



October 24, 2003

Ms. Carole J. Washburn, Executive Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Advice No. 2003-31 – Electric Tariff Filing
Application for Power Cost Adjustment – Power Cost Only Rate Review Filing

Dear Ms. Washburn:

Pursuant to RCW 80.28.060, WAC 480-80-101 and -105, and the Power Cost Adjustment Mechanism (PCA) set forth in Exhibit A to the Settlement Stipulation approved by the Commission in its Twelfth Supplemental Order in Docket Nos. UE-011570 and UG-011571 (consolidated), Puget Sound Energy, Inc. (PSE) respectfully submits the original, 20 copies, and the requisite electronic copies of the following testimony, exhibits, proposed tariff sheets, supporting workpapers, and procedural motions:

1. Prefiled Direct Testimony of William A. Gaines, with 16 exhibits;
2. Prefiled Direct Testimony of Charles J. Black, with 42 exhibits;
3. Prefiled Direct Testimony of Julia M. Ryan, with 10 exhibits;
4. Prefiled Direct Testimony of Eric M. Markell, with 43 exhibits;
5. Prefiled Direct Testimony of John H. Story, with 9 exhibits, including:
 - WN U- 60, Tariff G - (Electric Tariff):
 - Twenty Fifth Revised Sheet No. 95 - Power Cost Adjustment Clause
 - Original Sheet No. 95-a - Power Cost Adjustment Clause (Continued)
 - Original Sheet No. 95-b - Power Cost Adjustment Clause (Continued)
 - Original Sheet No. 95-c - Power Cost Adjustment Clause (Continued)
 - Original Sheet No. 95-d - Power Cost Adjustment Clause (Continued)
 - Original Sheet No. 95-e - Power Cost Adjustment Clause (Continued)
6. PSE's Motion for Protective Order with Highly Confidential Provisions; and
7. PSE's Motion for Expedited Procedural Schedule Consistent with PCA Settlement Stipulation.

Purpose

PSE seeks the Commission's approval of a set of adjustments to the Power Cost rate to reflect changes in the Company's overall normalized power supply costs. The Power Cost rate currently in effect was established through implementation of the PCA mechanism and settlement of PSE's last general rate

case filing in June 2002 in Docket Nos. UE-011570 and UG-011571 (consolidated). The current Power Cost rate reflects the projected Power Cost baseline for the period from July 2002 through June 2003 established and approved in Docket Nos. UE-011570 and UG-011571 (consolidated). This Application seeks approval of a new, adjusted Power Cost baseline rate based upon projected normalized power costs for the rate year – the 12-month period ended April 1, 2004. The primary changes to the Company's power costs are driven by: (1) the acquisition of a 125 MW (approximate) share of the Frederickson 1 combined cycle-combustion turbine project, and (2) various changes to the composition, cost and operation of the Company's existing power supply portfolio. Overall, this filing will increase rates by 4.72 % in order to recover \$64,443,049 million of additional costs.

As detailed in the testimonies and exhibits, the acquisition by PSE of the share of the Frederickson 1 project represents the culmination of a robust planning and analytical process; a broad review of available opportunities; extensive due diligence; and tough negotiations. Throughout the resource planning and acquisition process, PSE has been mindful of the Commission's regulatory standards and expectations for new resource acquisitions, including the prudence requirement. We believe that the Company has satisfied each element of this requirement with respect to the Frederickson 1 acquisition.

Planning and Acquisition Process Leading To This Filing

As detailed in the testimonies, in the last few years PSE has significantly strengthened its energy portfolio and risk management efforts, re-assessed its market assumptions and corporate strategy, re-examined its load-resource balance, and enhanced its long-term resource planning efforts. PSE's recent least cost planning process (which led to the recent filing of PSE's 2003 Least Cost Plan) included extensive analyses and active involvement with the Commission Staff, Public Counsel, consumer advocates, conservation and renewable resource advocates, and many other stakeholders. The planning process verified PSE's significant need for the addition of new electric generation resources. The planning process led to development of a resource planning standard and a balanced electric resource portfolio strategy (consisting of aggressive conservation, renewable resources, and a mix of thermal resources) that meets customer needs, keeps rates low, and protects against market risks as recently experienced in the region.

Through this planning effort, PSE identified a need for new energy resources, including conservation and generation, of 427 average megawatts (aMW) in 2004, rising to 1,715 aMW in 2013. The largest factor affecting the Company's existing need for new electric resources is the expiration of several long-term power supply contracts in PSE's electric resource portfolio. In addition, PSE continues to experience above-average electric customer growth of approximately 2 percent annually. Faced with these deficits and recognizing the limits of the short-term power market, PSE determined it needed additional generation resources in the near-term in addition to conservation.

To meet customer needs, PSE developed an electric resource strategy that includes aggressive goals in conservation and renewables in addition to a necessary thermal component. This diverse portfolio of resources is designed to help provide customers with a reasonably-priced, reliable electric supply in a very uncertain energy market.

In late 2002, PSE sent a generation asset solicitation to all 53 known project owners and developers in the Pacific Northwest region, representing a total of 71 projects in the region. Also in late 2002, PSE sought proposals from over 70 entities in the region for the acquisition of purchased power agreements ("PPAs"). In addition, PSE evaluated whether it could self-develop a generation project or projects.

Following the year-long process of evaluating and prioritizing these resource options, PSE's resource acquisition group recommended to PSE's Board of Directors that it authorize the purchase of a 125 MW to 137.5 MW share (or 49.85 percent ownership) in the Frederickson 1 gas-fired, power generation facility near Spanaway, Washington. We concluded (and our Board agreed) that the Frederickson 1 acquisition represented the least cost alternative available to the Company considering all factors.

Procedural Matters

PSE is filing two motions along with its Application. First, PSE requests that the Commission issue a protective order with highly confidential provisions as soon as possible, so that PSE can file highly confidential information and thereby complete its filing. As detailed in the Motion for Protective Order, the protective order should include these provisions due to competitive sensitivity regarding confidential information that PSE received from project owners and developers.

Second, the parties to the settlement of PSE'S 2001-2002 General Rate Case agreed to complete review of applications for the adjustment of the Power Cost rate within four (4) months. While the Commission itself is not bound by such agreement, PSE requests that the Commission set an expedited hearing schedule in this proceeding that is consistent with the four (4) month commitment that the parties gave in the PCA Settlement. PSE requests that the schedule enable the proposed changes included in the Application to become effective on or before April 1, 2004.

The tariff sheets described herein reflect issue dates of October 24, 2003, and effective dates of November 24, 2003. As PSE expects that this filing will result in an adjudicative proceeding where public testimony will be taken, notice of the tariff change will be provided in accordance with WAC 480-100-197. PSE will work with Commission Staff to develop the notice to customers.

Service and correspondence relating to this Application should be directed to:

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October 24, 2003
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Page 4 of 4

We look forward to working with the Commission, Commission Staff, Public Counsel, our customers, and other interested parties in this important matter.

Very truly yours,

A handwritten signature in cursive script that reads "Kimberly Harris".

Kimberly Harris
Vice President Government and Regulatory Affairs

Enclosures

cc: Service List
EPCOR
Todd Glass