

Agenda Date: March 29, 2012  
Item Number: A1

**Docket:** UE-120277  
**Company:** Puget Sound Energy, Inc.

**Staff:** Roland Martin, Regulatory Analyst  
Christopher Mickelson, Regulatory Analyst  
Deborah Reynolds, Assistant Director-Conservation & Energy Planning  
Thomas Schooley, Assistant Director-Energy

### **Recommendation**

Issue a complaint and order suspending the tariff revisions filed by Puget Sound Energy, Inc., in Docket UE-120277, allowing the proposed rate decrease to take effect April 1, 2012, on a temporary basis subject to revision and set it for hearing.

### **Background**

On February 29, 2012, Puget Sound Energy, Inc. (PSE or company), filed with the Washington Utilities and Transportation Commission (commission) proposed tariff revisions to its electric service Schedule 95A-Federal Incentive Tracker to become effective April 1, 2012. The purpose of the filing is to pass-through interest on the unamortized balance of United States Treasury Department grant (Treasury Grant) received on February 23, 2010, under Section 1603 of the American Recovery and Reinvestment Act of 2009 (ARRA).

The Commission granted PSE authority to defer the Treasury Grant associated with the \$28.7 million Wild Horse Expansion Project as a regulatory liability and to credit it to customers over a ten year period.<sup>1</sup> PSE started amortizing this benefit in Schedule 95A on January 1, 2011.

On December 31, 2011, a provision of the newly enacted National Defense Authorization Act for Fiscal Year 2012 (NDAA) eliminated the requirement for utilities to normalize the Section 1603 Treasury Grant. This amendment technically allows PSE to either directly reduce rate base, or to credit customers with interest on the unamortized balance of the Treasury Grant.<sup>2</sup>

### **Discussion**

PSE seeks to increase the Schedule 95A bill credit by \$2,405,683 over the nine month period starting April 1, 2012.<sup>3</sup> This 52% credit increase results in an overall average rate decrease of

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<sup>1</sup> Docket UE-091570, Order No. 01, December 10, 2009

<sup>2</sup> The amendment occurred through Section 1096 of the National Defense Act for Fiscal Year 2012, H.R. 1540, 112<sup>th</sup> Congress, 1<sup>st</sup> Session.

<sup>3</sup> As of January, 2012, PSE had 1,087,139 electric customers; 17 of them are not affected by the rate change.

0.17%. The impact on an average monthly residential bill of 1,000 kWh is a decrease of \$0.17 from \$97 to \$96.83.

The company calculated the proposed interest credit by applying the authorized net of tax rate of return to the average of the monthly average unamortized balances of the Treasury Grant during the rate year ended December 31, 2012.

PSE states in its filing that the statutory amendment allows the calculation of interest on the unamortized balance of the Treasury Grant starting December 31, 2011, but that interest prior to that date is prohibited. Interest calculation is allowed to start on the grant balances on the date the amendment was passed. Accordingly, PSE did not include in its filing the interest credits from the date it received the Treasury Grant on February 23, 2010, through December 31, 2011, when the applicable law changed.

Staff disagrees with the company's position on calculating the interest credit on the unamortized balance of the Treasury Grant. The interest credit should be computed from the day of the Treasury Grant receipt when the benefit of the federal incentive became available to serve as an offset to the cost of the company's plant investment.

Due to the fact that ratepayers are the ones who bear the burden of return on and return of the cost of the wind investment project over time, it is only fair and just that the benefit of the Treasury Grant should serve as an offset the moment it became available to the company. A fundamental ratemaking principle that must not be ignored is matching of costs and benefits.

The effective date section of NDAA that eliminated the normalization requirements states, "The amendment made by this section shall take effect as if included in section 1603 of the American Recovery and Reinvestment Tax Act of 2009." Staff interprets this as if there was no normalization requirement from the time of Treasury Grant receipt. Therefore, Staff's position is consistent with the retroactive effect of the statutory amendment.

Although Staff considers the magnitude of the credit proposed in this filing to be deficient, the pass through of such benefit should not be delayed until resolution of the issues discussed above.<sup>4</sup> This ratemaking treatment in this filing applies specifically to the Treasury Grant associated with the Wild Horse Expansion Project and should not be construed as precedent regarding regulatory treatment of future Treasury grants received by PSE.

## **Conclusion**

Staff recommends the commission issue a complaint and order suspending the tariff revisions filed by Puget Sound Energy, Inc., in Docket UE-120277, allowing the proposed rate decrease to take effect April 1, 2012, on a temporary basis subject to revision and set it for hearing.

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<sup>4</sup> Based on preliminary staff calculation, the total rate decrease would be approximately \$8 million instead of the \$2.4 million proposed to be credited from April 1 through December 31, 2012.