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August 31, 2012

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

**RE: Advice No. 2012-27
Electric 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 revision to the WN U-60, Tariff G for electric service of Puget Sound Energy, Inc. (the “Company” or “PSE”).

15th Revision of Sheet No. 81-b - Tax Adjustment (Continued)

The purpose of this filing is to provide for the pass through of the recent tax assessment by the City of Bellingham and other related charges as well as uncollected taxes during the period in which PSE was appealing the assessment and until August 2, 2012. This type of pass through was envisioned in the recent changes the Company made to Schedules 80 and 81 of PSE’s electric tariff which were allowed to go into effect in Docket No. UE-120805.

This proposed pass through totals \$1,938,935 and is comprised of (1) the tax assessment and interest charges that the Company paid following conclusion of the City of Bellingham’s audit along with (2) the increased taxes that were paid but not collected during the time period when this matter was in process of being appealed and before the Courts until August 3, 2012, and (3) the state and city revenue tax impacts of passing through these costs, but excludes carrying costs from the date of payment of the assessment to the completion of collection of the assessment.

In accordance with Schedule 81, as amended in Docket No. UE-120805, the Company is proposing that the pass through occur over one year, from October 1, 2012 through September 30, 2013. This results in a tax adjustment of 2.87% in addition to the presently effective tax adjustment of 6%.

Schedule 81, as amended in Docket No. UE-120805, provides for carrying costs to be added to assessments if the proposed recovery period is greater than 12 months if such assessment is made after

June 1, 2012. Changes that became effective in the same docket also provide that the time between payment of the assessment and beginning will be included in the determination if the recovery period is greater than 12 months. If effect, the addition of carrying costs applies when the time between payment of the assessment and the last billing for recovery of the assessment is greater than 12 months. The Bellingham assessment, as discussed below, was paid on March 31, 2009 and the proposed recovery period ends approximately October 1, 2013. PSE's expectation, when going through the court process, was that the City of Bellingham would be ordered to refund the amounts paid including interest. The carrying costs that would be applicable to this filing are approximately \$300,000. PSE has, however, opted to forgo requesting recovery of the carrying costs.

Background:

On November 1, 1999 the Court of Appeals of the State of Washington issued a decision in a case where PSE disputed an additional tax imposed by the City of Redmond (the "Redmond Decision"). That additional tax is loosely termed 'city tax on city tax'. PSE prevailed in that case and did not have to pay city tax on the revenue generated by the increase in electric rates due to the pass through of the city tax expense in rates. Many cities, including the City of Bellingham, have the same or similar wording in their tax codes; but PSE relied on the Redmond Decision in interpreting these city tax codes. The City of Bellingham's tax code contained substantially identical wording as the City of Redmond's tax code and PSE felt that the Redmond Decision would control even though the court's decision was an unpublished opinion.

On November 27, 2007 the City of Bellingham notified PSE that they had contracted with Tax Recovery Services to perform an audit of the Company's tax returns on a contingent fee basis for the period January 1, 2003 through current. In January of 2009, Tax Recovery Services submitted a final audit report to PSE for additional taxes, plus interest. On March 6, 2009 the City of Bellingham issued its invoice for the amount of the assessment and interest that was due. Since payment is a prerequisite of appealing the assessment, the Company paid the assessment and interest on March 31, 2009. In order to keep rates for its customers as low as possible the Company filed a claim for refund with the Superior Court of Whatcom County on March 31, 2009. The Superior Court of Whatcom County issued their decision rejecting PSE's claim on July 30, 2010. On August 27, 2010 PSE notified the court of its intent to appeal. PSE then filed its appeal on November 16, 2010 with the Court of Appeals of Washington, Division 1. Based on the Redmond Decision, which was attached to the Company's filing in Docket No. UE-120805, the Company expected to prevail. The Court of Appeals issued its decision on August 29, 2011. The Company decided that, based on the Redmond Decision and the facts of the case, to further appeal this decision, this time to the Washington Supreme Court. This final petition for appeal was filed on September 28, 2011. The Washington Supreme Court, on February 7, 2012 refused to accept the case. Following this decision, on June 1, 2012, the Company filed its proposed tariff changes in Docket No. UE-120805. Starting August 3, 2012, as provided in the then current version of Schedule 81, the Company adjusted its rates within the City of Bellingham to pass through the cost of 'city tax on the city tax' on current bills (not the assessment).

Discussion:

The tariff as it existed both prior to and after the changes allowed in Docket No. UE-120805 provided that, where effective, the tax imposed by a jurisdiction should be grossed-up for the effect of state utility tax, annual filing fee, credit losses and local taxes. The assessment charged by the City of Bellingham included an amount for non-payment of the gross-up for local taxes. One option open to PSE was to issue corrected bills for all Bellingham customers to collect this amount. However, issuance of corrected bills is time consuming and expensive and PSE considered the assessment to be current taxes. Again, in a decision to keep costs to customers as low as possible, the Company chose to make tariff filings to allow pass through of the assessment prospectively. The first of those filings was in Docket No. UE-120805 and this is the second filing.

Proposed Clarification:

In this filing, the Company is addressing the remaining concerns of both the Commissioners and the Commission Staff regarding the recovery of assessments and other costs which were discussed in Docket No. UE-120805. One of those concerns was regarding time between an assessment or refund and the tariff filing passing through the assessment or refund. In Docket No. UE-120805 a limitation of 75 days was placed on the time period between payment or refund and tariff filing for pass through made after June 1, 2012. In order to clarify the process for future filings the Company proposes that the following provisions in paragraph 4 of Schedule 81 be modified as a compliance filing after acceptance of the filing in this docket:

4. TIMING OF COLLECTIONS OR REFUNDS—

- a. When the Company has paid tax assessments or other related charges ~~for past periods~~ to a municipality or other state subdivision with taxing authority that are eligible pass through as described in paragraph 2 above, or received refunds from a municipality or other state subdivision with taxing authority, the Company will propose the appropriate time period and rate, to be included as a line item tax adjustment in Schedule 81 (in addition to the ordinance rate) with corresponding rate effective dates over which to adjust rates to pass through the amount. Tax assessments or other related charges or refunds will be considered as current taxes eligible for pass through under this Schedule. The Company shall file for pass through of any refund or assessment received or paid within 75 days of receipt or payment. If the proposed time period between receipt/payment and final date of additional tax adjustment is greater than one year, the Company shall include its carrying costs at a rate equal to its after tax rate of return. The tariff filing for recovery of assessments or other related charges or pass through of refunds paid or received ~~after June 1, 2012~~ shall be made within 75 days of such payment or refund. The time between payment/refund and effectiveness of the filing (up to 75 days) shall be considered in the calculation of the carrying costs described herein.

- b. A filing to pass through a refund, assessment or other related charges that meets all conditions of this Schedule will be considered as a pass through of current taxes under this Schedule.

The tariff sheet described herein reflects an issue date of August 31, 2012, and an effective date of October 1, 2012. Posting of proposed tariff changes, as required by law and the Commission's rules and 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 480-100-193.

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As provided by WAC 480-100-195, this change is a tariff change to increase a charge that a customer may incur without being quoted a price, therefore PSE will provide notice to each affected customer on or with the first bill after the change becomes effective.

Please contact Lynn Logen at (425) 462-3872 or at 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