182.1 and adding a new Account 182.2, Unrecovered Plant and Regulatory Study Costs. Account 182.2 will include: (1) nonrecurring costs of studies and analyses mandated by regulatory bodies related to plant in service, transferred from Account 183, Preliminary Survey and Investigation Charges, and not resulting in construction, and (2) when authorized by the Commission, significant unrecovered costs of plant facilities where construction has been cancelled or prematurely retired. This new Account 182.2 will then be amortized to Account 407, Amortization of Property Losses, Unrecovered Plant and Regulatory Study Costs, over the period specified by the Commission. In the event that the recovery of costs included in Account 182.2 are disallowed in a rate

proceeding, these costs will be charged to Account 426.5, Other Deductions, in the year of disallowance.

The rule also revises the text of Account 183, Preliminary Survey and Investigation Charges, to include costs of studies and analyses mandated by regulatory bodies related to plant in service. Hence, if construction results from these studies, Account 183 will be credited and the appropriate utility plant account charged with an equitable portion of such study costs directly attributable to new construction. In contrast, the portion of such study costs not attributable to new construction or the entire cost if construction does not result shall be charged to the new Account 182.2, Unrecovered Plant and Regulatory Study Costs, or the appropriate operating expense account. However, the costs of studies relative to plant under construction shall be included directly in Account 107, Construction Work in Progress - Electric.

Commenters recommend using existing accounts instead of adding a new account. However, the Commission believes that specific accounts are necessary to maintain the identity of unrecovered plant and regulatory study costs, and to preclude regulated companies from combining these costs with other items recorded in Account 186, Miscellaneous Deferred Debits.

Clarification was also sought on which items should be included in each account and whether insignificant costs could be expensed currently. The Uniform Systems provide uniform

accounting for specific items, regardless of the amount involved; materiality is then addressed on a case-by-case basis. However, the Commission agrees that clarification would be beneficial.

The rule amends paragraph A to Account 182.1 to clarify the items to be included in this account. Paragraph B of Account 183 is also amended to provide that the costs of studies and analyses mandated by regulatory bodies related to plant in service, to the extent these costs do not contribute directly to construction, will be charged to Account 182.2, or the appropriate operating expense account.

One commenter argues that costs for unrecovered plant and regulatory study costs, which are disallowed in a future ratemaking, should be charged to Account 426.5, Other Deductions. In addition, this commenter notes that, in certain situations, the write-off of an unrecovered plant may be considered as an extraordinary item, which should be charged to Account 435, Extraordinary Deductions. The Commission agrees with these comments and the rule provides that costs recorded in Account 182.2, which are disallowed in rate proceedings, may be written off to Account 426.5, Other Deductions, or, when the write-off is considered as an extraordinary item, to Account 435, Extraordinary Deductions. Hence, Account 183 is the collection point for recording unrecovered plant and regulatory study costs, which are then distributed to other accounts depending on whether construction results and the rate treatment of these costs.

One commenter complains that this accounting conflicts with an order from its state regulatory commission. The Commission notes that this rule does not preclude a regulated company from accounting for unrecovered plant and regulatory study costs in accordance with rate proceedings.

Some commenters oppose the creation of the new Account 182.2 unless rate base treatment is assured. They also say that the proposal is inconsistent with the Commission's desire to simplify and reduce the recordkeeping requirements of public utilities. The Commission's need for this information for rate analysis and financial audit review purposes heavily outweighs the minimal work-load required, if any, to satisfy the requirement for the new Account 182.2. In addition, the Commission believes that rate base treatment is best addressed in individual rate proceedings.

2. Raising the Threshold for Equipment Items of Small Cost to \$500

The rule amends Electric and Gas Plant Instructions 3 and 9 in Parts 101 and 201 by changing the example of "individual items of equipment of small cost that may be expensed" from \$50 to \$500. This revision is necessary to reflect inflation over the last two decades.

Most companies generally agreed with and supported the proposed increase and believe \$500 to be a reasonable and positive step towards eliminating unnecessary and burdensome record keeping. Commenters also note that this change will help reduce the record keeping of the utility.

Commenters suggest other threshold amounts, but the Commission believes that a \$500 threshold for small equipment is a reasonable estimate and notes that it is merely a guideline for capitalization purposes and that a utility may capitalize small equipment with values below the proposed \$500 limit (see, Plant Instruction 9, ¶ B).

One commenter recommends not requiring regulated companies to retire all prior capitalized equipment under \$500. The Commission has established a threshold as guidance in helping companies determine whether to capitalize expense items of small value. The Commission agrees that all previously capitalized equipment items with values under \$500 need not be expensed.

3. Raising Thresholds for Journal Entry Requirements for Accounts 105 and 105.1

Paragraph C of Account 105 in Parts 101 and 201 relates to the removal from Account 105 of utility plant property held for future use that is no longer needed or appropriate for future utility operations. Paragraph C of Account 105.1 in Part 201 relates to the removal from Account 105.1 of production

EXHIBIT C

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

PETITION OF PUGET SOUND ENERGY, INC. |

For an Order Regarding the Accounting
Treatment for Costs of its Electric
Regulatory Studies

| Docket No. UE-02_____

| ORDER (PROPOSED)

On November __, 2002, Puget Sound Energy, Inc. ("PSE" or the "Company") filed a Petition with this Commission under WAC 480-09-420(7) seeking an order regarding the treatment of costs incurred by the Company related to certain studies required by the Federal Energy Regulatory Commission (FERC) to maintain the Company's licenses for hydroelectric plants. The studies are required for compliance with the FERC Code of Federal Regulations, Part 12 (FERC Part 12), Safety of Water Power Projects and Project Works. Per FERC Part 12, certain water power projects are subject to inspection by an independent consultant for the purpose of achieving or protecting the safety and integrity of the project. Under FERC Part 12, the Company must submit reports regarding the design and operation of certain water power projects as well as any condition affecting the safety of a project or any plan of corrective measures after the inspection of an independent consultant. After reviewing the report, FERC may require the Company to implement corrective measures as deemed appropriate.

The Company's Petition states that FERC Order 390, issued August, 1984, and effective January 1, 1985 authorizes deferral of Regulatory Study costs until the studies are completed and then amortize them in rates. The amortization period is five years, with inclusion of the unamortized balance in rate base. Specifically, the Company requests that the Commission issue an order which:

authorizes the Company to record such costs in FERC Account 183, Preliminary Survey and Investigation Charges. Should it be determined later that any of the studies would lead to construction then such amounts would be transferred to FERC Account 107, Construction Work in Progress. Should it be determined that no construction would result, then such amounts would be transferred to FERC Account 182.2 Unrecovered Plant and Regulatory Study Costs to be subsequently recovered in rates to be established in future rate proceedings consistent with the treatment provided such costs in the Commission's Order U-85-53, issued on May 16, 1986.

In its petition the Company proposes:

1. to defer the costs associated with the regulatory studies identified in its petition should it be determined that construction will not occur. Costs so deferred, will be recovered in rates established in future rate proceedings consistent with the Commission's Order U85-53, issued on May 16, 1986.
2. that regulatory study costs identified be deferred pursuant to the requested accounting order subject to the following conditions:
 - (a) Any deferred costs existing at the time of the Company's general rate proceedings would be subject to review.
 - (b) Any deferred costs at the time of the next general rate proceeding will be amortized and recovered in rates using a five year amortization period;

- (c) Any deferred costs will be included in the calculation of working capital in future rate proceedings.
- (d) The Company will submit annual reports detailing the status of the identified regulatory studies and the level of costs being incurred.

FINDINGS

1. PSE is a public service company furnishing electric and 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 rates, service, facilities and practices.
2. On November __, 2002, PSE filed with the Commission a Petition for an order regarding the accounting treatment for costs it incurs in connection with certain regulatory studies to be performed in accordance with FERC Part 12.
3. The accounting treatment proposed by PSE is reasonable and should be approved.

ORDER

1. Authorization is hereby given for PSE to
 - a) Defer the costs incurred in connection with the regulatory study costs identified in its petition, and
 - b) Amortize such costs deferred over a five year period beginning at the time of the next general rate case.
2. Such deferral and amortization of cost related to the regulatory study costs identified in its petition shall be subject to the herein contained conditions proposed by the Company in its Petition.
2. Nothing herein shall be construed to waive or otherwise impair the jurisdiction of the Commission over the rates services, accounts and practices of Applicant Puget Sound Energy. The Commission, under its general ratemaking authority, will have the ability in

subsequent PSE general rate proceedings to evaluate the reasonableness of the Company's expenditures associated with the regulatory studies performed.

4. The Commission retains jurisdiction to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this ___ day of December, 2002.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

PATRICK OSHIE, Commissioner