

# Davison Van Cleve PC

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February 22, 2005

Roger Braden, Assistant Director  
Washington Utilities & Trans. Comm'n  
1300 S. Evergreen Park Drive S.W.  
Olympia, WA 98504-7250

Re: Docket No. UE-041570

Dear Roger:

It has recently come to our attention that an issue has arisen in Docket No. UE-041570 regarding the appropriate amount to include in Puget Sound Energy's ("PSE") Power Cost Adjustment ("PCA") account for the PCA II period. Please be advised that the Industrial Customers of Northwest Utilities ("ICNU") objects to PSE's proposal to restore the full return on the Tenaska regulatory asset for 10.5 months of the PCA II period. It is our understanding that PSE's proposal would increase PSE's earnings by approximately \$10.9 million. ICNU also objects to Staff entertaining settlement discussions regarding this issue without involving parties who participated in the Power Cost Only Rate Case ("PCORC")(Docket No. UE-031725) and the review of the deferred account balance from the PCA I period (Docket No. UE-031389).

Based on discussions with Staff, we assumed that there were no issues related to the application of the Tenaska disallowance mechanism to the PCA II period. As a result, we have not previously participated in Docket No. UE-041570. We were surprised to learn last Friday that PSE was seeking to restore \$10.9 million to earnings based on application of the Tenaska disallowance to only the last six weeks of the PCA II period. We have reviewed the Staff Open Meeting Memo, dated February 9, 2005, as well as PSE's Response to the memo, dated February, 7, 2005. We received both of these documents for the first time last Friday. It is our opinion, based on our participation in the PCORC case, that PSE's request has no merit and that the Staff memo accurately analyzes the application of the PCORC decision to the PCA II period.

The mechanism adopted in the PCORC case was based on past, not current, imprudent actions by PSE. In particular, the Commission elected to disallow 50% of the return on the Tenaska regulatory asset if Tenaska gas costs exceed the benchmark, even if PSE's gas purchases are prudent. Docket No. UE-031725, Order No.14 at ¶ 95. Thus, the only issue in the PCA II period is to determine whether the

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benchmark was exceeded, and PSE's prudence in making gas purchases is irrelevant. We can see no analytical basis for allowing recovery of any of the \$10.9 million sought by PSE. In addition, the evidentiary record necessary to support application of the Tenaska disallowance mechanism to the PCA II period was fully developed in the PCORC case, so an additional hearing is unnecessary. We trust that Staff will continue to represent the interests of customers and oppose PSE's unwarranted attempt to increase its earnings.

Please call me if you any questions regarding our position.

Sincerely,

Brad Van Cleve