The Commission has determined these problems justify continuing the method used in the previous rate case. That method is straightforward -- instead of estimates or appraisals, the company considers the gain or loss at the time of transfer to a subsidiary, or sale, and apportions that gain or loss between ratepayers and shareholders based on the time the property was in and out of rate base.

The second sub-issue is the treatment of the remaining gain from the previous rate proceeding. The Commission agrees with the company that the remaining balance should be added to any new gains and amortized over the life chosen for the new gains. The remaining balance should therefore be amortized over three years. This treatment is consistent with the Settlement Agreement.

The final sub-issue is the proper amount of excise tax. The difference between the company and Commission Staff is only $6. The Commission accepts the company's figure.

As a result of the Commission's determination on these sub-issues, the proper adjustment is $392,152. This includes the gains on seven of nine properties in Exhibit 987 as calculated by staff in Exhibit 789. Items 24 and 29 will be included in the next general rate case.

5. 2.08 Storm Damage

The Commission must determine both the proper method for future accounting for storm damage and the appropriate method of calculating the adjustment in this case.

The company expensed an annual amount based on the preceding general rate case. The level of accrual assumed by the company was the nominal level used in each proceeding. The company continued to expense the same amount annually until the next general rate case order, without regard to growth between rate cases of the company's sales or rate base.

When the company booked the expense, it credited a storm damage reserve. When actual storm damage expenditures were made, the company debited the storm damage reserve. As a result, when the company experiences less cost than the level of accruals, the company builds a reserve balance. However, when the company expends more than it has accrued, it creates a reserve deficit. The company would be allowed to book this reserve deficit only if it were a regulatory asset. The company claimed that because the Commission has adopted an amortization of the reserve balance in several previous proceedings, the Commission in effect accepted the reserve deficit as a regulatory asset.

WUTC
DOCKET NO. UE-991606
EXHIBIT # 602
ADMIT ✓ W/D REJECT

The Commission Staff stated that the company has improperly created a regulatory asset for storm damage without express authorization from the Commission. Commission Staff witness Thomas Schooley argued that the company's reliance on previous Commission Orders is unfounded. Mr. Schooley contended that the accounting as just described is improper general accounting, that it transfers substantial financial risk from the stockholders to the ratepayers, and that the creation of a reserve deficit is in violation of the Uniform System of Accounts because the Commission did not approve this accounting treatment.

Mr. Schooley proposed normalizing the storm damage expense based on a six-year period, and that truly extraordinary events should be deferred as extraordinary property damage and amortized into rates over a six-year period. Commission Staff also noted that the company in previous general rate cases has in fact been regulated on a normalized basis rather than on a deferral method as suggested by the company. Mr. Schooley proposed to define "catastrophic event" as one affecting 25% or more Puget customers, occurring infrequently, and affecting a wide geographic area.

The dispute between Commission Staff and company results in several differences. Commission Staff does not include amortization of the $16.5 million reserve deficit. In place of this, Commission Staff allows the company to amortize $11 million of extraordinary property loses. Commission Staff used a six-year period versus the four-year amortization period proposed by the company. With respect to ongoing storm damage, company witness John Story testified to a level of approximately $4 million. This is close to the four-year average calculated by Mr. Schooley's exhibit, excluding the extraordinary events. Commission Staff recommended ongoing expenses of $3 million based on a six-year average.

FEA witness Hugh Larkin contended that the company improperly charges overhead costs to the reserve account. He argued that ongoing expense should not be charged to a reserve account unless those expenses represent incremental costs to the company. These overhead costs are not incremental and should not be deferred.

The company argued that it has accounted for storm damage on a consistent basis and that Mr. Larkin's claims are without founda-ion.

The Commission agrees that it may be unclear from previous Orders what accounting treatment is appropriate for storm damage. Because those Orders appear to have tacitly approved the reserve account treatment used by Puget, the Commission will allow the entire $16.5 million to be amortized in

rates. This amount should be amortized over six years, as recommended by Commission Staff.

From the effective date of this Order, the company should account for storm damage in the manner recommended by Commission Staff. The deferred treatment used by Puget transfers the risk, and more, to the ratepayers. As demonstrated in Exhibits 876 and 877, if the company had increased its accrual levels based on its increase in revenues -- thus holding the expense to a constant percentage of revenue -- the reserve balance would have been reduced by $2 million since the Order in U-85-53. Failure to do so is unfair to ratepayers.

The treatment used by the company is not truly self insurance. The company does not adjust the accruals based on any factor other than general rate case Orders. If the company position prevailed, insurance would be provided by ratepayers.

The Commission therefore adopts the Commission Staff's recommendation to use a normalized level for storm damage. The amount used should be based on a six-year average, to somewhat dampen weather variability, to accommodate the current PRAM mechanism, and to reflect the intention that general rate cases be filed every 3 years.

The Commission also adopts for now Mr. Schooley's definitions of catastrophic/extraordinary events, and encourages the company to meet with interested parties to refine this definition. Extraordinary losses are, thus, defined as events which affect 25% of Puget's customers, occur infrequently, and affect wide geographic areas. If the company has any question whether a storm is a catastrophic/extraordinary event, which may be booked to the storm damage account, it should seek Commission guidance on a case by case basis.

The company may amortize $16.5 million in its storm damage reserve over six years. The resulting adjustment based on Mr. Schooley's calculation adjusted for the $16.5 million, instead of $11.1 million, is a $2,747,506 decrease in net operating income.

6. 2.09 Self Insurance

The company claimed to self insure for three risk categories: all risk property damage, liability, and workers compensation. The company proposed an adjustment to the three as a group. The company calculation was based on an average of the last four years' charges in these categories, plus a four-year amortization of a reserve deficit in the all risk property