

Agenda Date: June 27, 2007
Item Number: A1

Docket: UE-070724
Company Name: Puget Sound Energy, Inc.

Staff: Mike Parvinen, Deputy Assistant Director - Energy

Recommendation

Issue an order approving the accounting petition requested by Puget Sound Energy in Docket UE-070724.

Discussion

On April 16, 2007, Puget Sound Energy, Inc. (PSE or the Company), filed an accounting petition requesting authorization to defer all costs, net of third party recoveries, from certain sites that have been added to the environmental remediation program. The purpose of the request for deferred accounting treatment is to match the recording of the expenses with the recovery of the expenses from third parties. This filing is consistent with the treatment of all sites that have been added to the environmental remediation program dating back to the first such order issued in Docket UE-911476, dated April 1, 1992.

The sites added to the remediation program are the “Lower Baker Power Plant Site,” “Electron Flume Site,” “Crystal Mountain Diesel Spill Site,” “Puyallup Service Center Site,” and “Floyd Equipment Company Site.”

The Company requests to defer to account number 182.3, Other Regulatory Assets, the costs associated with its electric environmental remediation program with respect to these sites. The environmental remediation costs deferred pursuant to the requested accounting order are subject to the following conditions:

- (a) Any net deferred costs existing at the time of the Company’s general rate proceedings are subject to review and net deferred costs shown to be imprudent or inappropriate will be subject to disallowance for rate recovery purposes. Net deferred costs are the total project expenditures (as defined in (e) below) less any recoveries from third parties and/or insurance proceeds.
- (b) Costs that are deferred will be reduced by any insurance proceeds or payments from other responsible parties received by the Company in respect of such costs.
- (c) Allowed net deferred costs will be amortized over a five-year period commencing on the date that all costs net of recoveries become known, consistent with Docket UE-960195.
- (d) Any deferred costs will be included in working capital in future rate proceedings.
- (e) Costs eligible for deferred accounting treatment will include only those amounts paid to outside vendors or contractors (i.e., investigation and feasibility studies, sampling,

evaluation, monitoring, materials, remediation and removal) and will not include internal employee expenses and legal costs.

- (f) The Company will normalize the tax benefits associated with these costs.
- (g) The Company will submit quarterly reports detailing the status of the various remediation projects, activities involving insurance and third party recoveries, and the level of costs being incurred.

The Commission has established certain criteria for approval of accounting petitions based on previous orders, such as materiality and no deferral of expenditures made prior to the filing date of the petition. This petition does not conform to these criteria. Specifically, Order No. 01 in Docket UE-031658 regarding environmental remediation costs for PacifiCorp states that all costs prior to the filing date of the petition will not be deferred and that only expected major costs (expected to exceed \$3 million) will be allowed to be deferred. Given the unique characteristics of the situation involving environmental remediation Staff is recommending approval of the petition for the following reasons.

- 1) The significant timing difference between the company incurring the expenditures and recovering the expenditures from third parties. Unlike most deferral accounting petitions in which expenditures are deferred and recovered from rate payers, environmental remediation expenditures will most likely be recovered from third parties such as insurance companies creating a net zero recovery from rate payers. No deferred costs have been passed on to rate payers since the Company began incurring these types of remediation costs on either the electric or natural gas operations.
- 2) Docket UG-920781, for natural gas environmental remediation sites, allows deferred accounting treatment on all sites deemed to fit in the remediation program without filing independent petitions, primarily due to the ultimate net zero impact on rate payers. Prudence determination of any amount proposed to be recovered from rate payers will take place in a general rate case.
- 3) The original petition in Docket UE-911476 (filed on December 24, 1991) allowed the Company to go back to September 1988 (the ending date of the previous test year) and defer all costs associated with the remediation program in order to avoid distortion of future depreciation and insurance expense. All quarterly reports, submitted to the Commission, detailing remediation activity, are included in Docket UE-911476.
- 4) Sites included in the Company's environmental remediation program have to meet certain criteria including: 1) having the expectation of costs being recovered from insurance carriers or other third parties, and 2) total costs expected to exceed \$25,000. All remediation costs not meeting these criteria are expensed in the year incurred. Insuring that a site meets these criteria creates a lag between incurring costs, assigning

the site to the remediation program, and filing an accounting petition.

- 5) As stated on page 4 of the order in Docket UE-911476, “Moreover, it is important that utilities not be discouraged from carrying out their obligations in environmental efforts.” The Company is committed to making sure the remediation takes place above all else. Determining responsibility and recovery means can come later.

Staff has reviewed the filing, associated documentation, and previous Commission accounting petition orders, and given the reasons for deviating from established accounting petition criteria as described above, recommends approval of the requested deferral accounting treatment for PSE’s environmental remediation sites included in the petition.

Conclusion

Issue an order approving PSE’s accounting petition as requested in Docket UE-070724.