

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

In the Matter of the Petition of)	DOCKET NO. UE-040926
)	
PUGET SOUND ENERGY, INC.,)	ORDER NO. 01
)	
Petitioner,)	
)	
For an Order Regarding the)	
Continuation of the Accounting)	
Treatment for the Virtual Right-Of-)	
Way Program ("Tree Watch)	
Program").)	APPROVING PETITION
.....)	

BACKGROUND

- 1 On May 12, 2004, Puget Sound Energy, Inc. (PSE or the Company) filed a Petition pursuant to WAC 480-09-370(b) for an order regarding the continuation of the accounting treatment of its Virtual Right-Of-Way Program ("Tree Watch Program") expenditures.

- 2 Deferred accounting treatment for Tree Watch Program expenditures was originally authorized by the Commission in an Order issued on July 8, 1998, in Docket No. UE-980877. In a subsequent Order, issued July 26, 2002, the Commission authorized Puget Sound Energy, Inc., to extend the accounting and ratemaking treatment of the Tree Watch Program by twelve months, to June 30, 2004.

- 3 According to the Petition, the Tree Watch Program has allowed the company to achieve improvements in the reliability of the electric service it provides. Through the Tree Watch Program, the company has achieved significant reductions in its major storm-related overhead outage rates and in repair costs during major storm events. The Company anticipates

that additional benefits can be achieved through continuation of the Program.

- 4 Under an extended Program, the Company proposes to spend up to \$2 million annually with expenditures focused on three components:
 - (a) Creation of new, enhanced vegetation management areas outside of the Company's dedicated right-of-way, along targeted transmission corridors.
 - (b) Application of Tree Watch practices to distribution circuits that were not initially targeted under the original program.
 - (c) Reapplication of program practices to distribution circuits where Tree Watch was applied but reliability results did not meet expectations due to permitting limitations and lower than optimal customer acceptance rates.

- 5 In its pending general rate case, Docket Nos. UG-040640 and UE-040641, PSE has requested that the Tree Watch Program be continued beyond June 30, 2004, as an ongoing program with no expiration date. In the rate case, the Company seeks approval to continue the existing program, but at a reduced level of expenditure: \$2 million annually.

- 6 Because the current Tree Watch Program is due to end prior to issuance of an order in the pending general rate case, PSE requests the Commission authorize it to continue the accounting treatment of Tree Watch Program expenditures through June 30, 2005, or until otherwise ordered in the pending general rate case. During that period the Company will:
 - (a) Capitalize, for recovery in rates, the Tree Watch Program costs, up to \$2 million annually beginning July 1, 2004, in a regulatory asset account as a deferred charge;

- (b) The Tree Watch expenditures will continue to amortize to the appropriate operation and maintenance accounts using a half-year amortization convention consistent with the accounting treatment originally authorized in Docket No. UE-980877;
- (c) Normalize federal income taxes related to Tree Watch expenditures; and
- (d) Include the regulatory asset and related deferred tax accounts in working capital for ratemaking purposes.

7 Commission staff recommends that the petition be denied. Staff does not take issue with PSE's decision to continue the program itself but argues that deferred accounting treatment is no longer appropriate. The program has become a preventative maintenance activity that conceptually does not differ from other activities that are accounted for as operating expenses. Deferred accounting, in staff's view, inappropriately shifts management responsibilities from the regulated company's executives to the regulators, because the creation of a regulatory asset carries an implicit promise to include the amount in rates later. Staff argues that the proper regulatory approach is to treat the program expenditures as ordinary operating expenses, which can be recovered through rates established in the general rate case.

8 The Commission, having considered the arguments of PSE and the staff, concludes that the deferred accounting treatment is appropriate, at least as an interim measure until the issue is resolved in the general rate case. We share staff's general concern about inappropriate use of deferred accounting, but we are also concerned that tree trimming activities continue to be given a high priority. While denial of the accounting treatment would not preclude PSE from continuing the program, PSE said that the program would have to compete with other priorities within the company's budget. A reduction in program activity could lead to lower reliability for PSE's customers. We will grant the petition in order to

avoid any possibility of a program reduction during the interim. This approach best preserves our options to consider all alternative accounting approaches in the general rate case.

FINDINGS AND CONCLUSIONS

- 9 (1) PSE is a public service company engaged in the business of electric and natural gas service within the state of Washington. As a public service company, it is subject to the jurisdiction of the Commission under the provisions of Chapter 80.08 RCW.
- 10 (2) On May 12, 2004, the Company filed with the Commission, a petition for an order regarding the continuation of the accounting treatment of the Tree Watch Program expenditures. The Company has requested that the accounting treatment for Tree Watch be granted for expenditures made through June 30, 2005.
- 11 (3) This matter was brought before the Commission at its regularly scheduled meeting on June 30, 2004.
- 12 (4) Within its pending general rate case in Docket Nos. UG-040640 and UE-040641, the Company has requested that the Tree Watch Program be continued as an ongoing program with no expiration date, at an expenditure level of up to \$2 million annually.

ORDER

THE COMMISSION ORDERS:

- 13 (1) The petition for an Order Regarding the Continuation of the Accounting Treatment for the Virtual Right-of-Way Program ("Tree Watch Program") through June 30, 2005, is approved.

- 14 (2) Beginning July 1, 2004 and continuing through June 30, 2005, PSE will:
- (a) Capitalize, for recovery in rates, Tree Watch Program costs, up to \$2 million annually, in a regulatory asset account as a deferred charge;
 - (b) Amortize the regulatory asset using a half-year amortization convention over the ensuing ten-year period, consistent with the accounting treatment originally authorized in Docket No. UE-980877;
 - (c) Normalize federal income taxes related to Tree Watch expenditures; and
 - (d) Include the regulatory asset and related deferred tax accounts in working capital for ratemaking purposes.
- 15 (3) PSE will prepare and submit an annual evaluation report of the Tree Watch Program's effectiveness; consistent with the current program reporting requirements. The Company will also submit with its annual report, PSE's actual expenditures under both the Tree Watch Program and the Company's standard vegetation management programs.
- 16 (4) This order shall in no way affect the authority of this Commission over rates, services, accounts, practices, or determination of costs of Applicant Puget Sound Energy. The Commission, under its general ratemaking authority, will have the ability in subsequent PSE general rate proceedings to evaluate the reasonableness of the Company's expenditures under the Tree Watch Program. The Company bears the burden of proving the fairness, justness, and reasonableness of these matters in such proceedings.

- 17 (5) The Commission retains jurisdiction to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this 2nd day of July, 2004.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD D. HEMSTAD, Commissioner