

*Corrected as of June 28, 2006*

Agenda Date: June 28, 2006  
Item Number: A2

**Docket:** **UE-060783**  
Company Name: Puget Sound Energy, Inc.

Staff: Hank McIntosh, Analyst  
James Russell, Regulatory Manager  
Joelle Steward, Regulatory Analyst  
Gene Waas, Assistant Director, Energy Section

### **Recommendation**

Allow the filed tariff revision in this docket, as amended, to go into effect July 1, 2006.

### **Background**

On June 7, 2005, Puget Sound Energy, Inc., ("PSE" or the company) filed a tariff revision for Schedule 95 and its power cost baseline rate in Docket UE-050870. This was a power cost only rate case or PCORC, as authorized by the commission in Dockets UE-011570 and UG-011571.

The parties filed a settlement on August 30, 2005, in PCORC Docket-050870. The proposed settlement was not contested and resolved all issues in the proceeding. In accepting the settlement, the commission allowed certain costs in rates and determined that the acquisition of Hopkins Ridge wind facility was prudent.

The settlement also required a permanent revision to the Power Cost Adjustment (PCA) deferral accounting period to allow it to end in December instead of June. In effecting this revision, a temporary halving of the PCA sharing bands was also required to allow for restarting the deferral calculation after a \$40,000,000 cap on the company's share of excess power costs expires and begin a new six-month deferral on July 1, 2006. The sharing bands will revert to their original state after that time unless changed by other actions of the commission in the currently pending general rate case in Docket UE-060266.

As part of the settlement, the commission ordered that PSE file a revised Schedule 95 by May 15, 2006, for the purpose of updating the power cost base rate for July 1, 2006, through December 31, 2006. The commission also ordered PSE to file a general rate case by mid-February 2006 that would, among other things, restate the base line rate for the period beginning January 1, 2007. The only issues before the commission today in Docket UE-060783 are revising Schedule 95 and the changes to its accompanying base line rate, in compliance with Order 04 in Docket UE-050870, and revisions to the rate design in the settlement.

## **Discussion**

On May 15, 2006, PSE filed the tariff revision for Schedule 95, Power Cost Adjustment Clause required by Order 04 in Docket UE-050870. This filing reflects a change in the power cost baseline rate along with supporting work papers and such documentation as required by the order.

The power cost baseline revisions are a result of the changes prescribed in the settlement document. Specific changes include higher natural gas costs, annual cost increases in PSE's existing long-term power purchase agreements ("PPAs") and changes related to hedged contracts, as well as increased costs related to Mid-Columbia hydropower contracts.

Additionally, the parties to the settlement have agreed to a revised rate spread to allocate the increase. The parties believe the revised rate spread more appropriately allocates the increases across classes than what was included in the settlement agreement. The basis for this revision is an updated cost of service study. The substitute tariff revisions submitted by the company June 26~~2~~, 2006 reflect the revised rate spread.

The impact of this change in Schedule 95 is an average increase of 5.95% in rates for the period of July 1 through December 31, 2006.

Staff has reviewed the filing and has met with the company to discuss the filing contents and to address staff and other parties' questions. Staff is satisfied that the filing satisfies the requirements of the settlement and Order 04 in Docket UE-050870.

PSE serves approximately 1,007,000 electric customers in the counties of King (not Seattle), Kitsap, Thurston, Island, Skagit, Whatcom, Pierce (not Tacoma), Kittitas and Jefferson. It serves approximately 678,000 natural gas customers in the counties of King, Lewis, Pierce, Snohomish, Thurston and Kittitas.

## **Conclusion**

Staff recommends that the commission accept the filing as being in compliance with its Order 04 in Docket UE-050870. It also recommends that the commission accept the amendments to rate spread which are unanimously supported by all parties, and allow the tariff revisions, as submitted June 26~~2~~, to go into effect on July 1, 2006.