**BEFORE THE**
**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,** | |
| **Complainant,** | |
| **v.** | **Dockets UE-151871** <br> **UG-151872** |
| **PUGET SOUND ENERGY,** | |
| **Respondent.** | |

**THIRD EXHIBIT TO THE DIRECT TESTIMONY OF BRIAN FLUETSCH**
PSE Response to SMACNA-WW Data Request 024
**ON BEHALF OF SMACNA-WW**

**June 7, 2016**

2   **THIRD EXHIBIT TO THE DIRECT TESTIMONY OF BRIAN FLUETSCH**
3   PSE Response to SMACNA-WW Data Request 024
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**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**
**Docket Nos. UE-151871 UG-151872**
**Puget Sound Energy's**
**Electric and Natural Gas Equipment Lease Service**
**SMACNA DATA REQUEST NO. 024**

**SMACNA DATA REQUEST NO. 024:**

**RE:  Taxation**
Regarding local utility tax that is collected and passed through to the customer pursuant to schedule 81, please explain whether and how the tax would be grossed up to account for tax on the tax.  What would be resulting burden of a 6% local utility tax on the customer?  What would the resulting burden of a 9% local utility tax be on the customer?

**Response:**
Puget Sound Energy ("PSE") objects to SMACNA Data Request No. 024 as beyond the scope of SMACNA's limited intervention in this proceeding. Without waiving this objection, and subject thereto, PSE responds as follows:
Pursuant to electric Schedule 81, Tax Adjustment, tax is applicable within the jurisdiction with a taxing authority imposing the tax.  If the city imposing such tax defines the gross revenue upon which PSE pays this tax, to also include the revenue resulting from the tax, then the tax rate would be grossed up to account for tax on the tax.  This tax scheme creates an infinite tax calculation of tax on tax.  The equation to calculate this type of tax rate is as follows:  $1/(1 - \text{tax rate}) - 1 = \text{effective tax rate}$. Technically, the calculation continues forever, but once the increments get too small, there's no point continuing the calculation.
If the tax rate is 6%, the effective tax rate applicable for that customer would be 6.38% ($1/(1-.06) - 1 = 0.0638 = 6.38\%$).
If the tax rate is 9%, the effective tax rate applicable for that customer would be 9.89% ($1/(1-.09) - 1 = 0.0989 = 9.89\%$).

PSE's Response to SMACNA Data Request No. 024
Date of Response:  May 4, 2016
Person who Prepared the Response:  Eric E. Englert
Witness Knowledgeable About the Response:  Eric E. Englert

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