



Puget Sound Energy  
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PSE.com

June 1, 2012

Mr. David Danner, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
P.O. Box 47250  
Olympia, Washington 98504-7250

**RE: Advice No. 2012-18**  
**Natural Gas Tariff Filing – Filed Electronically**

Dear Mr. Danner:

Pursuant to RCW 80.28.060 and Chapter 480-80 WAC, please find enclosed for filing the following proposed revisions to the WN U-2 for natural gas service of Puget Sound Energy, Inc. (the “Company” or “PSE”).

112<sup>th</sup> Revision of Sheet No. 101 - Natural Gas Schedule No. 1, Tax Adjustment  
142<sup>nd</sup> Revision of Sheet No. 101-A - Natural Gas Schedule No. 1, Tax Adjustment (Continued)  
20<sup>th</sup> Revision of Sheet No. 101-B - Natural Gas Schedule No. 1, Tax Adjustment (Continued)  
6<sup>th</sup> Revision of Sheet No. 101-C - Natural Gas Schedule No. 1, Tax Adjustment (Continued)

The purpose of this filing and a companion electric tariff filing under Advice No. 2012-17 is to provide for the pass through of tax assessments and other related charges within the taxing jurisdiction and to make housekeeping changes.

In the ordinary course of business PSE must interpret the utility tax ordinances of 107 cities. Occasionally a difference of interpretation arises between PSE and the taxing jurisdiction as to the meaning or application of a tax. This difference of opinion can result in an additional tax burden due to a tax assessment and other related charges by the taxing jurisdiction. When this occurs, the Company remits the amount of the additional taxes and other charges to the taxing jurisdiction. The Company believes that it must pass this cost on to customers within the taxing jurisdiction’s boundaries. The Company also believes that recovery of these costs is supported by the Washington State Supreme Court decision many years ago, and more recent affirmation of its position, that taxes levied on a utility by legitimate authorities are proper expenses that a utility may recover through its rates. State ex rel. Pacific Telephone & Telegraph v. The Department of Public Service of Washington, 19 Wn.2d 200, 275 (1943); King County Water District No. 75 v. The City of Seattle, 89 Wn. 2d 890 (1978). In addition, Washington law specifically holds that local taxes on utilities should be passed on to ratepayers within the

jurisdiction of the taxing entity. Pacific Telephone & Telegraph, 19 Wn.2d at 282. The changes proposed in this filing make it clear that these costs will be appropriately passed through to customers within the boundaries of the taxing jurisdiction. The filing also provides that the pass-through will occur over a one to six month period, as determined by PSE, in order to avoid the addition of carrying costs on the amount which PSE pays to the taxing jurisdiction prior to adding it to customer bills.

More specifically, the first proposed tariff change was prompted by a recent court case in which the state court reversed the 1999 Redmond Decision. In 1999, PSE successfully appealed the decision of a lower court resulting in lower taxes for residents of Redmond, wherein the court agreed that the definition of gross income in the Redmond city code did not include the city tax (the "Redmond Decision"). Following this decision PSE continued to interpret city code definitions of gross income consistent with the Redmond Decision. The Redmond Decision was overturned, based on an identical definition of gross income in the City of Bellingham's code, in August, 2011. The Company appealed this decision to the Supreme Court of Washington, but PSE's appeal was recently rejected. Copies of the Redmond Decision and the 2011 Bellingham decision are attached.

The Bellingham decision also expanded the city utility tax to revenues that PSE had previously interpreted as not being subject to the city utility tax, such as the billing initiation fee. The first of the proposed tariff changes also expands the applicability of city utility tax to charges, other than charges with respect "to the distribution or sale of natural gas", which had not previously been subject to Schedule 1. As provided in Section 1 of Schedule 1, PSE will only apply taxes to these other charges where the city has interpreted their code to apply to revenues received by PSE from these other charges. While the Company does not provide natural gas service within the City of Bellingham other cities have indicated that as a result of the Bellingham decision they are interpreting their code in the same manner and are requiring payment of taxes prospectively, prompting this tariff change.

The second proposed change is to clarify that the utility tax credit available to eligible customers who take service within Indian County will be applied from the date of eligibility (when the Company receives the necessary documentation) forward. This housekeeping change is simply to clarify the application of the tax credit. Additional housekeeping changes expands the applicability of Schedule 1 to taxes imposed on PSE by federal, state and any other governmental authority and includes a section tying Schedule 1 to the tariff rules.

The Company has not estimated the annualized increase in gross revenues from gas operations and corresponding increase in taxes resulting from the application of city utility tax to charges that were not previously subject to the tax. Pursuant to WAC 480-90-195, notice to customers will be provided in the first billing after the tariff revision becomes effective; the customers within the applicable cities will receive notification in the form of a bill message.

The tariff sheets described herein reflect issue dates of June 1, 2012, and effective dates of July 13, 2012. Posting of proposed tariff changes, as required by law and the Commission's rules and

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regulations, is being completed immediately prior to or coincident with the date of this transmittal letter through web, telephone and mail access in accordance with WAC 480-90-193.

This filing does not restrict access to services or increase rates so notice to customers is not required by WAC 480-90-194. When the Company is faced with passing through a tax assessment and other related charges a filing reflecting the necessary rate change will be submitted.

Please contact Lynn Logen at (425) 462-3872 or at [lynn.logen@pse.com](mailto:lynn.logen@pse.com) for additional information about this filing. If you have any other questions please contact me at (425) 462-3495.

Very truly yours,



Tom DeBoer  
Director, Federal & State Regulatory Affairs

Enclosure

cc: Sheree Carson, Perkins Coie  
Simon ffitch, Public Counsel