Agenda Date: December 10, 2009
Item Number: A1

Docket: UE-091570
Company Name: Puget Sound Energy, Inc.

Staff: Kathryn Breda, Regulatory Analyst
Roland Martin, Regulatory Analyst
Mike Parvinen, Assistant Director, Energy

Recommendation

Issue an order authorizing the accounting and normalization treatment requested by Puget Sound Energy in Docket UE-091570.

Discussion

On September 30, 2009, Puget Sound Energy, Inc. (PSE or company), filed an accounting petition in Docket UE-091570, requesting authority from the Washington Utilities and Transportation Commission ("commission") to account for a cash grant expected to be received from the U.S. Treasury Department ("Treasury") under Section 1603 of the American Recovery and Reinvestment Act of 2009 ("ARRA") associated with the Wild Horse Expansion Project. Section 1603 states that "the Treasury shall apply rules similar to the rules of section 50 of the Internal Revenue Code of 1986." Treasury guidance further states that "[p]ayments received under the Section 1603 program must be normalized. See former IRC Section 46(f)." PSE requests that the grant be included in Account 228.4, Accumulated Miscellaneous Operating Provisions, and to meet the normalization requirements, amortized over ten years through Account 242, Miscellaneous Current and Accrued Liabilities. The amortization will be credited to customers through Schedule 95A Production Tax Credit Tracker.

Section 1603 of the ARRA addresses the concern that Production Tax Credits ("PTCs") were not providing the stimulus to invest in alternative or renewable energy projects because taxpayers may not be able to use the PTCs in a timely fashion. It provides taxpayers an alternative to PTCs through either (a) a nontaxable cash grant from the Treasury or (b) an Investment Tax Credit ("ITC"). These options are equal to 30 percent of the qualifying investment in eligible facilities, including wind farms, for a defined period of time and reduce the accelerated tax depreciation of the renewable energy facility to one half of the grant or ITC claimed. PSE concluded that claiming the ITC would have problems similar to those of PTCs in that it could only be used if the company has a sufficient tax liability. The company ultimately determined that the grant was the better option.

PSE currently passes on to customers, through Schedule 95A, PTCs based on wind generation. These credits can be carried back one year and forwarded up to twenty years. Through June 30, 2009, PSE has created PTCs and passed onto customers $61.2 million while only $24.0 million has been used to reduce the company's tax liability. As part of this petition, PSE has provided a comparative analysis reflecting greater rate payer benefit from the cash grant versus the ITC or PTC options.

Conclusion

Staff has reviewed PSE's accounting petition and finds the resulting accounting treatment and inclusion in Schedule 95A of the treasury grant under Section 1603 of the ARRA for the Wild Horse Expansion to be reasonable. Staff has also reviewed the Company's proposed normalization treatment of the Treasury grants and based on the information provided by the Company, this treatment is reasonable. The Staff reserves the right to advocate alternative methodologies that may impact the accounting and normalization of Treasury grants in future proceedings based on new analysis, new information or Federal guidance rulings.

Recommendation

Staff recommends the commission issue an order authorizing this proposed accounting and normalization treatment requested by Puget Sound Energy in Docket UE-091570.