

**EXHIBIT NO. ___(DEM-5C)
DOCKET NO. UE-06 ___/UG-06 ___
2006 PSE GENERAL RATE CASE
WITNESS: DAVID E. MILLS**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-06 ___
Docket No. UG-06 ___**

**FOURTH EXHIBIT (CONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
DAVID E. MILLS
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**REDACTED
VERSION**

FEBRUARY 15, 2006

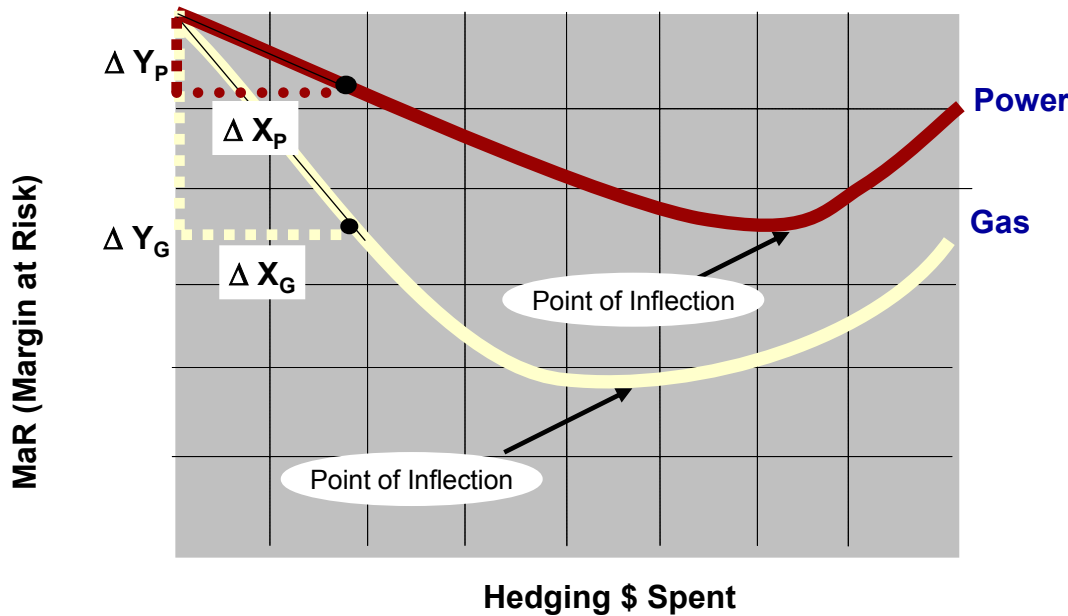
Margin at Risk And Forward Hedging



Current Basis for Hedging Decisions

- Probabilistic Position
 - ◆ Volumetric forecast of load resource, given energy market volatility, resource outages and hydrological forecasts.
- Exposure Report
 - ◆ Captures portfolio exposure to spot market price fluctuations.
- Fundamental market views
- Marginal MaR Ratio
 - ◆ Measures risk reduction as a result of incremental hedging.
 - ◆ Ratio allows for comparative assessment of different commodity hedges.
 - ☞ Identifies best commodity and month for hedge transactions.
 - ☞ Useful tool to allocate credit.

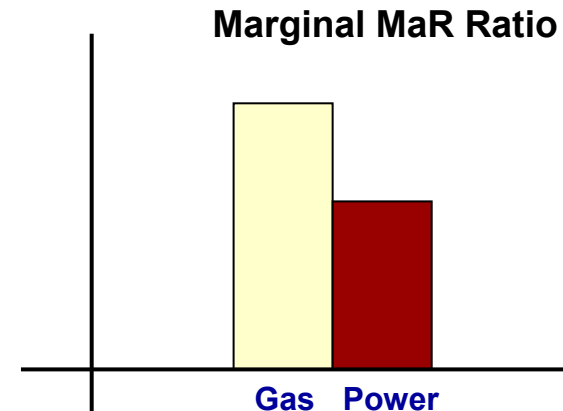
MaR - Overview



For illustration purposes only

$$\text{Marginal MaR Ratio} = \frac{\text{Change in MaR } (\Delta Y)}{\text{Hedging \$ Spent } (\Delta x)}$$

Marginal MaR Ratio approximates the the amount of portfolio risk removed for each hedging dollar spent.



Marginal MaR Ratio (Week Of 4/19/04)



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