

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKETS UE-190529 and UG-190530
(*consolidated*)

ORDER 14

In the Matter of the Petition of

PUGET SOUND ENERGY

For an Order Authorizing Deferral
Accounting and Ratemaking Treatment
for Short-life IT/Technology Investment

DOCKETS UE-190274 and UG-190275
(*consolidated*)

ORDER 11

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

DOCKETS UE-171225 and UG-171226
(*consolidated*)

ORDER 09

In the Matter of the Petition of

PUGET SOUND ENERGY

For an Order Authorizing the Accounting
treatment of Costs of Liquidated Damages

DOCKETS UE-190991 and UG-190992
(*consolidated*)

ORDER 09

In the Matter of the Petition of

PUGET SOUND ENERGY

For an Order Authorizing Accounting for
Tracking of Revenues Subject to PSE's
Private Letter Ruling Requesting a
Decision on the Proper Ratemaking
Treatment of Protected Excess Deferred
Income Taxes

DOCKETS UE-200843 and UG-200844
(consolidated)

ORDER 01

CONSOLIDATING DOCKETS;
GRANTING PETITION; AMENDING
FINAL ORDERS

BACKGROUND

- 1 On July 8, 2020, and July 31, 2020, respectively, the Washington Utilities and Transportation Commission (Commission) entered its Final Order and Order Granting Motion for Clarification (Final Orders) in Dockets UE-190529, UG-190530, UE-190274, UG-190275, UE-171225, UG-171226, UE-190991, and UG-190992, which resolved all the contested issues in Puget Sound Energy's (PSE or Company) general rate case (GRC) including, *inter alia*, issues related to the ratemaking treatment of protected-plus excess deferred income taxes (PP EDIT).
- 2 On August 8, 2020, PSE filed a Petition for Judicial Review in King County Superior Court, which sought review of the portions of the Final Orders that required PSE to pass back PP EDIT to customers in a manner that PSE believes violates Internal Revenue Service (IRS) rules and the 2017 Tax Cuts and Jobs Act (TCJA). PSE further sought a stay of the Final Orders, which was denied.
- 3 On October 1, 2020, PSE filed with the Commission a Petition for an Order that Authorizes the Accounting Treatment for Tracking of Revenues (Accounting Petition) in Dockets UE-200843 and UG-200844. PSE revised its Accounting Petition on December 29, 2020, and June 30, 2021.
- 4 On October 7, 2020, PSE voluntarily dismissed its Petition for Judicial Review based on the Commission's representation that it would immediately reopen this proceeding and revisit its Final Orders with respect to the treatment of PP EDIT if PSE obtains a Private Letter Ruling (PLR) from the IRS that upholds the Company's interpretation of IRS rules and the TCJA.

- 5 On January 7, 2021, PSE submitted its request to the IRS for a PLR.
- 6 On July 26, 2021, the IRS issued PLR 101961-21 responding to PSE's request for rulings on whether the accounting for PP EDIT required by the Commission's Final Orders is consistent with IRS Normalization Rules. Specifically, PSE inquired (1) whether the Normalization Rules permit PSE to adjust its EDIT average rate assumption method (ARAM) amortization based on the test year to the EDIT ARAM amortization based on one or more subsequent years without making similar adjustments to rate base, accumulated deferred income tax (ADIT), book depreciation expense, and tax expense; (2) whether the Normalization Rules permit PSE to adjust its EDIT ARAM amortization annually without making similar adjustments to rate base, ADIT, book depreciation expense, and tax expense; (3) whether the Normalization Rules permit PSE to provide a true-up to EDIT ARAM amortization in the year following the rate year based on volume variances between the test year and the rate year without making similar adjustments to rate base, ADIT, book depreciation expense, and tax expense; and (4) whether PSE will violate IRS Normalization Rules if it follows the corrective action set forth in the PLR.
- 7 The PLR explains that IRS rules allow a public utility to use accelerated methods for depreciation if it also uses a normalization method of accounting. The Normalization Rules for public utility property pertain only to the deferral of federal income tax liability resulting from the use of accelerated depreciation for computing the depreciation allowance for tax purposes and the use of straight-line depreciation for computing tax expense and depreciation expense for the purposes of establishing cost of service and reflecting operating results in regulated books of account. This specific tax-to-book difference relates to the method and life differences between accelerated depreciation and straight-line depreciation and is protected by the IRS.
- 8 When a utility computes its expense for establishing its cost of service and reflecting operating results in regulated books of account, the normalization method of accounting is only available if the utility uses a method of depreciation that is the same as, and a depreciation period that is not shorter than, the method and period used to compute its depreciation expense. This method of accounting is not available if a utility uses an estimate or projection of its tax expense, depreciation expense, or reserve for deferred taxes, unless such estimate or projection is also used, for ratemaking purposes, with respect to all three of these items and with respect to rate base. The IRS refers to this requirement as the Consistency Rule.

- 9 Because PP EDIT amounts were originally deferred using the normalized method of accounting, these amounts remain subject to IRS Normalization Rules, including the Consistency Rule. Per the Consistency Rule, PSE may not adjust its EDIT ARAM amortization for ratemaking purposes without making similar adjustments to rate base (including ADIT), book depreciation expense, and tax expense.
- 10 The PLR determined that the Normalization Rules do not permit PSE to (1) adjust its EDIT ARAM amortization based on the test year to the EDIT ARAM amortization based on one or more subsequent years without making similar adjustments to rate base, ADIT, book depreciation expense, and tax expense; (2) adjust its EDIT ARAM amortization annually without making similar adjustments to rate base, ADIT, book depreciation expense, and tax expense; and (3) provide a true-up to EDIT ARAM amortization in the year following the rate year based on volumetric variances between the test year and the rate year without making similar adjustments to rate base, ADIT, book depreciation expense, and tax expense.
- 11 On August 10, 2021, the Commission issued a Notice of Intent to Amend Final Orders; Notice of Intent to Consolidate Dockets and Notice of Opportunity to File Written Response (Notice) informing the parties to PSE's GRC that the Commission, on its own motion, intends to modify the Final Orders under RCW 80.04.210 to address the issue of the proper accounting treatment of PP EDIT. The Notice further informed parties and interested persons that the Commission intends to consolidate the GRC dockets with the Accounting Petition dockets and sought input from PSE and the parties on these issues.
- 12 PSE filed its initial response on August 27, 2021, and filed a supplemental response on September 10, 2021. Staff, AWEC, and Public Counsel also each filed a response.
- 13 Consistent with the PLR, PSE filed a proposed tariff revision that would implement a new base tariff rate that will remain effective until the Company's next GRC. PSE filed a second tariff revision that would implement a temporary tariff rate to reverse amounts that were tracked in the PLR Tracker Accounts in PSE's Accounting Petition over a 15-month amortization period. PSE contends that the PLR, which states that corrective actions should be taken at the earliest available opportunity, does not allow PSE to wait until its next GRC to start to recover the cumulative deferral balance. PSE argues that these tariff filings must be authorized simultaneously to correct rates going forward and to re-collect the amounts tracked in the Accounting Petition through a temporary tariff. To achieve this outcome most expediently, PSE recommends the Commission amend the Final Orders and consolidate the GRC with the Accounting Petitions.

- 14 PSE included with its response proposed tariff revisions with an effective date of October 1, 2021. The revisions would result in an overall annual revenue increase of \$36.1 million (1.6 percent) for electric and \$7.9 million (0.8 percent) for natural gas. Correcting base rates going forward would account for a \$20.3 million (0.9 percent) increase for electric and \$4.8 million (0.5 percent) for natural gas. Correcting the cumulative revenue difference between PSE’s methodology and the methodology prescribed by the Final Orders would increase rates on an annualized basis by \$15.8 million (0.7 percent) for electric and \$3.1 million (0.3 percent) for natural gas. PSE proposes to recover the revenue difference over 15 months so that it will zero out at the same time rates from PSE’s planned 2022 GRC become effective. PSE would estimate the balance of the regulatory assets as of September 30, 2021, to develop rates.
- 15 Finally, PSE requests that the Commission combine the treatment of protected and unprotected plant (together, “protected plus”) balances under the PP EDIT methodology. PSE argues that the protected-only approach provides no meaningful benefit to customers but would require PSE to modify its tax software. PSE thus urges the Commission to continue to follow the PP EDIT approach it has used for more than 30 years.
- 16 In its Supplemental Response, PSE clarifies that it has been and will continue recording the PP EDIT regulatory asset (in its PLR Tracker Accounts) as a debit to the FERC 186 account and a credit to FERC 456 and FERC 495, for electric and natural gas, respectively, until the Commission authorizes recovery of the regulatory assets and sets rates providing for such recovery. PSE requests that the Commission authorize PSE to amortize the regulatory asset balances to FERC accounts 456 and 495 following the level of revenue collected from customers.
- 17 Staff supports PSE’s calculation methodology and agrees that PSE’s PP EDIT calculations are accurate. Staff further agrees with PSE that the “plus” portion of the PP EDIT balances is immaterial, and that the cumulative deferral balance should be resolved now rather than waiting until PSE’s next GRC. Finally, Staff observes that PSE recently filed its Schedule 141X updates in Dockets UE-210676 and UG-21677. Staff recommends the Commission address any proceedings involving Schedule 141X that are pending when it modifies its Final Orders.
- 18 Public Counsel does not take a position regarding PSE’s calculation of EDIT amounts and does not provide a separate calculation for the Commission’s consideration, but recommends the Commission engage in a more robust proceeding to review its Final Orders in light of the PLR.

- 19 Public Counsel agrees with PSE and Staff that amending the Final Orders, rather than waiting until PSE's next GRC, is appropriate, but encourages the Commission to evaluate whether additional or different action is required to address the PP EDIT issues because the PLR neither prescribes corrective actions nor prohibits other action from being taken.
- 20 AWEC takes issue with PSE's representation to the IRS that the Commission relies on a strict historical test year, which, AWEC argues, makes it challenging to apply the PLR conclusions to the results approved by the Final Orders. Ultimately, AWEC contends that the IRS did not consider any restating or post-test period adjustments, as evidenced by the PLR's reference to the "test year" as the basis for computing primary cost of service and base rates. AWEC argues, however, that the depreciation expense, tax expense, ADIT (including PP EDIT), and rate base used to establish cost of service in the Final Orders were not based solely on test year results; rather, these items were each adjusted on an End-of-Period (EOP) basis and again further into the pro forma period through pro forma capital and other post-test year adjustments. Nevertheless, AWEC does not believe the faulty premise and ambiguity in the PLR renders it invalid.
- 21 AWEC does not oppose PSE's recommendation to use the historical PP EDIT amortization, which represents amounts accrued between January 1, 2018, through December 31, 2018. AWEC is concerned, however, that PSE proposes to use the unadjusted historical PP EDIT amortization even though adjustments were made to the historical rate base, ADIT, book depreciation expense, and tax expense amounts to arrive at the revenue requirement approved in the Final Orders. To correct this inconsistency, AWEC recommends the Commission amend the Final Orders to remove all EOP and pro forma adjustments to reach a fully consistent revenue requirement calculation.
- 22 AWEC's approach results in a rate reduction of approximately \$50.3 million on an annualized basis for both electric and natural gas, and an overcollection of rates totaling \$41.7 million. AWEC recommends that the over-collected amounts be returned to rate payers through a rate reduction as soon as possible, amortized to Schedule 141X and returned over a 15-month period.
- 23 Next, AWEC recommends the Commission continue to defer the Interim Period (January 1, 2018, through February 28, 2019) PP EDIT amortization for consideration in PSE's next GRC, where methods to return those funds to ratepayers, without violating the Consistency Rule, can be evaluated more fully. AWEC argues that the PLR does not discuss the deferral of PP EDIT, and therefore does not conclude that deferring the Interim Period PP EDIT amortization violates Normalization Rules.

- 24 AWEC further recommends the Commission take administrative notice of the PLR and provide the parties an opportunity to contest the facts on which it was based, and, to the extent that factual disputes arise in response to the Notice, recommends that the Commission reopen the record to receive additional evidence on these issues.
- 25 Finally, AWEC urges the Commission to evaluate its Final Orders in a holistic manner, recognizing that the reasonableness of the end result was considered in the context of the entirety of the decisions made in those orders.
- 26 On September 17, 2021, the Commission issued a Notice of Opportunity to File Written Reply, which authorized PSE to respond to the non-Company parties' responses by September 22, 2021.
- 27 On September 22, 2021, PSE filed its reply. PSE disputes AWEC's assertion that the PLR is premised on a strict historical test year because PSE provided the Commission's Final Orders to the IRS, and those orders make clear the Commission uses a modified historical test period. PSE argues that AWEC's proposal to adjust all aspects of the revenue requirement for consistency is not required by the PLR and would violate Commission laws that prohibit retroactive ratemaking. Moreover, PSE contends that the items AWEC claims are inconsistent do, in fact, conform to IRS normalization rules; specifically, PSE argues that moving from AMA to EOP does not violate normalization rules related to PP EDIT because it adjusts plant that was placed into service after the TCJA was passed and because, as part of rate base, PP EDIT is also adjusted to its end of period value along with associated plant, depreciation, and deferred taxes, consistent with Normalization Rules. For that same reason, PSE asserts, the Normalization Rules have no bearing on the Company's decision to include pro forma adjustments in its revenue requirement because the pro forma plant was placed in service in 2019, after the TCJA passed. Accordingly, there is no PP EDIT associated with the plant.
- 28 PSE objects to AWEC's proposal that the Commission revisit all aspects of the revenue requirement approved by the Final Orders. PSE argues that the IRS was aware of the hybrid test year and the use of pro forma adjustments but found them irrelevant to the normalization issues because there is no EDIT associated with any of the plant addressed in the Final Orders. In other words, PSE asserts, the normalization violation would arise from failing to treat EDIT in the same manner as test year depreciation expense, tax expense, ADIT, and rate base, regardless of whether a strict or modified historical test year is used.

29 Finally, PSE argues that it treated the EDIT reversal for the period January 1, 2018, through February 28, 2019, consistent with the PLR because there was no deferral recorded on PSE's books for EDIT reversals during that period. According to the Company, AWEC's statement that "those amounts were clearly being deferred" is incorrect.

DISCUSSION AND DECISION

30 We agree with PSE that it is appropriate to implement the requirements set forth in the PLR at the earliest opportunity, particularly considering our commitment to act immediately upon receipt of a PLR that upholds PSE's interpretation of the IRS Normalization Rules.¹ To achieve this outcome, we amend the Final Orders consistent with the PLR as described in this Order, consolidate the Accounting Petition docket with the GRC dockets, and resolve the Accounting Petition.

31 We find that PSE's proposed tariff revisions comply with the PLR by setting a new tariff rate consistent with the IRS's decision and by creating a temporary rate to reverse the amounts tracked in the PLR tracker accounts identified in PSE's Accounting Petition. Accordingly, we grant PSE's Accounting Petition and allow the proposed tariff revisions filed by PSE on August 27, 2021, to become effective by operation of law on October 1, 2021, for the reasons explained below.

Process for Implementing PLR Ruling

32 The Commission takes administrative notice of the PLR. As a threshold matter, we reject AWEC's argument that amending the Final Orders to address the PLR raises procedural concerns. As explained in more detail below, AWEC challenges the accuracy of specific portions of the PLR that are not germane to our decisions in this Order. As such, reopening the record to receive additional evidence is unnecessary.

33 AWEC recommends the Commission remove all EOP and pro forma adjustments from PSE's final revenue requirement calculation because the PLR did not consider the EOP restating adjustment or pro forma adjustments that the Commission accepted in this case. We decline to adopt this approach because the PLR's reliance on a "strict historical test

¹ Order for Voluntary Dismissal; Stipulation, *Puget Sound Energy v. Wash. Utils. & Transp. Comm'n*, No. 20-2-12279-3, at 2 (Oct. 7, 2021).

year” is not entirely relevant to this matter.² Although AWEC’s claim that the PLR did not consider the EOP restating adjustment or pro forma adjustments is accurate, PSE correctly observes that there is no PP EDIT associated with the EOP restating adjustment or pro forma adjustments the Commission accepted because those adjustments captured only plant placed in service after the effective date of the TCJA. Because those plant additions did not give rise to deferred income tax prior to January 1, 2018, there were no accumulated deferred income taxes that needed to be reclassified as EDIT.

34 Next, we reject AWEC’s argument that the Commission must remove EOP rate base, EOP depreciation expense, and pro forma capital additions from the revenue requirement calculation to ensure compliance with the Consistency Rule. First, we agree with PSE that the EOP restating adjustment does not violate the Normalization Rules related to EDIT because it adjusts plant that came into service after the TCJA took effect. As PSE observes, PP EDIT, as part of rate base, “is also adjusted to its end of period value, as are the associated plant, depreciation and deferred taxes, consistent with the normalization rules.”³ The accepted pro forma adjustments are similarly tied to pro forma plant that was placed in service in 2019. Because this plant was placed in service after the tax law changed, there is no EDIT associated with it.

35 Second, we decline to adopt AWEC’s recommendation to remove all EOP and pro forma adjustments to reach a fully consistent revenue requirement calculation. The PLR makes clear that, for plant carrying EDIT, any post-test year adjustment to EDIT would need to be accompanied by similar post-test year adjustments for rate base (which includes ADIT), book depreciation, and tax expense. As such, the Commission has two options to implement the PLR’s decisions: it can either (1) use test year levels of EDIT, rate base, ADIT, book depreciation, and tax expense for all plant carrying EDIT, or (2) use post-test year levels for those same items. The first option requires adjusting only EDIT and, thus, is far simpler than the second option. Accordingly, the Commission exercises its discretion to resolve the consistency issue by using test year levels of PP EDIT in the recalculation of base rates. Although the Commission determines that this approach is appropriate to resolve the issues in this case given the circumstances presented, this decision does not preclude the use of other approaches to calculate the appropriate level of PP EDIT to embed in rates going forward. Given recent statutory changes, such as the

² AWEC Response at 3. According to AWEC, “the rulings in the PLR are based on the faulty premise that the Commission uses a strict historical test period with no restating or pro forma adjustments beyond the end of the historical test period.” *Id.*

³ PSE Reply at 3.

requirement in RCW 80.28.425(3)(b) that for ratemaking purposes property must be valued as of the rate-effective date, post-test year adjustments to PP EDIT may become necessary.

- 36 We also decline to reopen the record to consider corrective actions alternative to those described in the PLR. Rather, we amend the Final Orders to ensure that our decisions are consistent with the PLR and to eliminate, rather than perpetuate, the possibility that the method by which PSE returns PP EDIT to its customers violates IRS Normalization Rules.
- 37 Finally, we reject Public Counsel’s and AWEC’s recommendation to reopen the record more broadly to “evaluate [the Final Orders] in a holistic manner when incorporating the PLR conclusions.”⁴ As reflected in the King County Superior Court Order dismissing PSE’s Petition for Judicial Review, the Commission committed to immediately open a proceeding and revisit the treatment of PP EDIT in the Final Orders if PSE obtained from the IRS a PLR that upholds PSE’s interpretation of the TCJA and IRS Normalization Rules. It is neither appropriate nor reasonable to interpret the Commission’s statement that it will “revisit the treatment of EDIT” to mean that it will revisit the entire revenue requirement.⁵ Such action would exceed the scope of review the Commission agreed to undertake and would thus violate the spirit of our commitment.

Revenue Calculation

- 38 In direct testimony, PSE proposed to use PP EDIT values recorded in the 12-month historical test year as the basis for its deferred tax calculation.⁶ PSE also proposed to eliminate Schedule 141X for PP EDIT reversals, instead proposing to embed those reversals in base rates.⁷ The PLR confirms that PSE’s proposals are consistent with IRS Normalization Rules, and that the manner in which the Commission required PSE to return over-collected taxes dollar-for-dollar to customers violates those rules.⁸

⁴ AWEC Response at 3.

⁵ The Commission is also sensitive to PSE’s argument that revisiting the revenue requirement in full could result in retroactive ratemaking.

⁶ Marcelia, Exh. MRM-1T at 29:6-9.

⁷ *Id.* at 54:3-8.

⁸ We also observe that the IRS recognizes that EDIT represents monies collected from customers. However, the IRS also notes it will not violate Normalization Rules if PSE returns PP EDIT

Accordingly, we find that PSE's revenue calculation complies with the PLR and approve PSE's proposed tariff revisions as filed on August 27, 2021.⁹

39 We agree with PSE and Staff that separating protected and unprotected plant-related EDIT is unnecessary. Separating those amounts would be unduly burdensome and would provide little, if any, benefit to ratepayers.

40 Finally, we grant PSE's request to amortize the PP EDIT balances to FERC accounts 456 and 495 for electric and natural gas operations, respectively, following the level of revenue collected from customers.

Accounting Petition

41 On October 1, 2021, PSE filed its Accounting Petition, which requested the Commission authorize accounting for tracking of revenues subject to PSE's PLR and requesting a decision on the proper ratemaking treatment of protected EDIT. PSE revised its Accounting Petition on December 29, 2021, and June 30, 2021. Specifically, PSE requested to track the amount of additional revenue it would have received if rates had been set using the methodology for passing back PP EDIT that PSE proposed in the GRC. The amount of the monthly entry is calculated as the difference between PSE's calculation of PP EDIT (or \$41.9 million combined electric and natural gas) adjusted for load and customer accounts in a manner similar to how the revenue would have been recovered if it were embedded in rates, and the amounts actually passed back in Schedule 141X. This difference is used to book the tracking entries.

42 PSE now seeks to recover the over-refunded revenues based on the PLR's conclusion that PSE's methodology complies with IRS Normalization Rules and the methodology implemented by the Final Orders does not. Because the PLR supports PSE's method of calculating PP EDIT, PSE's proposal in the Accounting Petition complies with the PLR. Accordingly, we grant the Accounting Petition and approve the tariff revisions filed on

slower than ARAM or if PSE never returns these monies to ratepayers. This highlights an important distinction between IRS regulation and Commission regulation. While the IRS is concerned with PSE's compliance with IRS rules, the Commission is concerned with regulating in the public interest, which includes ensuring that ratepayers receive the benefit of EDIT and are refunded amounts that they overpaid to the utility.

⁹ PSE's proposed tariff revisions also include several compliance updates for both the electric and natural gas revenue requirements. Those updates have been incorporated into Second Revised Appendix A.

August 27, 2021, which implements a surcharge to collect the PLR tracked revenue over 15 months.

Normalization Violations and Accelerated Depreciation

- 43 According to PSE, violating Normalization Rules could result in the denial of accelerated depreciation for tax purposes, “which provide a substantial offset to PSE’s rate base and would harm customers.”¹⁰ PSE should provide testimony and support for these assertions in its next general rate case filing. Specifically in direct testimony, PSE should identify and quantify the actual benefits that accelerated depreciation confers on ratepayers and provide a “before and after analysis” illustrating the impact of accelerated depreciation on revenue requirement.¹¹ The Commission’s analysis will benefit from providing non-company parties an opportunity to review this information and offer feedback in responsive testimony. We also require PSE to report in all future general rate cases PP EDIT balances and the amounts returned through base rates for both electric and natural gas.

Interim Tax Period Benefits

- 44 AWEC asserts that the treatment of the deferral associated with the cost of service tax benefits that accrued from January 1, 2018, until February 28, 2019, (Interim Period PP EDIT) is “notably absent from the discussion in the PLR,”¹² and observes that the PLR does not provide any guidance on how to amortize the Interim Period PP EDIT amounts. AWEC recommends that the Commission continue to authorize deferral of the Interim Period PP EDIT amortization for consideration in PSE’s next general rate case, during which methods to return those funds to ratepayers without violating Normalization Rules can be evaluated more fully.
- 45 PSE explains in its reply that no deferral was recorded on PSE’s books for EDIT reversals for the Interim Period. PSE recorded the PP EDIT reversal for 2018 to tax expense so that rate-setting for that period would include PP EDIT benefits. PSE states

¹⁰ PSE Reply at 6.

¹¹ The Commission is aware that the issue of accelerated depreciation likely exists with other regulated utilities and will address regulatory consistency in other proceedings as necessary.

¹² AWEC Response at 9.

that customers have already received the benefit of the PP EDIT reversal in 2018 through lower rates made effective in Dockets UE-180899 and UG-180900. PSE also disagrees with AWEC's assertion that the PLR does not provide any guidance on how to handle the Interim Period PP EDIT amortization. To the contrary, PSE argues that the PLR addresses PP EDIT ARAM amortization based on the test year, which represents 12 of the 14 months of the Interim Period. We agree. For ratemaking purposes, the PLR instructs PSE to use the PP EDIT amortization recorded in the test year when it uses amounts associated with the underlying plant based on that test year. The PLR does not, however, provide guidance on ways to ensure that the initial PP EDIT balance is, in fact, returned to ratepayers over some time horizon. Although the Normalization Rules require that PP EDIT is returned to ratepayers no more quickly than ARAM, those rules do not clarify how to ensure that the full balance of PP EDIT – representing monies over-collected from ratepayers – is returned to ratepayers over time. We will continue to monitor cumulative PP EDIT returned to ratepayers to ensure that ratepayers are fully compensated for amounts overpaid to the Company.

Conclusion

46 To effectuate the decisions set forth in this Order, we amend Final Order 08 as follows:

1. 1st paragraph of the Synopsis:¹³

The Commission rejects the tariff sheets filed by Puget Sound Energy (PSE or Company) on June 20, 2019. The Commission authorizes a revenue increase of approximately ~~\$29.5 million~~ \$77.1 million, or ~~1.6~~ 3.7 percent, for the Company's electric operations. We, however, extend the amortization of certain regulatory assets and the Company's electric decoupling deferral to mitigate the impact of the rate increase in response to the economic instability created by the COVID-19 pandemic, which reduces the revenue increase to approximately ~~\$857,000~~ \$48.3 million, or ~~0.05~~ 2.3 percent. With respect to PSE's natural gas operations, the Commission authorizes a revenue increase of approximately ~~\$36.5 million~~ \$45.3 million, or ~~4.0~~ 5.9 percent. We extend the amortization of certain regulatory assets and extend the PGA deferral from two to three years, which reduces the revenue increase to ~~\$1.3 million~~ \$4.9 million, or ~~0.15~~ 0.6 percent. The Commission requires PSE to file revised tariff sheets

¹³ The referenced values are updated to reflect the impact on the Commission's decision if it had accepted PSE's proposed treatment of PP EDIT, and do not include the impacts of the surcharge that will be collected through Schedule 141X. Because the original decision did not contemplate using Schedule 141X as a surcharge, the surcharge is not included in the amended Final Order revenue determination.

to reflect these decisions.

2. 12th paragraph of Synopsis:

The Commission requires PSE to return unprotected excess deferred income tax totaling \$38.9 million before gross-up (\$36 million electric and \$2.9 million natural gas) over a three- year amortization period, grossed-up, and refunded through a separate schedule to resolve the accounting petition in Dockets UE-171225 and UG-171226 consolidated with this proceeding. ~~We also direct PSE to continue to pass back protected plus excess deferred income tax (PP EDIT) through Schedule 141X consistent with the Average Rate Assumption Method, and further require the Company to file annual updates to ensure transparency and appropriate accounting treatment. The Commission directs PSE to return 2019 and 2020 PP EDIT over a 12-month period beginning July 20, 2020. We also direct PSE to return protected-plus excess deferred income tax totaling 41.9 million (\$33.6 million electric and \$8.3 million natural gas). We authorize PSE to use PP EDIT values recorded in the 12-month historical test year as the basis for its deferred tax calculation. We also authorize PSE to eliminate Schedule 141X for PP EDIT reversals, and instead embed those reversals in base rates.~~

3. Paragraphs 365-372 are stricken in their entirety.

4. Paragraph 379-380 is stricken in its entirety:

5. Paragraph 382:

Based on PSE's response to Bench Request No. 13 (BR-13), from March 1, 2019, to February 29, 2020, PSE did not return approximately \$3.7 million to electric customers and \$0.4 million to natural gas customers. Additionally, from March 1, 2020, to May 19, 2020, PSE continued to pass back approximately \$5.7 million and \$1.4 million to electric and natural gas customers. ~~Our decision in this Order requires PSE to net these amounts against amounts returned going forward through Schedule 141X, beginning July 20, 2020.~~

6. Paragraph 383:

~~We require PSE to return to customers 2019 and 2020 ARAM reversals as reflected in the Company's response to BR-13 through Schedule 141X for both electric and natural gas operations. The 2019 and 2020 ARAM reversals for electric customers are approximately \$22 million (\$29.3 million grossed-up) and \$20.4 million (\$27.3 million grossed-up), respectively. For natural gas customers, the 2019 and 2020 ARAM reversals are approximately \$5.6 million (\$7.5 million grossed-up) and \$5.2 million (\$6.9 million grossed-up), respectively. We require PSE to return these~~

~~amounts over a 12-month period beginning July 20, 2020. We accept PSE's proposal to embed 2018 PP EDIT in base rates for both electric and natural gas operations.~~

7. Paragraph 664:

We also determine that additional mitigation strategies are appropriate to reduce the impact of the rate increase authorized by this Order, as follows:

- ~~• Requiring PSE to reverse ARAM PP EDIT for both 2019 and 2020 over a 12-month period for both gas and electric, and~~
- Shortening the amortization of the gain on the sale of Shuffleton from three years to two years on the electric side.

8. Paragraph 700:

- (32) Embedding PP EDIT reversals in base rates, as PSE proposes, would impair the ability of the Commission and other parties to determine whether the over-collected taxes are appropriately returned to ratepayers ~~and is thus not in the public interest. To resolve this issue, we require PSE to report in future rate cases cumulative amounts of PP EDIT that has been returned to ratepayers.~~

9. Paragraph 760:

- (30) ~~Reversing PP EDIT amounts through separate Schedule 141X does not violate IRS normalization rules because they are actual dollar amounts, not estimates or projections. PSE's proposal to embed 2018 PP EDIT in base rates for both electric and natural gas operations is consistent with IRS Normalization Rules.~~

10. Paragraphs 763-764 are stricken in their entirety.

11. Paragraph 798:

- (68) The Commission should authorize and require PSE to make a compliance filing in these consolidated dockets to recover in prospective rates its revenue deficiency of ~~\$29.5 million~~ \$77.1 million for electric operations and its revenue deficiency of ~~\$36.5 million~~ \$45.3 million for natural gas operations. PSE is required to apply the mitigation strategies detailed in this Order to arrive at a final rate increase of approximately \$857,000 \$48.3 million for electric operations and approximately ~~\$1.3 million~~ \$4.9 million for natural gas operations.

Finally, we amend Order 10 as follows:

1. Paragraph 29 is stricken in its entirety.
2. Paragraph 30:

~~The Final Order was clear on this point.~~ PSE's Motion requests the Commission modify its decision rather than provide clarification, which we decline to do in response to its Motion. Rates include recovery of the corporate tax rate in effect and not the actual tax liability. PSE collects taxes through customer rates whether it pays taxes or not, which is precisely why the \$815.4 million PP EDIT balance exists. ~~The Commission is thus indifferent to the EDIT amounts reflected on PSE's tax return.~~

3. Paragraph 31:

PSE is responsible for returning the \$815.4 million in PP EDIT to customers. ~~This is not an estimated amount, nor is it subject to change. Rather, it is a precise measurement of tax dollars collected from customers but no longer owed to the IRS as of December 31, 2017. Accordingly, the annual true up should reflect actual amounts returned to customers through volumetric rates and nothing more.~~

4. Paragraph 32:

PSE requests clarification of paragraphs 325 and 366 in the Final Order, which require PSE to allocate ~~Schedule 141X~~ and Schedule 141Z EDIT reversals based on class usage. PSE argues that allocating EDIT reversals based on class usage will result in commercial and industrial classes receiving a larger share of income tax benefits. PSE further argues that rate base should be used to allocate the tax benefits.

5. The revenue requirement amounts referenced in paragraph 25 are modified to reflect (1) an increase of approximately \$77.1 million, or 3.7 percent, for electric operations and an increase of approximately \$45.3 million, or 5.9 percent, for natural gas operations, and (2) a reduced revenue requirement increase resulting from mitigation strategies of approximately \$48.3 million, or 2.3 percent, for electric operations and a reduced revenue requirement increase of approximately \$4.9 million, or 0.6 percent, for natural gas operations.

Summaries of both the electric and natural gas revenue requirements are attached hereto at Second Revised Appendix A. Finally, the Commission modifies Order 08 by replacing

references to “Revised Appendix A” with “Second Revised Appendix A” in the Table of Contents, as well as in paragraphs 627, 634, 726.

ORDER

THE COMMISSION ORDERS THAT:

- (1) The Commission consolidates Dockets UE-200843 and UG-200844 with Consolidated Dockets UE-190529, UG-190530, UE-190274, UG-190275, UE-171225, UG-171226, UE-190991, and UG-190992.
- (2) The Commission grants Puget Sound Energy’s Accounting Petition in Dockets UE-200843 and UG-200844.
- (3) Final Orders 08/05/03 and 10/07/05 are modified as described in this Order, and as reflected in Second Revised Appendix A, attached to this Order.
- (4) The tariff revisions filed by Puget Sound Energy on August 27, 2021, are approved and will become effective by operation of law on October 1, 2021.
- (5) The Commission retains jurisdiction over the subject matters and parties to this proceeding to effectuate the terms of this Order.

DATED at Lacey, Washington, and effective September 28, 2021.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner

**SECOND REVISED APPENDIX A
ADJUSTMENTS TO REVENUE REQUIREMENTS**