Puget Sound Energy, Inc. Supplemental Comments
Regarding BPA Generic Issues List
FY 2009 ASC
Submitted February 25, 2009

Puget Sound Energy, Inc., ("PSE"), provides the following supplemental response to the IOU Issues Response and reserves the right to also provide additional supplemental responses to any or all of these issues in future discussions regarding these issues.

Issue 1
Schedule 1
Account 303

Issue-Generic Direct Analysis Issue

Should BPA adopt common functionalization for similar types of software assets?

Discussion

Inconsistency between how the IOUs functionalize certain types of software, i.e. metering, customer information systems, work management, etc. The issue is whether BPA should maintain consistency in the functionalization of these common types of programs amongst utilities when calculating ASC.

IOU Response

Functionalization of software assets should reflect the regulatory treatment of such software assets in jurisdictional ratemaking.

In calculating ASCS, it may sometimes be appropriate for BPA to maintain consistency in the functionalization of similar types of software assets. In some cases, however, jurisdictional or cost differences may render a consistent or generic treatment insufficient. If BPA were to adopt common functionalization for similar types of software assets, such common functionalization should be a default from which a utility could opt out.

It is PSE's understanding that issues with respect to generic treatments will be discussed in future meetings, and PSE reserves the right to provide more detailed responses to such generic treatments at such meetings.

Issue 2
Schedule 1
Account 182.3 and Account 254

Issue-Generic Direct Analysis Issue

Should BPA adopt common functionalization for similar types of regulatory assets and liabilities?

Discussion

Inconsistency in the way the IOUs functionalize Deferred Pension, Pay and other labor related Assets and Liabilities. PGE and Avista and NW use the Labor Ratio. IPC uses PTD. PSE and PAC functionalize these assets to Distribution. The issue is whether BPA should maintain consistency in the functionalization of deferred pension, pay and other labor related assets and liabilities amongst utilities when calculating ASC.

Response

Functionalization of regulatory assets and liabilities should reflect the regulatory treatment of such regulatory assets and liabilities in jurisdictional ratemaking.

In calculating ASCs, it may sometimes be appropriate for BPA to maintain consistency in the functionalization of deferred pension, pay and other labor related assets and liabilities to the extent that regulatory treatment of the account is the same across utilities and jurisdictions. In some cases, however, jurisdictional or cost differences may render a consistent or generic treatment insufficient. If BPA were to adopt common functionalization for similar types of software assets, such common functionalization should be a default from which a utility could opt out.

It is PSE's understanding that issues with respect to generic treatments will be discussed in future meetings, and PSE reserves the right to provide more detailed responses to such generic treatments at such meetings.

Issue 3
Schedules 1 & 3
Accounts 182.3, 186, 253, and 254

Issue-Generic Direct Analysis Issue

Should BPA require that asset accounts that have a corresponding liability account have a common functionalization? For example, should pension costs in Accounts 182.3 and 254 have the same functionalization?

Discussion

Direct analysis is required in the functionalization of Other Regulatory Assets (Account 182.3), Miscellaneous Deferred Debits (Account 186), Other Deferred Credits (Account 253), and Other Regulatory Liabilities (Account 254). Direct analysis should include maintaining a consistency in functionalization where there is an asset in either Account 182.3 or 186 and offsetting liabilities in either Account 253 or 254. Direct analysis also requires showing how the assets and liabilities flow through the Income Statement

Response

Functionalization of Account 182.3 and Account 254 should reflect the regulatory treatment of such accounts in jurisdictional ratemaking.

In calculating ASCs, it may sometimes be appropriate for BPA to maintain consistency in the functionalization of pension costs in Accounts 182.3 and 254 to the extent that there is a direct relationship between an Account 182.3 asset and an Account 254 liability and each such asset and liability receives the same regulatory ratemaking treatment. However, the appropriate functionalization of both the Account 182 asset and the Account 254 liability should fall out of the Direct Analysis rather than be constrained by predetermined expectations. Direct Analysis should go beyond just the name or title of the account and reflect the purpose and reason why each account was established. Other than deferred taxes, PSE is unaware of offsets on a particular regulatory asset or liability being booked in opposing accounts. For example, PSE normally nets debits and credits (other than taxes) and books the net in the appropriate asset or liability account.

It is PSE's understanding that issues with respect to generic treatments will be discussed in future meetings, and PSE reserves the right to provide more detailed responses to such generic treatments at such meetings.

Issue 4
Schedule 3, Schedule 3B, 3-yr pp & OSS
Account 555 & 447

Issue-Generic Issue - Purchased Power Expense, Sales for Resale, and Price Spread

How should book-outs and trading adjustments be treated for calculations of purchased power expense and sales for resale revenue and the price spread calculation? Should the treatment be consistent across utilities.

Discussion

PacifiCorp is reducing the amount of its purchased power expense and sales for resale revenue by book-outs and trading adjustments. It appears that the other utilities do not. The inclusion or exclusion of book-outs and trading adjustments in purchased power and sales for resale numbers affects the price spread calculation. BPA is considering whether it is appropriate to remove these adjustments when performing the price spread calculation and the ASCs.

Response

PSE supports the use of the price spread, and the calculation of the price spread should be the same across all utilities. PSE understands that the objective of the price spread is to reflect the individual utility's experience in the wholesale market. Introducing differences in the calculation from utility to utility introduces more that just market differences and may distort the result when compared across utilities. Such inconsistencies in the data input to the calculation of the price spread should be avoided.

Issue 5 ASC Forecast Model

Issue-Generic Issue - New Plant Additions – Natural Gas Prices

Should BPA adopt a common natural gas price forecast in the ASC Forecast Model for all *new* natural gas-fired plant additions?

Discussion

Forecasted natural gas prices vary significantly between utilities forecasting natural gas burning new additions. None of the utilities submitted documentation on long term firm natural gas supply contracts, so it is assumed that the differences are a result of different natural gas price forecasting techniques.

Response

Natural gas price forecasts should reflect the regulatory treatment of natural gas price forecasts in jurisdictional ratemaking.

In calculating ASCs, it may sometimes be appropriate for BPA to use a third party gas price forecast for the gas commodity component of fuel cost. If BPA were to use such a third party gas price forecast, BPA should then reflect basis or hub differences as adjustments to this commodity price. BPA should also make adjustments for firm gas transportation costs on a utility-by-utility, resource-specific basis. These transportation cost adjustments would reflect the extent to which firm gas transportation contracts are in place for the specific new resource. In some cases, however, jurisdictional or cost differences may render a third party gas price forecast insufficient. If BPA were to use a third party gas price forecast, such third party gas price forecast should be a default from which a utility could opt out.

It is PSE's understanding that issues with respect to generic treatments will be discussed in future meetings, and PSE reserves the right to provide more detailed responses to such generic treatments at such meetings.

Issue 6
ASC Forecast Model

Issue-Generic Issue - New Plant Additions - Capacity Factor

Should BPA use common representative capacity factors in the ASC Forecast model for estimating the operating costs and expected energy output for plant additions of similar type?

Discussion

Projected capacity factors vary significantly between utilities for similar types of new resources

Response

Capacity factors for specific new resources should reflect the regulatory treatment of capacity factors in jurisdictional ratemaking.

In calculating ASCs, it may sometimes be appropriate for BPA to use common, representative capacity factors in the ASC Forecast model. In some cases, however, jurisdictional or cost differences may render common, representative capacity factors insufficient. If BPA were to use common, representative capacity factors, such common, representative capacity factors should be a default from which a utility could opt out.

It is PSE's understanding that issues with respect to generic treatments will be discussed in future meetings, and PSE reserves the right to provide more detailed responses to such generic treatments at such meetings.

Issue 7
Schedule 1, Income Statement
Various Accounts

Issue-Generic Issue – Inclusion - Other Regulatory Assets and Liabilities

What should be the functionalization of Other Regulatory Assets and Liabilities that are not included in rate base by the regulatory authority? What should be the functionalization of the corresponding income statement accounts for the Regulatory Assets and Liabilities that are not included in rate base by the regulatory authority?

Discussion

There is inconsistency between utilities in the functionalization of Regulatory Assets and Liabilities when not included in rate base. For example, PAC functionalized all Other Regulatory Assets and Liabilities that are not in its retail rate base to distribution. Idaho functionalized several items in these same accounts, also not included in its retail rate base, to PTD. Many of these accounts are included in working capital for ratemaking purposes. There is concern that the treatment of the income statement accounts for Other Regulatory Assets and Liabilities are not consistent with the asset and liability treatment for ASC purposes.

Response

Functionalization of Other Regulatory Assets and Liabilities not included in rate base should reflect the regulatory treatment of such assets and liabilities in jurisdictional ratemaking.

This issue illustrates an inconsistency that can exist in the Appendix 1 if an account on the balance sheet defaults to Direct Analysis, but the corresponding accounts on the income statement do not. To resolve this inconsistency, BPA should adjust the income statement to directly assign the component related to the balance sheet account. Forcing the balance sheet accounts to conform to the functional method used for the related income statement account is problematic because of the Direct Analysis default of the balance sheet account.

With respect to the functionalization of balance sheet accounts for which the default functionalization is Direct Analysis, the utility should first determine the regulatory treatment of the balance sheet account. If the balance sheet account was directly included in rate base (i.e., the balance sheet account was included in rate base but not through the regulated working capital component of rate base calculation) for ratemaking purposes, the utility should further review the specific functional nature of the balance sheet account. If, however, the balance sheet account was either not included directly in rate base for ratemaking purposes or was included only via the regulated working capital calculation, the utility should functionalize the balance sheet account to DIST/Other.