

September 11, 2001

Mr. C. Robert Wallis  
Administrative Law Judge  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Dr. SW  
Olympia, Washington 98504

Re: Docket Nos. UE-011170 and UE-011163  
Puget Sound Energy, Inc.

Dear Judge Wallis:

By letter dated September 7, 2001, Puget Sound Energy, Inc. suggested two alternative processes for its filings in these dockets. The first alternative would implement the proposed power cost adjustment (PCA) in an expedited "Phase I" hearing upon a showing that interim relief is necessary. "Phase II" would then require Staff and Public Counsel to develop additional evidence and legal theories to evaluate PSE's request for interim rate relief.

The second alternative would establish a fixed surcharge if interim relief is shown to be necessary. The surcharge would not be based upon the PCA, but upon forward projections of power costs drawn from the PCA.

PSE asserts that these alternatives respond to Staff's concerns, expressed at the prehearing conference on September 4, 2001, that analysis of the Company's petition for a PCA cannot be accomplished as quickly as the Company wishes. The additional time is necessary to analyze evidence, not yet presented by the Company, to support power costs recovered currently from ratepayers and that form the baseline for deferrals that will be also recovered from ratepayers.

Please be advised that neither of the alternatives satisfy Staff's concerns. Both alternatives still would take place outside of a general rate case, in violation of the Merger Rate Plan. This deficiency will be discussed in greater detail tomorrow in Staff's response to Public Counsel's Motion to Dismiss.

The first alternative, which still would implement the PCA, suffers from two additional deficiencies. First, it does not eliminate Staff's concern that the PCA cannot be implemented until the baseline for deferrals (i.e., power costs embedded currently in rates) can be reasonably analyzed. That process is time consuming and cannot even begin until PSE provides the relevant data. Second, this alternative would shift the burden to Staff and Public Counsel to challenge the PCA in Phase II, after the PCA is implemented in Phase I. Such a shift is inappropriate, unfair and contrary to law. RCW 80.04.130(2).

As to the second alternative, Staff objects because it would result in rates based on forward projections of power costs. By definition, those projections may never materialize and, thus, should not be utilized to set rates on an expedited basis. Moreover, Staff is concerned that such a process would provide a disincentive for the Company to manage properly its power supply portfolio.

For these reasons, Staff opposes both alternatives offered by PSE. Staff believes that the case, if not dismissed or withdrawn, should be scheduled to allow sufficient time for all parties and the Commission to complete a reasoned analysis of the proposed PCA and the need for interim rate relief. No less is required by due process and the requirements of sound regulation.

In the alternative, Staff remains prepared to assess expeditiously, any straightforward request for interim rate relief, absent a PCA and in the context of a general rate case.

Sincerely,

Robert D. Cedarbaum  
Senior Counsel

cc: Parties by fax