

COMMISSION STAFF EXHIBIT LIST

Docket UE-070725

PSE WITNESSES				
Witness: Tom A. De Boer, Director, Federal and State Regulatory Affairs, PSE				
TAD-1T	Tom A. De Boer for Puget Sound Energy			Prefiled Direct Testimony
TAD-2				
TAD-3HCT				Prefiled Rebuttal Testimony
TAD-4HC				Draft Term Sheet –For Discussion Purposes; July 10, 2008
TAD-5HC				Renewable Energy Credits Purchase Agreement
TAD-6HC				Correspondence of March 18, 2009, from PG&E to PSE
TAD-7C				PSE's Response to Public Counsel DR 10
TAD-8				Public Counsel's Response to PSE DR 1
STAFF CROSS-EXAMINATION EXHIBITS				
TAD-				PSE Response to Staff Data Request No. 24

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket No. UE-070725
Amended Petition of Puget Sound Energy, Inc. For an Order Authorizing
the Use of the Proceeds from the Sale of RECs and CFIs**

WUTC STAFF DATA REQUEST NO. 024

WUTC STAFF DATA REQUEST NO. 024:

In PSE's rebuttal testimony, Exhibit TAD-3HCT, page 21, lines 16-17, Mr. De Boer describes the accounting procedure that PSE believes would be used if PSE wrote off the \$21 million California receivable. He states: "the \$21 million would be charged back to power sales"

Please provide:

- a) A detailed explanation of PSE's proposed accounting procedure. Please include in your answer each USOA account, account description, accounting ruling, and any other source upon which you rely, and also explain whether the "charge back" would be to reverse a prior period sales transaction, or offset a current power sales transaction.
- b) A narrative providing all reasons why PSE believes this proposed accounting procedure is appropriate.
- c) An indication whether PSE's outside auditor has approved the accounting described in your response to part a).
- d) Each document exchanged (and summarize any exchanges that are not documented) between PSE and its outside auditor on this issue.
- e) A detailed description of the PSE's proposed rate impact, if any, if PSE implemented its proposed accounting procedure.

Response:

- a) To the extent PSE does not recover the carrying value of the California Receivable that was originally booked as a credit to FERC Account 447 "Sales for Resale" in the year 2000, Account 447 would be debited (or reduced) in an amount equal to the carrying value adjustment. This would be removed for PCA purposes as it is outside the PCA periods. PSE follows the US GAAP guidance of the Financial Accounting Standards Board Accounting Codification Standard 605-10-25-1 "Revenue and Gains" (previously Concept Statement 6, paragraphs 83 and 84) when recording revenue.

The recognition of revenue and gains of an entity during a period involves consideration of the following two factors, with sometimes one and sometimes the other being the more important consideration:

- a. Being realized or realizable. [Revenue and gains generally are not recognized until realized or realizable. ARB 43, paragraph Ch. 1A Par. 1]] Paragraph 83(a) of FASB Concepts Statement No. 5, Recognition and Measurement in Financial Statements of Business Enterprises, states that revenue and gains are realized when products (goods or services), merchandise, or other assets are exchanged for cash or claims to cash.
- b. Being earned. Paragraph 83(b) of FASB Concepts Statement No. 5, Recognition and Measurement in Financial Statements of Business Enterprises, states that revenue is not recognized until earned.

When PSE originally recorded its California wholesale energy sales, and the associated receivable in 2000, it adjusted its carrying value for valuation reserves in order to record the revenue at its net realizable value based on the judgment of management. The net balance on the Company's books represents the original net receivable recorded in 2000 less payments received to date from California counterparties on the receivable.

This accounting is also in compliance with FERC Account 447, Sales for Resale. This account states; "This account shall include the net billing for electricity supplied to other electric utilities or to public authorities for resale purposes."

- b) See section a) above.
- c) The Company's outside auditor did review the accounting described in a) and b) above. PSE management also made the following written representation to PricewaterhouseCoopers in connection with their audit of PSE in 2000:

Receivables recorded in the consolidated financial statements represent bona fide claims against debtors for sales or other charges arising on or before the balance sheet dates and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts which are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value

- d) PSE management provided the attached document to PricewaterhouseCoopers in January 2001 in connection with their audit of the company. After discussion with the audit PricewaterhouseCoopers engagement team, management agreed that valuation reserves described represented adjustments in the carrying value

of PSE's California wholesale energy receivables and thus could not be reversed in future periods

- e) This reserve would not have an impact on current rates. Sales for Resale revenues are based on market rates and not PSE tariffs approved by the Washington Commission. As these sales are voluntary and generally under Western Systems Power Pool contract, except for California where the sales would be under the ISO contract, the credit review of the customer plus collateral payments would generally protect the Company from having to reserve a receivable from such a customer. When such a customer does default it is a breach of contract and the recourse is through FERC and the courts. In the event that PSE were to write off the \$21 million California Receivable, it would be removed for PCA purposes as it is outside the PCA periods.

PUGET SOUND ENERGY FOURTH QUARTER 2000 CALIFORNIA RECEIVABLES

1. At December 31, 2000, PSE had the following net receivable with the California Independent System Operator (ISO) recorded:

DR (CR)	<u>Oct 2000</u>	<u>Nov 2000</u>	<u>Dec 2000</u>	<u>Totals</u>
PSE electric sales	\$(3,598,100)	\$(32,056,500)	\$(51,340,900)	\$(86,995,500)
PSE electric purchases	<u>996,800</u>	<u>4,045,800</u>	<u>4,663,300</u>	<u>9,705,900</u>
Net (a)	(2,601,300)	(28,010,700)	(46,677,600)	(77,289,600)
Transaction reserve (b)		<u>1,120,000</u>	<u>880,000</u>	<u>2,000,000</u>
Subtotal	(2,601,300)	(26,890,700)	(45,797,600)	(75,289,600)
Credit reserve (c)				<u>36,505,700</u>
Net receivable				\$(38,783,900)

- (a) On January 4, 2001, PSE received \$2,403,200 from the ISO and paid \$124,900 to the ISO for October 2000 transactions per the ISO's preliminary settlement statement. PSE's review of the ISO's preliminary statement detected certain PSE's sales to the ISO during the month of October 2000 were not reflected in the ISO's preliminary statement. The ISO has confirmed an additional \$323,000.00 is due PSE, which is reflected in the company's December 31, 2000 receivable balance.
- (b) PSE's LDEC energy transaction system reflects the expected value for all ISO purchase and sales transaction fees, which vary greatly by month and are difficult to estimate. The accounting reserve is approximately the difference between the highest monthly transaction fees imposed by the ISO during the months of December 1999 through October 2000 per their settlement statements and the expected values as estimated by PSE.
- (c) PSE recorded a preliminary credit reserve equal to 50% of the net receivable outstanding after the ISO's January 4, 2001 payment, computed as follows:

Net receivable at 12/31/2000	\$75,289,600
Net payment received 1/4/2001	<u>(2,278,300)</u>
Net receivable after 1/4/2001 payment	<u>\$73,011,300</u>
Preliminary credit reserve at 50%	\$(36,505,700)

The payments from the ISO for PSE sales recorded at December 31, 2000 as receivables are due as follows:

	<u>Due Date</u>	<u>Amount Due</u>
October sales	2/2/2001	\$ 323,000
November Sales	2/2/2001	28,010,700
December sales	3/5/2001	<u>46,677,600</u>
Total		\$75,011,300

2. In December 2000, PSE sold electric energy to two counterparties where the payment to PSE was conditioned on the counterparties being paid for energy they in turn sold to the California PX. At December 31, 2000, PSE recorded a preliminary loss contingency reserve against these wholesale electric sales as follows:

MIECO, Inc.	\$ 5,563,800
ENRON	<u>400,100</u>
Total	\$ 5,963,900
Loss contingency @ 50%	\$(2,982,000)