



Puget Sound Energy, Inc.  
P.O. Box 97034  
Bellevue, WA 98009-9734

January 4, 2007

Ms. Carole J. Washburn, Secretary  
Washington Utilities and Transportation Commission  
P.O. Box 47250  
Olympia, WA 98504-7250

Re: Petition for Accounting Order for Certain FERC 2004 Part 12 Regulatory Studies  
Submitted via WUTC Web Portal electronic-filing system and by U.S. mail

Dear Ms. Washburn:

Previously, on February 12, 2003, under Docket Number UE-021577, the Washington Utilities and Transportation Commission ("the Commission") approved Puget Sound Energy, Inc.'s ("the Company") petition related to the accounting treatment of costs incurred by the Company for certain studies required by the Federal Energy Regulatory Commission ("FERC") under Title 18 of the Code of Federal Regulations, Part 12 Subpart B ("Part 12D"), Safety of Water Power Projects and Project Works, to maintain the Company's license for the Baker River hydro electric project. That petition was for actions recommended by FERC's Independent Consultant ("the Consultant") in the 1999 Part 12D report.

In 2004 the project was inspected again by the Consultant and the Part 12D report identified a number of actions to be completed by the Company prior to the 2009 Part 12D inspection.

The outcome of these studies may result in no action, further studies, or significant capital expenditures. Per the attached, the Company herein petitions the Commission to allow the Company to defer in FERC Account 183 the costs associated with two new studies identified in the 2004 FERC Part 12D report.

Upon notification that FERC requires no further actions as a result of the studies, it is proposed that these costs would then be amortized over five years in FERC Account 182.3 commencing within one year subsequent to the notification, consistent with the treatment provided such costs in the Commission's Order in Docket No. UE-021577 issued on February 12, 2003.

If you have any questions regarding this filing, please contact me at (425) 462-2797.

Sincerely,

A handwritten signature in black ink, appearing to read 'K. Karzmar', with a long horizontal flourish extending to the right.

Karl R. Karzmar  
Director, Regulatory Relations

Attachment

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-07 \_\_\_\_\_

PETITION

In accordance with WAC 480-07-370(1)(b), 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 the dike failure in 2002 at the Swift 2 Project (not associated with the Company) located on the Lewis River in southwest Washington State, and the catastrophic dike failure of Taum Sauk Project in Missouri which gained national attention in 2005, FERC has been more and more aggressive in its requirement of failure mode 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 amortized over a five-year period beginning within one-year from such determination consistent with the treatment provided such costs in the Commission's Order in Docket No. UE-021577 issued on February 12, 2003. 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 and most recently, the Commission's Order in Docket No. UE-021577 issued on February 12, 2003, 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 is incurring costs related to the regulatory studies currently and expects such expenditures to continue over the next several years. The costs are necessary to ensure compliance with licensing requirements under FERC Part 12. Accounting prescribed in FERC Order 390 would be appropriate for such costs. Upon notification that FERC requires no further actions and it is determined that construction will not occur as a result of the studies, the Company proposes to commence amortization of such costs over a five-year period beginning within one year of the notification consistent with the Commission order issued under Docket No. UE-021577 dated February 12, 2003.

#### **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 amortized consistent with the Commission's Order in Docket No. UE-021577 issued on February 12, 2003.

#### **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 amortized consistent with the Commission's Order in Docket No. UE-021577 issued on February 12, 2003.

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 will be amortized over a five year period beginning within one-year from the time it is determined that the costs are not construction related;
- (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 C, (1) approving the Company's accounting treatment for costs incurred in connection with the regulatory studies identified in its petition, and (2) authorizing the Company to defer the costs incurred in connection with the studies should it be determined that construction will not occur.

DATED: January 4, 2007

PUGET SOUND ENERGY, INC.

By  \_\_\_\_\_

Karl R. Karzmar  
Director, Regulatory Regulations

STATE OF WASHINGTON )  
 )ss.  
COUNTY OF KING )

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


That he is Director, Regulatory Relations 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 4th day of January 2007.



  
Notary Public in and for the State of  
Washington, residing at SNOQUALMIE  
My appointment expires 8-1-2009

**EXHIBIT A**

**PUGET SOUND ENERGY  
ELECTRIC REGULATORY STUDIES**

<b>Project</b>	<b>Baker River Probable Maximum Precipitation and Probable Maximum Flood</b>
<u>Driver</u>	FERC Part 12 Subpart D "2004 Baker Project "Inspection by Independent Consultant" -- FERC Order
Description	<p>FERC ordered an update to Baker River Probable Maximum Precipitation ("PMP") and Probable Maximum Flood ("PMF") based on the National Weather Service (NWS) Hydrometeorological Report Number 57 (HMR-57) criteria. The last Baker River study was conducted in 1981 and based on old HMR-43 criteria. FERC mandated an independent Board of Consultants ("BOC") with expertise in meteorology, hydrology and dam flood operations.</p> <p>The PMP/PMF study will define probable maximum flood flows and reservoir elevations in both Baker Project reservoirs, which affect public safety and stability of the dams.</p> <p>The PMF may be accepted by the Company as the Inflow Design Flood (IDF). However, the Company can further refine the IDF. The result of these studies could be no action required or corrective actions, e.g. modified operations, dam anchors, raising the dam and/or dike crests, new or modified gates, and further dam and/or dike modifications,.</p> <p>Phase One. PMP/PMF. Consultant work on PMP/PMF studies includes work plans, data acquisition, site visits, weather and hydraulic data collection for correlations, model development resulting in the PMP. From the PMP data, the PMF is calculated using routing models to determine flows and water elevations. A global sensitivity analysis was conducted to determine study elements, which most effect the PMF. A structural review of the PMF effect on dams and dikes is in progress to identify areas of concern. The PMF report to the BOC is due in 1<sup>st</sup> quarter 2007. Estimated cost is \$1,100,000.</p> <p>Phase Two. Site Specific Study. If the results of the NWS HMR-57 study methodology are not acceptable to the Company, FERC allows the PMP to be calculated using a Site Specific methodology. This analysis would cost over \$800,000.</p> <p>Phase Three. Risk Assessment Of the PMF. Work by consultants will include risk analysis and assessment, which includes integrating the identified probable failure modes with the PMF, event trees, uncertainty analysis, and reports. If elected the risk assessment would be performed in the first half 2007 or after the results of the Site Specific study. The cost Estimate is \$400,000.</p>

Cost Estimate

Phase One, Initial PMF and effects	\$1,100,000
Phase Two, Site Specific Study	\$ 800,000
Phase Three, PMF Risk Assessment	<u>\$ 400,000</u>
§TOTAL	\$2,300,000

**Project**      **Lower Baker River Dam Left Abutment Investigation**

Driver      FERC Part 12 Subpart D: 2004 Baker Project "Inspection by Independent Consultant"  
FERC Order

Description      FERC strongly suggested a dam foundation stability analysis including an investigation of the integrity of the rock making up the left abutment. A horizontal rock lense in the strata may be eroded underneath because of softer shale-like material. The concern is the collapse of the lense with overburden and resultant structural integrity of the left abutment and the effect upon the safety of the Lower Baker arch-dam structure. This investigation, if needed is to collect data, review previous studies, study the geomorphology, strength of materials, create a structural model and determine if mediation is necessary. Factors contributing to a collapse of the lense and material above include seismic loadings, spilling activity and overtopping of the dam.

This study and investigation may take place over two years starting as early as 2007 depending upon the FERC review of the 2004 report on foundation stability.

Cost Estimate      ■      Lower Baker Dam Left Abutment Investigation      \$360,000



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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.

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One 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

Excerpts from FERC Order 390.

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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

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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.

Excerpts from FERC Order 390.

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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, ¶ 8).

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

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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.

**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-07 \_\_\_\_

| ORDER (PROPOSED)

On January 4, 2007, Puget Sound Energy, Inc. ("PSE" or the "Company") filed a Petition with this Commission under WAC 480-07-370(1)(b) 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 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 amortized over a five-year period consistent with the Commission's Order in Docket No. UE-021577 issued on February 12, 2003.

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 and amortize such costs over a five-year period beginning within one-year from such determination consistent with the Commission's Order in Docket No. UE-021577 issued on February 12, 2003.

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 will be amortized over a five-year period beginning within one-year from the time it is determined that the costs are not construction related;
- (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 January 4, 2007, 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 within one-year from the time it is determined that the costs are not construction related.
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.
3. 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 January, 2007.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARK SIDRAN, Chairman

PHILLIP JONES, Commissioner

PATRICK OSHIE, Commissioner