



PUGET
SOUND
ENERGY

August 31, 2001

Ms. Carole J. Washburn, Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, Washington 98504-7250

RECORDED
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COMMUNICATIONS SECTION

Re: Docket No. UE-010410, Petition to Amend Order, Regarding the Deferral of the Net Impact of the Conservation Incentive Program, Schedule 125

Dear Ms. Washburn:

To assist in the regional effort to reduce peak period consumption of electricity, Puget Sound Energy ("PSE") filed a petition to implement Time of Day Pricing under Docket No. UE-010410 on March 27, 2001. The petition requested an accounting order regarding the implementation of Time of Day Pricing and an Electricity Conservation Incentive Credit. Enclosed is a petition and a proposed order for authorization regarding the deferral of the net impact resulting from Schedule 125, Conservation Incentive Credit, and subsequent pass through or recovery thereof through Schedule 120, Conservation Rider.

Subsequent to the Company's original proposal, there have been market changes, including price caps, which have made the program uneconomic for the company. For example, wholesale electricity market prices have significantly decreased. In April when the WUTC approved the Conservation Incentive Credit, the average wholesale market price was around 28¢ per kWh. During the first few days of August, however, the average wholesale market price was around 4-1/2 cents per kWh. In view of this volatility, a flat-rate 5¢ credit is not sustainable. However, because of the long-term benefits of conservation for our customers and the region, the Company would like to retain the program, and be allowed to recover or pass through to customers, through its conservation rider, any resulting net impact. The calculation of the net impact is described in the attached petition.

If you have any questions regarding this filing, please contact me at (425) 456-2797.

Very truly yours,

Karl R. Karzmar
Manager, Revenue Requirements

Encl.

cc: Simon ffitich
Mark Quehrn

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In re the Matter of the Application of

PUGET SOUND ENERGY, INC.

For Authorization Regarding the Deferral
of the Net Impact of the Conservation
Incentive Credit Program, Schedule 125,
and Subsequent Recovery Thereof Through
Schedule 120, Conservation Rider.

DOCKET NO. UE-010410

PETITION TO AMEND ORDER

RECEIVED
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UTILITY AND TRANSPORTATION COMMISSION

INTRODUCTION

In the Commission’s Order in Docket No. UE-010410, Puget Sound Energy, Inc. (“PSE” or “the Company”) received authorization to implement its Conservation Incentive Credit (“CIC”) and to account for billing credits arising from the initiative as a reduction to revenue. The CIC Schedule is available to certain PSE customers, and provides that each customer that reduces his/her total use in a particular month by greater than ten percent (10%) compared to the same month in the previous year will receive a \$.05 credit for each kilowatthour reduced in such month. The CIC rate of \$.05 was designed to cover the avoided cost of power at a time when market power costs were high and expected to continue at considerable levels into the future.

At the time of approval of Company’s CIC pilot program, the market rate was approximately \$.28 kWh, and the net results of the program were expected to benefit both the Company and its customers. However, the federal price caps and the subsequent significant reduction in wholesale electricity market prices undermine the financial viability of the CIC program. In other words, the Company will incur significant costs related to this pilot program if market prices persist at levels that result in PSE paying customers more money through the CIC than the customer conservation efforts generate. Therefore, by this Petition, the Company requests that the Commission authorize the deferral of the cumulative amount of the net result of the CIC program. This would be determined within the parameters of the approved CIC Tariff

(Schedule 125), and over the life of the approved CIC pilot program. At the end of the CIC program (12/31/01), this amount would be either refunded to or recovered from customers.

This determination would be based upon the difference between the Mid-Columbia ("Mid-C") average daily firm price and tariff rates applied to kilowatt-hour savings for which the incentive credit was earned. The Company also requests that it be allowed to recover from or return to customers the amount so deferred through the conservation rider after the end of the program.

BACKGROUND

1. The Company is in the business of furnishing electric and gas service within the State of Washington as a public service company, and is subject to the regulatory authority of the Commission as to its rates, service, facilities and practices.

2. As noted above, the Order regarding the CIC, requires the Company to provide a \$.05 credit per kilowatt-hour to customers for energy conserved that satisfies the CIC criteria.

3. The Company is currently providing credits to customer bills that exceed its avoided cost of power.

THE COMPANY'S PROPOSAL

5. PSE requests authorization to defer the cumulative net impact of the CIC pilot program. It is proposed that amounts so deferred will subsequently be collected from or returned to customers after the end of the program through the conservation tariff rider.

6. PSE will calculate the net impact by multiplying the kWh savings for which the incentive credit was earned by the net of the market price of electricity less the average tariff price (\$.055 – summer and \$.06 – winter) of electricity, and then subtracting the incentive credits earned by PSE customers. This net impact calculation is illustrated in Exhibit A attached herewith and shown cumulatively through June 2001 on Line No. 7 as \$2,269,008.

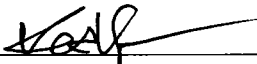
REQUESTED APPROVAL

7. PSE respectfully requests that the Commission enter an order in the form attached as Exhibit B which:

- (a) allows the Company to defer the cumulative net impact of the CIC pilot program, as described herein; and
- (b) authorizes PSE to recover from or return to customers amounts so deferred through Schedule 120, Conservation Rider after the end of the pilot program.

DATED: August 31, 2001

PUGET SOUND ENERGY, INC.

By  _____
Karl R. Karzmar
Manager Revenue Requirements

LIST OF EXHIBITS


Exhibit A	Net Results Analysis
Exhibit B	Proposed Order

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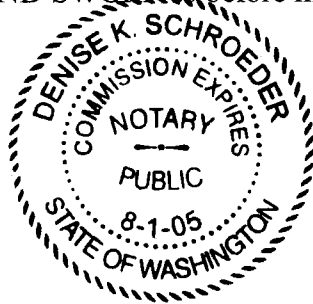
VERIFICATION

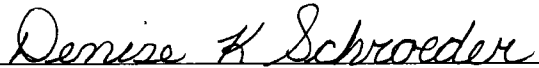
Karl R. Karzmar, first being first duly sworn, on oath deposes and says:

That he is Director Rates and Regulations of Puget Sound Energy, Inc., that he has read the foregoing Petition for an Order For Authorization Regarding the Deferral of the Net Impact of the Conservation Incentive Credit Program, Schedule 125, and Subsequent Recovery Thereof Through Schedule 120, Conservation Rider, that he knows the contents thereof, and that he believes the same to be true and the best of his knowledge and belief.


Karl R. Karzmar

SUBSCRIBED AND SWORN to before me this 31 day of August 2001.




Print Name: DENISE K SCHROEDER
Notary Public in and for the State of
Washington, residing at BELLEVUE
My appointment expires: 8-1-85

**Docket No. UE-010410, Petition to Amend Order, Regarding the Deferral of the Net
Impact of the Conservation Incentive Program, Schedule 125**

Exhibit A

Exhibit A

Docket No. UE-010410
Petition to Amend Order

Puget Sound Energy
Conservation Incentive Credit Avoided Cost Benefit Analysis
Cumulatively Billed Through June 2001

Line No.	KWh (a)	\$/kWh (b)	\$ (c)	Description (d)
1	Savings 10% & above:			
2	68,926,586	\$ 0.1306651	\$ 9,006,299	Value in market = volume saved (10% & above) X market price ¹ of electricity
3	68,926,586	0.0550000	3,790,962	Value if sold to PSE customers = volume saved (10% & above) X tariff price of electricity
		\$ 0.0756651	\$ 5,215,337	PSE saved power value = market value less tariff value
4	Less: Payments to PSE customers:			
5	68,926,586	\$ 0.0500000	\$ 3,446,329	Gross payments to customers = volume saved (10% & above) X incentive credit amount
6			500,000	Less: Net credit amounts ²
			\$ 2,946,329	Payments to PSE customers
7	Net savings 10% & above:		\$ 2,269,008	PSE net avoided cost benefit (saved power value) related to savings 10% & above

Notes:

¹ Mid-Columbia weighted average daily firm

² Estimated

**Docket No. UE-010410, Petition to Amend Order, Regarding the Deferral of the Net
Impact of the Conservation Incentive Program, Schedule 125**

Exhibit B

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In re the Matter of the Application of
PUGET SOUND ENERGY, INC.

For Authorization Regarding the Deferral
of the Net Impact of the Conservation
Incentive Credit Program, Schedule 125,
and Subsequent Recovery Thereof Through
Schedule 120, Conservation Rider.

DOCKET NO. UE-010410

PROPOSED ORDER

MEMORANDUM

On August __, 2001, Puget Sound Energy, Inc. ("PSE" or "the Company") filed with the Washington Utilities and Transportation Commission ("Commission") a petition for an accounting order authorizing PSE to defer the net impact of the Conservation Incentive Credit Program, Schedule 125, and authorizing subsequent recovery thereof through Schedule 120, Conservation Rider.

In the Commission's Order in Docket No. UE-010410, Puget Sound Energy, Inc. PSE received authorization to implement its Conservation Incentive Credit ("CIC") and to account for billing credits arising from the initiative as a reduction to revenue. The CIC Schedule is available to certain PSE customers, and provides that each customer that reduces his/her total use in a particular month by greater than ten percent (10%) compared to the same month in the previous year will receive a \$.05 credit for each kilowatthour reduced in such month.

The petition states that the CIC rate of \$.05 was designed to cover the avoided cost of power at a time when market power costs were high and expected to continue at considerable levels into the future.

At the time of approval of Company's CIC pilot program, the market rate was approximately \$.28 kWh, and the net results of the program were expected to benefit both PSE and its customers. The petition states that the federal price caps and the subsequent significant

reduction in wholesale electricity market prices undermine the financial viability of the CIC program. In other words, PSE states that it will incur significant costs related to this pilot program if market prices persist at levels that result in PSE paying customers more money through the CIC than the customer conservation efforts generate.

By its Petition, PSE requested that the Commission authorize the deferral of the cumulative amount of the net result of the CIC program. The net result would be determined within the parameters of the approved CIC Tariff (Schedule 125), and over the life of the approved CIC pilot program. At the end of the CIC program (12/31/01), the amount would be either refunded to or recovered from customers.

The petition further states that the determination would be based upon the difference between the Mid-Columbia ("Mid-C") average daily firm price and tariff rates applied to kilowatt-hour savings for which the incentive credit was earned. PSE also requested that it be allowed to recover from or return to customers the amount so deferred through the conservation rider after the end of the program.

FINDINGS

1. PSE is in the business of furnishing electric and gas service within the State of Washington as a public service company, and is subject to the regulatory authority of the Commission as to its rates, service, facilities and practices.

2. As noted above, the Order regarding the CIC, requires the Company to provide a \$.05 credit per kilowatt-hour to customers for energy conserved that satisfies the CIC criteria.

3. The Company is currently providing credits to customer bills that exceed its avoided cost of power.

THE COMMISSION ORDERS THAT:

1. PSE is authorized to defer the cumulative net impact of the CIC pilot program.

2. PSE is further authorized to recover from or return to customers amounts so deferred through Schedule 120, Conservation Rider after the end of the pilot program.

3. The net impact will be determined by multiplying the kWh savings for which the incentive credit was earned by the net of the market price of electricity less the average tariff

price (\$.055 – summer and \$.06 – winter) of electricity, and then subtracting the incentive credits earned by PSE customers.

4. THE COMMISSION ORDERS FURTHER That it retains jurisdiction to effectuate the provisions of this Order.

DATED at Olympia, Washington this ___ day of September, 2001.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

PATRICK OSHIE, Commissioner