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VIA EMAIL & OVERNIGHT MAIL

February 24, 2005

Ms. Carole J. Washburn
Washington Utilities and Transportation
Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504

**Re: Puget Sound Energy, Inc. General Rate Case, Consolidated
Docket Nos. UG-040640, UE-040641, UE-031471, UE-032043**

Dear Ms. Washburn:

Enclosed please find an original and 19 copies of Puget Sound Energy, Inc.'s Motion for Clarification. We will also be providing electronic copies via email.

Thank you for your assistance in this matter.

Very truly yours,

Kirstin S. Dodge

KSD:pli

Enclosures
cc: Service List

[07771-0089-000000/BA050550.023]

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Perkins Coie LLP (Perkins Coie LLC in Illinois)

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing letter with enclosures via overnight mail in accordance with WAC 480-07-150(6)(b).

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Dated at Bellevue, Washington, this 24th day of February, 2005.



Pam Iverson

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

<p>WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,</p> <p style="padding-left: 40px;">Complainant,</p> <p>v.</p> <p>PUGET SOUND ENERGY, INC.,</p> <p style="padding-left: 40px;">Respondent.</p>	<p>Docket No. UG-040640</p> <p>Docket No. UE-040641</p> <p>PUGET SOUND ENERGY, INC.'S MOTION FOR CLARIFICATION</p>
<p>In the Matter of the Petition of</p> <p>PUGET SOUND ENERGY, INC.,</p> <p>For an Order Regarding the Accounting Treatment For Certain Costs of the Company's Power Cost Only Rate Filing</p>	<p>Docket No. UE-031471</p>
<p>In the Matter of the Petition of</p> <p>PUGET SOUND ENERGY, INC.,</p> <p>For an Accounting Order Authorizing Deferral and Recovery of Investment and Costs Related to the White River Hydroelectric Project</p>	<p>Docket No. UE-032043</p>

1 Pursuant to WAC 480-07-835, Puget Sound Energy, Inc. ("PSE" or "the Company") hereby requests that the Commission clarify two matters set forth in Order No. 6 in this proceeding related to the calculation of power costs and the calculation of a normalized level

PUGET SOUND ENERGY, INC.'S
MOTION FOR CLARIFICATION

of future general rate case expenses. The Company is not seeking through this motion to change the outcome with respect to these issues, but rather to ensure that the Commission's revenue requirement figures accurately reflect the Commission's substantive determinations in Order No. 6.

Power Cost Calculation

2 The Company believes there is an error in the Commission's calculation of PSE's pro forma test year power costs with respect to the disallowance associated with Tenaska. That calculation requires, among other things, inputting the Company's authorized rate of return in order to calculate the return on and partial disallowance of the Tenaska regulatory asset. Consistent with the Company's power cost data submitted in its rebuttal filing, Exhibit No. 93 (Ryan), the Commission's calculation incorporated the rate of return the Company *requested* in this case. However, given that Order No. 6 authorized a different rate of return for the Company, the *authorized* rate of return should be input into the power cost baseline calculations.

3 Attachment A to this motion shows the adjustments required to the Company's rebuttal rate year power costs, Exhibit No. 93, to implement the determinations made in Order No. 06. The first adjustment is to correct the combustion turbine oil cost to the allowed amount of \$3.87 million from the \$12.75 million included in the Company's rebuttal power costs. This calculation is shown on lines 36 through 39 of Attachment A, and the impact of this change to Exhibit 93 is shown on lines 2 and 15 of Attachment A. This calculation is not at issue in this motion.

4 The second required adjustment is to correct the rate of return used to calculate the disallowed return associated with the Tenaska regulatory asset. The Company used a 7.78% net of tax rate of return in its rebuttal filing, while the net of tax rate of return authorized by

the Commission in Order No. 6 is 7.01%. The impact of this change is shown on lines 41 through 52 of Attachment A. The change in the rate year Tenaska disallowance is shown on line 48 and the impact for PSE's rate year power costs is shown on line 16 of Attachment A.

5 The impact of these two adjustments is to lower test year power costs by \$7,719,364 as shown on line 24 of Attachment A. Subtracting this test year amount from the Company's pro forma increase in power costs in its rebuttal filing of \$90,355,364¹ results in a corrected increase in power costs pursuant to Order No. 6 of \$82,636,000, which results in a decrease of net operating income ("NOI") of \$53,713,400.² This is the reduction in NOI the Company believes should be used to calculate its electric revenue requirement, instead of the \$53,032,522 decrease in NOI set forth in Order No. 6.³ The difference between these two amounts is \$680,878, which is 50% of the change in the test year return on Tenaska due to the change in the net of tax rate of return.⁴

6 The Company therefore requests that the Commission correct Order No. 6 by increasing its determination of the electric revenue requirement deficiency by \$1,096,821.⁵

7 It is the Company's understanding that Commission Staff and ICNU agree that the requested power cost correction should be made.

General Rate Case Costs

8 The Company also believes that a correction should be made to the normalized level of rate case costs approved in Order No. 6 "to correct the application of principle to data."⁶

¹ Exhibit No. 241C (Story), page 2.03, line 16.

² See Attachment A, lines 26 through 32.

³ See Order No. 6, p. 102, line 2.03.

⁴ See Attachment A, lines 34 and 48.

⁵ See Attachment A, line 52.

⁶ WAC 480-07-835(1).

9 Order No. 6 determined that the Company would be permitted to recover the unamortized rate case costs it incurred for the 2001-02 general rate case as well as the costs for the current proceeding that PSE deferred through August 2004, although no return on those amounts would be permitted.⁷ "PSE will amortize the authorized balance over three years."⁸

10 Order No. 6 then states: "Going forward, PSE will recover the costs it incurs in prosecuting rate cases as a normalized expense."⁹ Order No. 6 also discusses and rejects the arguments of various parties to disallow all or some portion of the Company's rate case costs incurred in this proceeding.¹⁰ Yet, the Commission's discussion and ultimate calculation of a normalized level of rate case expense going forward does not include the costs that were incurred for this case through August 2004 in determining the normalized amount.¹¹ This results in an effective disallowance or reduction in the level of rate case costs of nearly 50% (2004 total rate case costs of \$3,054,844 less costs incurred through August 2004 of \$1,540,590).¹² Such reduction is contrary to the Commission's statements elsewhere in Order No. 6.¹³ Thus, the Company believes that the Commission's rate case adjustment may be the result of an error in calculation rather than the result intended by the Commission.

⁷ Order No. 6, ¶¶ 170-171.

⁸ *Id.* at ¶ 170.

⁹ *Id.* at ¶ 173.

¹⁰ *Id.* at ¶¶ 173-176.

¹¹ Compare Order No. 6 at ¶ 172 with Staff's Initial Brief, App. B Part 1 (Electric) p. 25 and App. B Part 2 (Gas) p. 14 with Attachment B to this motion.

¹² See Order No. 6 at ¶ 172; Staff's Initial Brief, App. B Part 1 (Electric) p. 25 line 9 and App. B Part 2 (Gas) p. 14 line 5; Attachment B to this motion, line 4, Total Proposed Correction column.

¹³ See Order No. 6 at ¶ 176.

11 Attachment B to this motion shows how the Company believes the Commission calculated the NOI impact of the rate case costs approved in Order No. 6 for both electric and gas, as well as the corrections the Company believes need to be made to these calculations in order to reflect the principles stated in Order No. 6 regarding rate case costs. Specifically, line 4 of Attachment B includes in the calculation of a normalized level of general rate case costs the costs incurred for this proceeding through August 2004.

12 The total corrected level of general rate case costs would be \$3,054,844.¹⁴ This is the level of costs incurred for this proceeding noted in Order No. 6 that the Commission declined to disallow.¹⁵ The proposed corrected normalized level of overall rate case costs adds to this amount \$650,000 for PCORC expenses and divides that total by three, consistent with the Commission's assumption that PSE would file a PCORC every three years that costs \$650,000 to prosecute.¹⁶

13 Restoring the costs incurred through August 2004 to the baseline from which a normalized level of general rate case costs is calculated would not constitute double recovery of this amount because the calculations involve two entirely separate sets of costs. The Commission's authorization of recovery of prior rate case costs through August 2004 results in recovery of costs that have already been incurred and were deferred for future recovery. By contrast, the normalized level of rate case costs represents costs that the Company is expected to incur on an ongoing basis going forward that should be built into and collected in rates on an ongoing basis. Even if the Commission grants the Company's

¹⁴ Attachment B, Total Proposed Correction column, line 3 plus line 4.

¹⁵ Order No. 6 at ¶¶ 172, 176.

¹⁶ Order No. 6 at ¶ 184.

motion for clarification on this issue, Order No. 6 will result in a write-off of the actual costs the Company incurred for this proceeding after August 2004.

14 For these reasons, the Company believes that the Commission may wish to correct Order No. 6 with respect to the rate case cost calculation. However, as stated above, in the event the Commission intended the rate case cost results set forth in Order No. 6, the Company is not seeking reconsideration of the Commission's decision.

15 The Company's proposed correction would result in an increase in the Commission's determination of the electric revenue requirement deficiency of \$376,277 and an increase in the Commission's determination of the gas revenue requirement deficiency of \$168,082.¹⁷

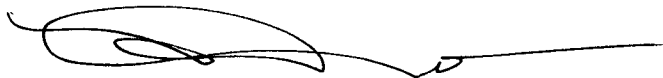
Conclusion

16 For the reasons set forth above, PSE respectfully requests that the Commission enter an order correcting its calculation of the Company's revenue requirement deficiency for electric in the amount of \$1,473,098 and for gas in the amount of \$168,082.

DATED: February 24, 2005

Respectfully Submitted,

PERKINS COIE LLP



Kirstin S. Dodge, WSBA No. 22039
Jason T. Kuzma, WSBA No. 31830
Attorneys for Puget Sound Energy, Inc.

¹⁷ See Attachment B, line 32.

Reconciliation from Revised Rebuttal to GRC Order No. 6

(dollars in thousands)

EXHIBIT 93 (WP JMR 23)			(A)	(B)	GRC ORDER
Row		Rebuttal w/ Gas Price Updates	Oil Adjustmt	Tenaska Disallow Adjust.	W/ Rebuttal \$5.60 avg Gas Price
1	501 Coal Fuel	\$ 40,719			\$ 40,719
2	547 Natural Gas Fuel	107,298	(8,881)		98,418
3	555 Purchase & Interchange	601,398			601,398
4	557 Other Power Supply	6,708			6,708
5	565 Wheeling	44,806			44,806
6	447 Secondary Sales	(27,896)			(27,896)
7	Subtotal	\$ 773,034	\$ (8,881)	\$ -	\$ 764,153
8	456 Non-Core Gas	-			-
9	Subtotal with Non-Core Gas	\$ 773,034	\$ (8,881)	\$ -	\$ 764,153
10					
11	Losses	Load in MWh			20,923,938
12	6.40%	Delivered Load			19,584,806
13					
14	Revenue Requirement Adjustments:				
15		Before adjustment	\$ (8,881)		\$ 764,153
16	(=L48)	Tenaska Buyout Disallowance		1,061	(9,660)
17		Tenaska Prudence Disallowance			(1,972)
18		March Point 2 Prudence Disallowance			(1,061)
19		Net Power Costs	\$ (8,881)	\$ 1,061	\$ 751,460
20	Prod'n O&M (including ben & p/r tax)	54,163			54,163
21	Colstrip 500 KV Expense	492			492
22	Net Costs for Revenue Requirement	\$ 813,935	\$ (8,881)	\$ 1,061	\$ 806,115
23	As Filed Net Costs	813,935			813,935
24	Difference	-			\$ (7,820)
25					In Dollars
26					Factored
27					0.98719
28					Prod'n
29					
30					
31					
32					
33					
34					
35					
36	(A)	ADJUST FOR DISALLOWANCE OF SOME OIL/CAPACITY COST			
37		Oil Included in Rebuttal per w/p JMR 080	(12,750,629)		Exh's 101, 102C (WP JMR080), TR 871:24-872:24
38		Oil approved per GRC Order 6 par 123	3,870,000		PSE reply brief at 35, fn 183
39			Adj (8,880,629)		
40					
41	(B)	ADJUST FOR LOWER RATE OF RETURN ON TENASKA RATEBASE AMA			
42		Tenaska AMA Ratebase for Rate Year: \$ 179,146,208	Exhibit 241C page 7 of 8		
43		As Filed	Ordered		
44		Return	Return		
45		7.78%	7.01%		0.98719
46		Return	13,937,575	12,558,149	Prod'n
47		Before Tax	21,442,423	19,320,230	Change
48		Disallowance = 50% of Return	10,721,212	9,660,115	Net of Tax
49		Prod'n Factor	0.98719	0.98719	\$ (680,878)
50					
51		As Filed	10,583,873	Per Order	9,536,369
52					Conversion Factor 62.0774%
					Increase Revenue Requirement 1,096,821

PUGET SOUND ENERGY
RATE CASE EXPENSES

LINE NO.	DESCRIPTION	Electric		Gas		Total	
		Allowed In Order 6	Proposed Correction	Allowed In Order 6	Proposed Correction	Allowed In Order 6	Proposed Correction
1	Rate case costs to be normalized:						
2	Allowed 1/2 of PCORC costs	\$ 650,000	\$ 650,000			\$ 650,000	\$ 650,000
3	Estimated 2004 Rate Case Costs to be expensed post August 2004	449,348	449,348	1,064,906	1,064,906	1,514,254	1,514,254
4	Deferred 2004 Rate Case costs through August 2004	1,078,074	1,078,074	462,516	462,516	1,540,590	1,540,590
5		1,099,348	2,177,422	1,064,906	1,527,422	2,164,254	3,704,844
6							
7	Proforma Normalized Annual Amount (line 5 / 3 years)	\$ 366,449	\$ 725,807	\$ 354,969	\$ 509,141	\$ 721,418	\$ 1,234,948
8							
9	Amortization of 2001 remaining balance over 3 years	252,000	252,000	345,052	345,052	597,052	597,052
10	Amortization of 2004 deferred rate case costs over 3 years	359,358	359,358	154,172	154,172	513,530	513,530
11	Proforma Amortization of deferred rate case costs	611,358	611,358	499,224	499,224	1,110,582	1,110,582
12							
13	Total Proforma rate case costs	\$ 977,807	\$ 1,337,165	\$ 854,192	\$ 1,008,364	\$ 1,832,000	\$ 2,345,530
14							
15	Amount in test period:						
16	Amortization	767,268	767,268	600,936	600,936	1,368,204	1,368,204
17	PCORC Legal costs	400,902	400,902			400,902	400,902
18	Total Amount in Test Period	\$ 1,168,170	\$ 1,168,170	\$ 600,936	\$ 600,936	\$ 1,769,106	\$ 1,769,106
19							
20	Increase (Decrease) Expense	(190,363)	168,995	253,256	407,428	62,894	576,424
21							
22	Increase (Decrease) FIT	\$ 66,627	\$ (59,148)	\$ (88,640)	\$ (142,600)	\$ (22,013)	\$ (201,748)
23	Increase (Decrease) NOI	\$ 123,736	\$ (109,847)	\$ (164,617)	\$ (264,828)	\$ (40,881)	\$ (374,675)
24							
25							
26	NOI Per Commission Order	\$ 123,736	\$ 123,736	(164,617)	(164,617)	62,894	576,424
27							
28	Difference in NOI		(233,583)		(100,211)		
29							
30	Conversion Factor		62.07738%		59.62063%		
31							
32	Increase in Revenue Requirement	\$ 376,277	\$ 376,277	\$ 168,082	\$ 168,082	\$ 544,359	\$ 544,359