

**EXHIBIT NO. ___(RCR-5)
DOCKET NOS. UE-111048/UG-111049
2011 PSE GENERAL RATE CASE
WITNESS: R. CLAY RIDING**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-111048
Docket No. UG-111049**

**FIRST EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
R. CLAY RIDING
ON BEHALF OF PUGET SOUND ENERGY, INC.**

JANUARY 17, 2012

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-111048 and UG-111049
Puget Sound Energy, Inc.'s
2011 General Rate Case**

WUTC STAFF DATA REQUEST NO. 160

“CONFIDENTIAL” Table of Contents

DR NO.	“CONFIDENTIAL” Material
160	Attachments A, C and D to PSE’s Response to WUTC Staff Data Request No. 160 are CONFIDENTIAL per Protective Order in WUTC Docket Nos. UE-111048 / UG-111049.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**Docket Nos. UE-111048 and UG-111049
Puget Sound Energy, Inc.'s
2011 General Rate Case**

WUTC STAFF DATA REQUEST NO. 160

WUTC STAFF DATA REQUEST NO. 160:

Re: Jackson Prairie Reclassification

Referring to page 5.01A (13.01A) of power cost workpapers, please explain the terms and conditions of the internal capacity agreements between natural gas and electric operations for the reservation of excess Jackson Prairie storage capacity. Was this arrangement approved by the WUTC? Please explain.

Response:

The terms and conditions of the internal capacity agreement are documented in an Assignment of Capacity Agreement ("Agreement") between the gas and power books. Attached as Attachment A to Puget Sound Energy, Inc.'s ("PSE") Response to WUTC Staff Data Request No. 160, please find a copy of the Agreement. The terms and conditions of the Agreement are explained in the Prefiled Direct Testimony of R. Clay Riding, Exhibit No. ____ (RCR-1T), beginning on page 4, line 13. Please note that on page 4, line 15, of Exhibit No. ____ (RCR-1T), the reference to 50 million decatherms should read 50 thousand decatherms, and on line 16, "500,000 MDth" should read "500 MDth".

On September 16, 2011 PSE extended the term of the Agreement two years, through March 31, 2014. Attached as Attachment B to PSE's Response to WUTC Staff Data Request No. 160, please find a copy of the amendment extending the term of the Agreement. The Agreement and amendment are short-term arrangements made available to the power portfolio only because the storage capacity currently exceeds the needs of the core gas portfolio due to lower than expected growth in core gas demand.

These agreements have not been expressly approved by the Commission; however, as the term of these agreements are less than or equal to two years, they fall within the parameters of prudence review during the Commission's review of the annual Power Cost Adjustment ("PCA") report, pursuant to paragraph 7 of the Exhibit A to the Settlement Stipulation in UE-011570. In this proceeding, PSE has classified the costs to the electric book as variable costs in the PCA mechanism, as discussed in the

Prefiled Direct Testimony of John H. Story, Exhibit No. ____ (JHS-1T), beginning at page 14, line 12. As variable costs in the PCA mechanism, these costs would then be subject to prudence review during the annual PCA review.

The storage arrangement was also presented and discussed on pages 7-9 of Mr. Riding's Prefiled Direct Testimony, Exhibit No. RCR-1CT, in Docket Nos. UE-090704 and UG-090705.

The reclassification amount on page 5.01A of Mr. Story's power cost workpapers in this proceeding represents the actual costs for the Agreement for the test year, which represents 3 months under the December 2008 through March 2010 contract price and 9 months under the April 2010 through March 2011 contract price. The purpose of the reclassification is to represent the costs of the contract in a PCA variable line item in order to align with the treatment of the gas revenues in the Purchased Gas Adjustment mechanism, as discussed on page 15 of Mr. Story's Prefiled Direct Testimony, Exhibit No. ____ (JHS-1T). Additionally, the test year amount was included in PSE's initial filing because, although it was expected the contract would be extended, the terms of the contract were unknown at the time the rate case was filed and supplemented. Although the contract has been extended past the end of the rate year, the monthly cost will not be determined until a future date; therefore, the rate year amount is not measurable. Accordingly, the test year cost included in the filing represents a proxy for the rate year because the rate year cost will not be known until the Agreement is priced again near the April 1, 2012 and April 1, 2013 annual market valuation and pricing revision.

Attached as Attachments C and D to PSE's Response to WUTC Staff Data Request No. 160, please find copies of the original December 2008 through March 2010 Agreement and the April 2010 through March 2011 Agreement, respectively.

Attachments A, C and D to PSE's Response to WUTC Staff Data Request No. 160 are CONFIDENTIAL per Protective Order in WUTC Docket Nos. UE-111048 / UG-111049.

MEMORANDUM

To: Joe Hoerner and Josh Jacobs
From: Bill Donahue, Clay Riding, and Michele Kvam
Date: September 16, 2011
RE: **Amendment 1 to the Assignment of Jackson Prairie Storage Capacity Agreement - Gas Book to Power Book**

Attached, please find an Amendment 1 (the "Amendment") to the Internal PSE Assignment of Capacity Agreement (the "Agreement") between the gas book and the power book.

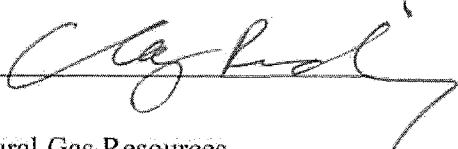
The Agreement provides the mechanism for the gas book to assign 50,000 Dth/day of withdrawal and injection capacity, and 500,000 Dth of storage capacity from its Jackson Prairie storage service to the power book. The power book will utilize the capacity for operational reliability and supply management, and retains all rights associated with the service, with no restrictions beyond those governing PSE's storage operations (fill requirements, withdrawal decline curve, etc.). The power book may utilize the storage service for any purpose, including balancing load, meeting peak-day requirements, or intra-day dispatching.


This Amendment extends the term of the agreement by two years and defines the annual market valuation or "pricing" methodology consistent with the previous two terms of this exchange. The current Agreement term is April 1, 2011 through March 31, 2012. The Amendment extends the term through March 31, 2014, with an annual market valuation and pricing revision.

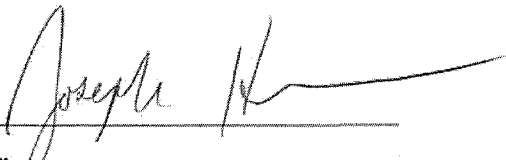
The concepts embodied in this agreement provide mutual benefit to the electric and gas customers as contemplated by the WUTC's merger order.

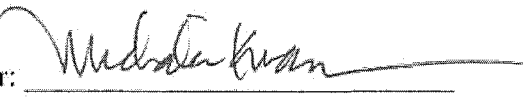
This Amendment is an extension of the original agreement, which began December 1, 2008, and was approved by PSE's Energy Management Committee on November 19, 2008. The market valuation of this Amendment is based on the same methodology and assumptions as the market valuation of the original agreement.


I recommend immediate execution of the attached documents. Please review the documents and sign below or as flagged on the documents. Note: review of the attached documents by the Director of Energy Supply and Planning is limited to operational impact only and does not represent a compliance or commercial review.

Approved: 
Clay Riding
Director Natural Gas Resources

Concur: 
Bill Donahue
Manager Natural Gas Resources

Concur: 
Joe Hoerner
Manager Portfolio Hedging

Concur: 
Michele Kvam
Sr. Energy Contracts Administrator

Concur: 
Josh Jacobs
Manager Power Supply Operations

**AMENDMENT NO. 1
TO
THE ASSIGNMENT OF CAPACITY AGREEMENT**

This Amendment, dated as of September 16, 2011 ("Amendment") is made and entered into by and between the Puget Sound Energy, Inc. ("PSE") Gas Book and the PSE Power Book (collectively "Parties").

WHEREAS, the Gas Book and the Power Book entered into a certain Assignment of Capacity Agreement ("Agreement") effective April 1, 2011;

WHEREAS, the Parties hereto desire to amend the Agreement as provided herein.

NOW THEREFORE, for and in consideration of and subject to all the terms, conditions, and provisions herein set forth, the Parties hereto agree as follows:

1. The term of the Agreement shall be extended through March 31, 2014.
2. The price the Power Book will pay the Gas Book will be revised annually by PSE's Energy Risk group or successor, between March 10th and March 18th, of each year based on an objective market-based valuation using the same methodology PSE uses to value storage services (either purchase or sales) in the Pacific Northwest market. Such new price will be effective for the succeeding April 1 through March 31 period.
2. Except as amended hereby, all other terms and conditions of the Agreement shall remain the same and in full force and effect.