

**BEFORE THE  
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.,  
COMMISSION STAFF AND  
THE INDUSTRIAL CUSTOMERS OF  
NORTHWEST UTILITIES

For an Accounting Order Authorizing  
Accounting Treatment of Offsets to the  
Balance of Production Tax Credits

Docket No. UE-10\_\_\_\_\_

ORDER (PROPOSED)

**I. INTRODUCTION**

1. On September 22, 2010, Puget Sound Energy, Inc. ("PSE"), Commission Staff, and the Industrial Customers of Northwest Utilities (collectively, "Petitioners") filed a petition ("Petition") requesting that the Commission issue an order authorizing the accounting treatment related to the surplus amount that has been credited to customers through PSE's Production Tax Credit ("PTC"). In their Petition, the Petitioners request that the surplus PTCs that have been flowed through to PSE customers be offset against a portion of Renewable Energy Credits ("REC") proceeds allocated to customers in Docket No. UE-070725 and received by PSE after November 30, 2009. Concurrently with their Petition, the Petitioners also filed a motion and

proposal ("Proposal") concerning the crediting method for REC proceeds that was agreed upon in Docket No. UE-070725 by the Petitioners.<sup>1</sup>

## II. BACKGROUND AND MEMORANDUM

### A. PTC Balance

2. In Order 04 from Docket No. UE-050870, the Commission approved PSE's proposal to create a new schedule, Production Tax Credit Tracker Schedule 95A. Schedule 95A provided for crediting electric customers' bills with the PTCs that were provided as a subsidy by the U.S. Government for generating electricity from wind. As explained in Appendix B to Order 04:

To properly flow these tax credits through to the customer, the Company proposal is to create a PTC tracker that will pass through to the customer the actual production tax credits as they are generated and the tracker would not be subject to the sharing bands in the PCA. This pass through will be adjusted by the carrying costs for the deferred tax account for the PTCs that have been generated but have not been used for the current years tax credit. As the customer is receiving the benefit of the tax credits as they are generated and the Company does not receive a credit from the IRS until the tax credits are utilized the Company is reimbursed its carrying costs for funds through this calculation.

3. The Petitioners state that when Schedule 95A was proposed, PSE expected that the timing difference between when the PTCs were credited to customers and when PSE would

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<sup>1</sup> The Petitioners state that all parties to Docket UE-070725 were invited to participate in discussions regarding the REC Proposal. Public Counsel participated in the discussions, and NW Energy Coalition, The Energy Project and the Renewable Northwest Project did not participate actively. The Petitioners state that none of the parties to Docket UE-070725 object to the Proposal or to their Petition.

receive the subsidy from the U.S. Government would be relatively short. The Petitioners state that through December 2007 this in fact was the case. The Petitioners state that although the balance of the deferred tax account did not reach zero or go negative during this time period, the varying balance shows that there were additions and reductions to the receivable from the U.S. Government as the PTCs were generated and utilized in PSE's tax return. The Petitioners state that the balance has consistently grown after December 2007.

4. The Petitioners state that in 2008, the U.S. Government adopted tax changes that provided PSE additional tax deductions. The Petitioners state that these changes, plus tax deductions that PSE was allowed for adding new resources, severely limited the amount of PTCs that PSE could use against any tax liability. Since December 2007, the balance of the deferred tax account has grown from \$6.3 million to \$61 million, as of June 2010.

5. On June 24, 2010, the Commission entered Order 02 in Docket UE-091703. Order 02 zeroed out PSE's Tariff WN U-60, Tariff G, Schedule 95A- Production Tax Credit Tracker. Paragraph 3 of Order 02 states:

PSE has been unable to realize in recent federal income tax filings the production tax credits (PTCs) that it has been and is currently passing through the Tracker. The revision of Tracker rates to zero, which is a departure from the original Tracker mechanism approved by the Commission, will cease greater accumulation of interest-bearing cash balance advanced by PSE to the customers. To address the existing balance and to craft a workable mechanism to pass realized PTCs and Treasury grant benefits to the customers, PSE commits to work with Commission staff and other interested parties to undertake necessary modification of the pass-through mechanism. The zeroing out of Tracker rates serves as a practical undertaking by PSE considering the expected delayed benefit of generated PTCs and pending resolution of the balance owed the Company.

**B. REC Proceeds**

6. The Commission entered Order 03 in Docket UE-070725 on May 20, 2010. Order 03 required PSE to credit customers for REC proceeds received by PSE prior to November 30, 2009, and to create a regulatory liability for the purpose of flowing back to customers additional REC proceeds received after November 30, 2009.

7. The Petitioners explain that after the Commission issued the orders discussed above, the parties to Docket No. UE-070725 met and either agreed or did not object to the Proposal concerning the method for crediting the REC proceeds. The Petitioners' Proposal would allow customers to receive credits for REC proceeds while also using REC proceeds to offset the balance owed to PSE under the PTC Tracker.

**III. OFFSET OF REC PROCEEDS AND PTCs AND THE PETITIONERS' PROPOSED ACCOUNTING TREATMENT**

8. The Petitioners request that the Commission allow a portion of the REC proceeds received by PSE from December 2009 through December 2011<sup>2</sup> to be used to offset the PTCs that have been passed through to customers ("PTC customer receivable") but have not been used by PSE on its tax return. The offset of RECs and PTCs would occur during the time period October 2010 through December 2011 ("the REC/PTC offset period").

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<sup>2</sup> In the Proposal in Docket UE-070725, the Petitioners propose that REC proceeds received by PSE through November 30, 2009 be credited back to customers over a six-month period from October 2010 through March 2011. *See* Attachments B and C to the Proposal.

9. During the REC/PTC offset period, PSE would calculate the actual monthly balances of the REC liability and the PTC customer receivable. The Petitioners state that the actual balances would be used to track the difference between the amounts credited to the customer based on the calculation in Attachment A to the Petition<sup>3</sup> versus the amount that is actually credited to the customer during a given month due to variance in loads. The Petitioners state that this calculation would also true up the interest calculation on the PTC customer receivable and REC outstanding balances. The Petitioners state that interest on the REC balance would be calculated using the current net of tax rate of return on the REC balance with an offset for the REC balance included in current rates as a working capital item. The Petitioners also propose to provide a spreadsheet detailing this calculation to the Commission and all the parties to Docket UE-070725 for each month during the REC/PTC offset period.

10. The Petitioners state that PSE would debit a contra-account to the regulatory liability for RECs credited to customers, net of revenue sensitive items, under a new schedule, Schedule 134, and credit account 456 (Other Electric Revenues). When this contra-account is expected to be equal to, or exceeds, the total revenue requirement set in Schedule 134, PSE would request that Schedule 134 be stopped. The Petitioners state that any remaining balance associated with this refund, either over or under credited, would be cleared to the REC liability account.

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<sup>3</sup> Attachment A to the Petition is the same as Attachment B to the Proposal.

11. Each month during the REC/PTC offset period a second debit entry would be made to another contra-account to the regulatory liability for the remaining RECs, which would be equal to the amount of RECs that are to be offset against PTCs, as the Petitioners show in column (j) of Attachment A to the Petition. The Petitioners state that the offsetting credit entry would then be booked to account 456. A separate journal entry would be made to recognize the future liability to customers for the unused PTCs, which would debit account 407.3 (Regulatory Debit) with an offsetting credit to a regulatory liability account. This entry, the Petitioners state, would be reversed as PTCs are used in future years and credits are provided in customers' bills.

12. In the event that the REC liability did not have a sufficient balance to remain as a net credit on the balance sheet after these two entries, Petitioners state that the second entry would be adjusted so that the net balance in the REC regulatory liability account would not become a larger debit balance. Any recovery of PTCs that would be delayed due to this type of adjustment would be carried forward until there is a sufficient balance in the regulatory liability account to cover the PTCs delayed and the interest calculation would reflect this delay.

#### **IV. FINDINGS AND CONCLUSIONS**

13. PSE is engaged in the business of furnishing electric and gas service within the state of Washington as a public service company and is subject to the jurisdiction of this Commission.

14. On September 22, 2010, the Petitioners filed a Petition with the Commission for an order authorizing the accounting treatment related to the surplus amount that has been credited to customers through PSE's PTCs.

15. The accounting treatment methodology proposed by the Petitioners is reasonable and in the public interest, and should be approved.

## **V. DETERMINATION AND ORDER**

WHEREFORE, THE COMMISSION HEREBY:

16. Approves the accounting treatment in the Petition with respect to the surplus amount that has been credited to customers through PSE's production tax credits.

17. This order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of cost or any matters whatsoever that may come before it, nor shall anything herein be construed as an acquiescence in any estimate or determination of costs claimed or asserted.

18. The Commission retains jurisdiction over the subject matter of the Petition and the Petitioners to effect the provisions of this order.

Attachment B – PROPOSED ORDER

DATED at Olympia, Washington, and effective this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_.

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JEFFREY D. GOLTZ, Chairman

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PATRICK J. OSHIE, Commissioner

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PHILIP B. JONES, Commissioner