BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, INC., Respondent.	DOCKET NOS. UE-060266 and UG-060267 (Consolidated)

REPLY BRIEF
OF THE FEDERAL EXECUTIVE AGENCIES

Dated: November 14, 2006

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The Federal Executive Agencies ("FEA") hereby files this Reply Brief in response to the Initial Brief of Puget Sound Energy, Inc., ("PSE," "Puget," or "the company").

Puget's opening brief at section IV, pages 14-19 addresses the Company's proposed Depreciation Tracker and Known and Measurable Alternative. As described in detail in FEA's opening brief, Puget's Depreciation Tracker proposal should be rejected for the following reasons:

1) It would inappropriately shift responsibility and risk of increasing Depreciation Expense between rate cases away from shareholders and onto ratepayers.
2) It could remove or reduce incentives to control prudently the cost of plant additions.
3) Depreciation Expense is not similar to fuel cost and Puget has demonstrated no history of volatile and uncontrollable Depreciation Expense.
4) It could encumber ratepayers with additional revenue requirements annually into the future for Depreciation Expense without capturing offsetting benefits.
5) It is a distortion of the test year relationships.
6) It is not beneficial to ratepayers.
7) Puget has not shown that it needs an additional ratemaking mechanism to make prudent infrastructure investments.
8) It is an unusual and extreme ratemaking proposal that has apparently not been adopted for any other utility in the country.

Puget's opening brief at page 17, paragraph 42, states that: "As an alternative to the Depreciation Tracker, the Company proposed an adjustment in this case for transmission and distribution energy delivery system plant that has been put in service since the close of the test year, a type of adjustment proposed by FEA witness Mr. Smith in his response testimony." However, Puget's proposed version of a "known and measurable" alternative to the Depreciation Tracker goes well beyond the recommendation of FEA witness Mr. Smith. FEA continues to support a limited "known and measurable" adjustment to recognize additional depreciation on verifiable, non-revenue producing, non-expense reducing plant additions. The FEA proposed an alternative that would recognize non-revenue producing, non-expense reducing plant additions for three months beyond the test year, i.e., to December 31, 2005. In its opening brief, the FEA proposed an improved alternative "known and measureable" adjustment to Puget's proposed Depreciation Tracker (which should be rejected for all of the reasons stated above), that Puget be allowed to recover an additional revenue requirement for the **return of** post-test-year depreciation expense for the nine-month period through June 30, 2006 (which is the same as the period in Puget's alternative proposal).[1] This alternative is consistent in concept with the aspect of Puget's Depreciation Tracker proposal that provides for a "recovery of" PSE's investment in the new plant in service, but not a "recovery on" that plant.[2] If the Commission determines that Puget should be awarded an additional revenue requirement for recovery of depreciation expense on non-revenue producing, non-expense reducing post-test year transmission and distribution plant additions, FEA recommends limiting such amounts to approximately $1.086 million for

[1] FEA is concerned that Puget's figures extend nine months beyond the test year, rather than be limited to the three month post-test year adjustment suggested by FEA witness Smith; however, FEA would not object to Puget's nine month extension provided that the "return on" component is eliminated from the alternative as shown above.

[2] See, e.g., Puget's opening brief at paragraph 41: "The Depreciation Tracker provides an equitable and balanced approach for new plant put in service after the test year because it addresses only the 'recovery of' PSE's investment in the new plant in service. It does not include the new plant in rate base and thus does not provide the Company 'recovery on' transmission and distribution system investments made since the end of the most current test year … Recovery on the new plant would continue to be foregone until that new plant is added to the Company's rate base in a subsequent rate case."

Puget's electric and $503,000 for Puget's gas utility operations. This alternative provides for the **return of** post-test-year depreciation expense for the nine-month period through June 30, 2006.

CONCLUSION

For the reasons set forth above, FEA urges this Commission to adopt its recommendations on the matters addressed in this reply brief as well as in its testimony and initial brief.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that on this date I caused to be served the foregoing Reply Brief of the Federal Executive Agencies by mailing with postage prepaid to the following:

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I declare under penalty of perjury under the laws of the District of Columbia that the foregoing is true and correct.

Dated this 14th day of November, 2006, in Washington, DC.

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