EXHIBIT NO. ___(DEM-6C)
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____

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

REDACTED
VERSION

FEBRUARY 15, 2006

PUGET SOUND ENERGY

Hedging strategy for *XXXXXXXXXXXX* time frame

July 22, 2004 RMC meeting

REDACTED VERSION

Executive Summary

- Staff seeks to improve its *XXXXXXXXX* hedging practice.
- Recommend establishing a procedure to eliminate the time between recognizing the need to hedge and receiving specific RMC approval.
- The procedure will:
  - Increase staff's ability to react to position changes due to stream flow variation and forced thermal plant outages.
  - Increase staff's ability to react to changing market conditions.
  - Enhance staff's ability to employ a "dollar-cost averaging informed by margin at risk analysis" hedging strategy.

- 7/22/04 RMC meeting

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PSE PUGET SOUND ENERGY

Current hedging practices

- Staff currently utilizes the “dollar-cost averaging informed by margin at risk” strategy. We plan to continue using this strategy.
- Staff manages *XXXXXXXXXXXXXXXXXXXXXXXXXXX* portfolio in accordance with the Energy Supply Hedging and Optimization Procedures Manual. Source: Schedule D of Energy Supply and Optimization Procedures Manual, revised August 7, 2003.
- RMC approval is required to hedge outside this period.
- Staff recommends eliminating the time between recognizing the need to hedge and receiving specific RMC approval.
- 7/22/04 RMC meeting

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PUGET SOUND ENERGY

Goal is to enhance "dollar cost averaging informed by margin at risk" strategy by actively hedging *XXXXXXXXX* time frame. Chart illustrates *XXXXXXXXX* hedging. Note this strategy does not guarantee lower costs.

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REDACTED VERSION

Goal is to enhance "dollar cost averaging informed by margin at risk" strategy by actively hedging *XXXXXXXXX* time frame. Chart illustrates *XXXXXXXXX* hedging. Note this strategy does not guarantee lower costs.

REDACTED VERSION

Outline to the *XXXXXXXXXXX* hedge procedure

- The *XXXXXXXXXXXXXXXXXXXXXXX* will serve as the position for purposes of hedging on a *XXXXXXXXXXXX* basis.
- *XXXXXXXXXXXXXXXXXXXXXXXX* hedging requirements will be established.
- An individual month's *XXXXXXXXXXXX* hedge will systematically reduce total net exposure so that the total net exposure will be *XXXXXX* when that month falls into staff's *XXXXXXXXXXXXXXXXXXXX*.
- An individual month's *XXXXXXXXXXXX* hedge will systematically reduce total net exposure so that the total net exposure will fall within the VP's limits when that month falls into staff's *XXXXXXXXXXXXX*.
- Staff will inform the RMC regarding hedge executions on a *XXXXXXX* basis
- 7/22/04 RMC meeting.

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XXXXXXXXXXXXXXXXXXXXXXX monthly hedge calculations

- The *XXXXXXXXXXXXXXXX* is calculated by dividing the total net exposure by the remaining months before the position is managed in accordance with the Energy Supply Hedging and Optimization Procedures Manual.
- The *XXXXXXXXXXXXXXXX* is calculated by dividing the total net exposure (plus or minus the VP's limit authority) by the remaining months before the position is managed in accordance with the Energy Supply Hedging and Optimization Procedures Manual.
- There is no *XXXXXXXXXXX* requirement if the *XXXXXXXXXXX* position already falls within the VP's limit authority.
- 7/22/04 RMC meetingX

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An example of the *XXXXXXXXXXX* rolling hedge executed in July 2004.

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Benefits to proposed *XXXXXXXXX* rolling hedge procedure

- Increases staff's ability to react to position changes due to stream flow variation and forced thermal plant outages.
- Increases staff's ability to react to changing market conditions.
- Enhances staff's ability to employ a "dollar-cost averaging informed by margin at risk" hedging strategy on a *XXXXXXXX* rolling basis.

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Contingencies to the proposal

- Staff will only hedge if adequate credit facilities are in place to enter into more contracted volume.
- Staff will only hedge to forecasted customer demand and will not sell energy in excess of resources.