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Suite 2460
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April 23, 2004

Via Federal Express

Carole J. Washburn
Secretary
Washington Utilities and Transportation Commission
PO Box 47250
1300 S Evergreen Park Drive, SW
Olympia WA 98504-7250

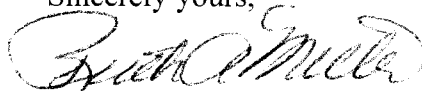
Re: In the Matter of Puget Sound Energy, Inc., Petition for Authorization to Defer
Certain Costs Related to the Company's Power Cost Only Rate Filing
Docket No. UE-031471

Dear Ms. Washburn:

Enclosed please find an original and thirteen (13) copies each of the letter to the Commissioners on behalf of the Industrial Customers of Northwest Utilities' in the above-captioned matter. The documents are provided as electronic files, in Word 2000 and Adobe Acrobat formats, on the enclosed disk in accordance with WAC 480-07-140 and WAC 480-07-145.

Please return one file-stamped copy of the letter in the postage-prepaid envelope provided. Thank you for your assistance.

Sincerely yours,



Ruth A. Miller

Enclosures

cc: Merton Lott
Service List

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Melinda J. Davison
Admitted OR and WA

April 23, 2004

Marilyn Showalter, Chairwoman
Richard Hemstad, Commissioner
Patrick Oshie, Commissioner
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Re: Puget Sound Energy Docket No. UE-031471, Petition for Authorization to Defer Certain Costs Related to the Company's Power Cost Only Rate filing

Dear Commissioners:

The Industrial Customers of Northwest Utilities ("ICNU") respectfully requests that the Washington Utilities and Transportation Commission ("WUTC" or the "Commission") deny Puget Sound Energy's ("PSE" or the "Company") Petition (the "Petition") for an order authorizing deferred accounting treatment of legal and consulting fees allegedly related to the Company's power cost only rate case ("PCORC") in Docket UE-031725. PSE requests authority to defer for later recovery in rates between \$1.2 million and \$1.6 million in legal and consultant fees from the PCORC.^{1/} Re PSE, Docket No. UE-031471, Staff Memorandum at 2 (Mar. 31, 2004). The Commission should deny PSE's request because: 1) PSE has not justified deferred accounting treatment of these costs; 2) PSE has not demonstrated any customer benefit from deferring the costs or including them in rates; 3) PSE already collects costs associated with regulatory expenses in rates; and 4) PSE has not demonstrated that the costs the Company seeks to defer are reasonable.

PSE's Petition is insufficient to justify the Company's request. The Petition consists of only a description of the stipulation that authorized PSE to file the PCORC, followed by a broad request to defer the PCORC expenses for later recovery in rates. The only justification that PSE offers for why it should be allowed to defer the PCORC expenses is the statement that "[h]istorically, the Company has been authorized to defer outside services, legal

^{1/} The Commission Staff memorandum for the March 31, 2004 public meeting indicated that, as of November 2003, PSE's estimated legal and consultant fees for the PCORC were \$1.6 million. UE-031471, Staff Memorandum at 2. ICNU recently learned from Staff that PSE reported at the March 31, 2004 public meeting that the Company now estimated its PCORC costs would total approximately \$1.2 million.

and consultant services, related to its general rate filings.” Petition at 2. Our review of the Commission’s decisions with respect to deferred accounting revealed no such historic practice. Furthermore, even if the Commission previously had authorized recovery of some costs associated with a general rate filing, the PCORC was different than a general rate filing. The PCORC is a periodic, limited review of PSE’s power costs to adjust the Power Cost Rate in the Company’s power cost adjustment (“PCA”) mechanism. WUTC v. PSE, WUTC Docket Nos. UE-011570, UG-011571, Twelfth Supp. Order, Attachment A at Exhibit A at 5 (June 20, 2002). There is no precedent for authorizing deferred accounting for legal and consultant fees associated with such a case.

PSE’s request also does not meet the Commission’s requirements for deferred accounting. The Commission typically has exercised its discretion to authorize deferred accounting in limited, discrete circumstances. For example, the Commission has approved deferral of unanticipated costs or costs associated with extraordinary or unknowable events. Re Avista, Docket No. UG-001980, Order Granting Less Than Statutory Notice (Dec. 27, 2000) (extraordinary market gas prices); Re Puget Sound Power & Light Co., Docket Nos. UE-951270, UE-960195, Fourteenth Suppl. Order, Appendix A at 8 (Feb. 5, 1997) (referring to policy allowing deferral of costs of extraordinary storm damage). In addition, the Commission has authorized deferred accounting to ensure that the ratepayers who benefit from certain expenditures are responsible for paying the costs. Re PSE, Docket No. UE-980877, Order Authorizing Accounting Treatment (July 8, 1998) (deferral authorized when costs were incurred in first 5 years and benefits realized over 15-20 years).

PSE’s request fits none of these criteria. PSE’s legal and consulting fees incurred in the PCORC were not extraordinary or unanticipated. The Company incurred these costs voluntarily and knowingly when it initiated the PCORC. Furthermore, as the Commission Staff memorandum recommending denial of the Petition points out, “[t]hese costs are operating expenses and provide no ongoing direct benefit or value to ratepayers.” UE-031471, Staff Memorandum at 3. Thus, deferring these costs for later recovery in rates on the basis that customers will derive some future benefit is unjustified. In short, the legal and consultant fees that PSE seeks to defer do not meet the Commission’s most basic criteria for deferred accounting.

In addition, PSE already is recovering a certain amount of legal costs in rates. *See id.* The Commission authorized amortization of \$767,000 in rate case expense in PSE’s last general rate case. UE-011570, UG-011571, Twelfth Supp. Order, Attachment A at Exhibit B at 3. Once this level of recovery was established, PSE is responsible for minimizing its legal and consultant expenses between rate cases and bears the burden of any additional expenses.

Finally, PSE has not demonstrated that the costs it seeks to defer are reasonable. Staff’s memorandum indicates that, as of November 2003, the estimated fees that PSE requests authority to defer totaled approximately \$1.6 million. UE-031471, Staff Memorandum at 2. PSE estimated that consulting fees would comprise \$200,000 of this amount. Thus, PSE estimated that it would incur a total of \$1.4 million in legal fees to prepare and litigate the PCORC proceeding, which lasted approximately six months. PSE recently reported that its

Commissioners Showalter, Hemstad and Oshie

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actual current expenses total approximately \$1.2 million. This is almost twice as much as the \$767,000 in rate case expense authorized in the last general rate case. Furthermore, Staff pointed out that the \$1.4 million in estimated PCORC expenses was nearly three times as much as the Company spent on its general rate case in Docket No. UE-921262. In short, the Company has not shown that its legal and consultant expenses from the PCORC are reasonable. The Commission should not authorize deferred accounting treatment of such amounts, especially when PSE has offered no justification for doing so.

For the reasons stated above, ICNU respectfully requests that the Commission deny PSE's Petition. Thank you for your consideration of these comments.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Melinda J. Davison".

Melinda J. Davison

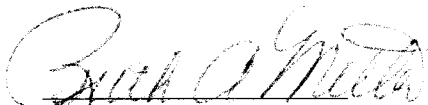
cc: Merton Lott
Service List

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing letter on behalf of the Industrial Customers of Northwest Utilities upon all parties of record in this proceeding, by mailing a copy thereof in a sealed, first-class postage prepaid envelope to each individual's last-known address, as listed below.

DATED this 23rd day of April, 2004.

Davison Van Cleve, P.C.

By: 
Ruth A. Miller

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