Q. What is driving the increased demand for natural gas service?

A. There are a number of factors driving the increased demand for natural gas. First, with economic growth in the region, population in PSE's service territory has increased. Most new housing units, especially single family homes, are equipped with natural gas. Second, even with recent increases in the price of gas, the cost of heating with natural gas continues to have an advantage over the cost of heating with electric or oil; hence, conversions from electric and oil to gas furnaces in older housing stock are expected to continue.

Q. How does this increased demand affect the energy delivery system?

A. For both the gas and electric systems, this increased demand results in the need for additional system capacity and maintenance projects, as well as additional resources to meet customer requests. Large capital investments, such as the $3~~4~~2 million, ~~14~~ 9 mile, high pressure "Everett Delta" gas main project, are required to provide for growth and to maintain reliable service to existing customers during peak conditions. Benefits from investments of this type were made apparent during the mid-December 2005 "cold snap" when below freezing temperatures were experienced for multiple consecutive days. PSE's need to take cold weather actions (such as curtailing gas deliveries to some customers) were greatly reduced from what had been necessary in previous years with similar system demands.

replacements and maintain pole assets at the lowest possible cost. The Company will inspect approximately 35,700 poles each year through this program.

Q. What are the costs associated with pole replacements?

A. In 2005, the Company spent approximately $4 million in capital and $~~1.2~~ 0.6 million in OMRC on the proactive replacement of transmission and distribution poles. PSE anticipates proactive investments of $[redacted] million in capital and $[redacted] million in OMRC for replacement of transmission and distribution poles for the two-year period 2006 and 2007. The Company will likely increase proactive replacements should the results from the new planned distribution pole inspection and treatment program indicate the need to do so based on pole condition.

Q. Please describe PSE's underground cable remediation program.

A. The goal of the Company's underground cable remediation program is to remediate all high molecular weight polyethylene insulated ("HMW") 15kV cables while preventing cable outages from exceeding 1,500 per year. Initially the program entailed either abandonment or direct replacement of HMW cable. Since 1996, PSE has injected some of these cables with silicone fluid rather than abandoning or replacing them. Silicone injection results in restoration of the insulation quality of the cable, extending the life of the cables for up to 20 years or more without the disruption and costs of trenching through established commercial areas or neighborhoods.

REVISED SEPTEMBER 15, 2006

existing overhead line to underground facilities at some expense to the Company under its tariff Schedule 74. PSE anticipates total investments of $[redacted] million during 2006 and 2007. This represents a [redacted]% increase over PSE's 2004 and 2005 investments of $~~23~~25 million. The anticipated increase is due to expected road and transportation projects, as well as increased requirements during project construction, such as erosion remediation, restrictive work hours for traffic or noise mitigation and increased restoration requirements.

Q. For what new electric transmission reliability measures is the Company responsible?

A. PSE's transmission system is planned and operated according to reliability criteria that are established by the North American Electric Reliability Council ("NERC") and the Western Electricity Coordinating Council ("WECC"). These criteria consist of both the NERC/WECC planning/operating standards as well as the WECC Reliability Management Systems ("RMS"). After the August 2003 blackout in the Northeastern United States, NERC clarified and consolidated all 90 of its standards into a new Version 0, which became effective on April 1, 2005. More NERC standards are being developed.

In anticipation of these evolving reliability standards, PSE is proactively planning new transmission infrastructure to continue to maintain a reliable system. PSE anticipates ~~average annual expenditures~~ total investments of $23 million ~~in~~ during 2006 and 2007 to meet emerging needs.

REDACTED VERSION