BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY, INC. For an Accounting Order Authorizing Accounting Treatment Related to Payments for Major Maintenance Activities	DOCKET UE-130583
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, INC. Respondent.	DOCKET UE-130617
In the Matter of the Petition of PUGET SOUND ENERGY, INC. For an Accounting Order Authorizing Accounting the Sale of the Water Rights and Associated Assets of the Electron Hydroelectric Project in Accordance with WAC 480-143 and RCW 80.12	DOCKET UE-131099 COMMISSION STAFF REPLY TO PSE'S RESPONSE TO STAFF'S MOTION FOR CONSOLIDATION

I. INTRODUCTION

1 Commission Staff's Motion for Consolidation asked the Commission to consolidate two dockets with the Company's Power Cost Only Rate Case (PCORC), Docket UE-131617. The two dockets are: Docket UE-131099, Application Related to Property Transfer – Electron, and Docket UE-130583 – Major Maintenance Accounting Petition.

2 In PSE's Response,[1] the Company opposes consolidation of the Major Maintenance Accounting Petition, but supports consolidation of the Application Related to Property Transfer – Electron, so long as the entire Electron docket is consolidated.

3 By notice dated July 30, 2013, the Commission allowed Commission Staff (Staff) and other parties to reply to PSE's Response.

4 As we explain below, Staff agrees with PSE that the Commission should consolidate the entirety of the Electron docket with the PCORC. However, Staff disagrees with PSE as to the Major Maintenance Accounting Petition. In brief, PSE has not identified any harm from consolidating the Major Maintenance Accounting Petition docket with the PCORC docket, and the issues in each docket overlap. Therefore, the Commission should also consolidate that docket with the PCORC docket.

II. DISCUSSION

A. Docket UE-131099, Application Related to Property Transfer – Electron

5 Staff initially was concerned that because the execution of the contract for PSE's sale of the Electron facility would occur prior to a Commission order in the PCORC, the Commission would need to decide the property transfer aspect of the Company's application outside the PCORC. Accordingly, Staff moved for consolidation only as to the accounting and ratemaking aspects of the Electron application.

6 Based on PSE's recommendation that the entire Electron docket be consolidated with the PCORC (PSE Response at 3, ¶ 4), Staff no longer has that concern. Consequently, Staff concurs with PSE's recommendation that the Commission consolidate the entire Electron docket with the PCORC.

[1] PSE's Response to Commission Staff's Motion for Consolidation (PSE Response) (July 25, 2013).

B. Docket UE-130583 – Major Maintenance Accounting Petition

7 PSE opposes consolidation of the Major Maintenance Accounting Petition with the PCORC. The Company's core argument is that the accounting petition is simply "the initial step … to allow these costs to even be considered in a PCORC or general rate case," and the PCORC "stands on its own" on the issue of cost recovery. PSE Response at 5, ¶ 10 and at 5-6, ¶ 11.

8 In fact, the issues presented in the Major Maintenance Accounting Petition and the PCORC are interrelated, and the Commission should decide these issues on one record. This is particularly important because if the Commission grants PSE's accounting petition first, as PSE wants, that would authorize PSE to create a regulatory asset on its books and potentially earn and accrue interest on the deferred amounts if granted by the Commission. PSE would amortize these amounts in the PCORC[2] only when the Commission ordered the Company to do so.

9 Staff opposes the creation of a regulatory asset for major maintenance expenses in the first place. Moreover, it is Staff's view that PSE would amortize these costs beginning on the date of the first major maintenance event, up until the next event. This is consistent with the "ASC 908" accounting procedure referred to by PSE. *See* PSE Response at 3-4, ¶ 6. Nothing in that ASC 908 accounting procedure requires or necessitates the creation of a regulatory asset.

10 Contrary to PSE's suggestion, granting PSE's accounting petition now would be much more than just the "initial step" toward cost recovery. *See* PSE Response at 5, ¶ 10. Under Accounting Standard FASB 980-340-25, the existence of a regulatory asset means

[2] *See Puget Sound Energy, Inc.,* Docket UE-130583, Petition for an Accounting Order (April 24, 2013) at page 8.

recovery of those specific costs is reasonably assured.[3] The Commission needs a full record before deciding that is the proper result.

11 We note with concern that apparently, PSE already has created a regulatory asset (or regulatory assets) for major maintenance,[4] based on what PSE calls its "interpretation" of Paragraph 163 of Final Order 11 in the Company's 2009 general rate case.[5] Yet, as PSE acknowledges (PSE Response at 4, ¶ 6), in Paragraph 163, the Commission merely stated:

> All parties advocate that major plaint maintenance should be handled using the "deferral method," though it appears the parties may have some different ideas about what this means in practice. While we accept in principle the use of a deferral methodology for major plant maintenance expenses, we have no need to decide its finer points here. This undoubtedly will be brought before the Commission in some future proceeding when such costs are incurred and it will then be ripe for decision.

Nothing in this language suggests the Commission authorized PSE to create a regulatory asset. Indeed, if the Commission has already authorized PSE to create a regulatory asset, PSE's current accounting petition would be mostly unnecessary.

12 PSE goes on to argue that the Commission should simply grant the Company's petition because the relief PSE seeks is "consistent with the direction from the Commission" on the issue of major maintenance accounting. PSE Response at 5, ¶ 11. Not so, because in fact, the Commission has yet to decide whether PSE should be

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[3] FASB 980-340-25 states, in pertinent part:

> Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:
> a. It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
> b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

[4] *Utilities and Transp. Comm'n v. Puget Sound Energy, Inc.,* Docket UE-130617 (PCORC), PSE witness Katherine J. Barnard's Exhibit No. KJB-1CT, at pages 32-35.

[5] *Utilities and Transp. Comm'n v. Puget Sound Energy, Inc.,* Dockets UE-090704 and UG-090705, Order 11, Rejecting Tariff Sheets; Authorizing And Requiring Compliance Filing (April 2, 2010) at page 61, ¶ 163.

allowed to create a regulatory asset, and the Commission has not established any particular amortization procedure related to major maintenance expense. There simply is no basis for PSE to claim its petition is "consistent with the direction from the Commission" on these crucial points.

13 Notably, PSE fails to identify any substantial harm to the Company by consolidating the accounting petition with the PCORC. Staff cannot identify any such harm, either.

14 The bottom line is that the issues in the PCORC and the Major Maintenance Accounting Petition are interrelated. As we have explained, deciding the accounting petition first will prejudice Staff because under that scenario, the regulatory asset will have been created, and the Commission prematurely will have given, in effect, reasonable assurance that PSE will recover a return of and on the specific costs deferred.

III. CONCLUSION

15 For the reasons stated above, and in Staff's Motion, the Commission should grant Staff's Motion to Consolidate, but also consolidate the entirely of Docket UE-131099, the Application Related to Property Transfer – Electron, rather than just the accounting and ratemaking issues, as Staff originally requested.

DATED this 1st day of August 2013.

Respectfully submitted,

ROBERT W. FERGUSON
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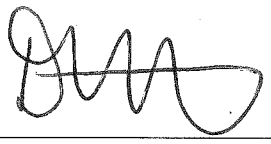

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