

EXHIBIT NO. ___(JHS-4)
DOCKET NO. _____
2006 PCA 4 COMPLIANCE
WITNESS: JOHN H. STORY

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of the Petition of
PUGET SOUND ENERGY, INC.
For Approval of its 2006 Power Cost Adjustment
Mechanism Report**

Docket No. UE-_____

**THIRD EXHIBIT (NONCONFIDENTIAL) TO
THE PREFILED DIRECT TESTIMONY OF JOHN H. STORY
ON BEHALF OF PUGET SOUND ENERGY, INC.**

AUGUST 31, 2006

Methodology for Adjustments of Costs Outside of the PCA Period

A. Adjustments for Costs prior to July 1, 2002:

Power cost entries, true-ups and adjustments posted in the current month for months prior to the beginning of the PCA, July 1, 2002, will be excluded from power costs in the monthly PCA calculation. Note the exceptions in item D., below.

B. Adjustments for Costs Recorded After Termination of PC A Mechanism:

Power cost adjustments posted in the month following the termination of the PCA Mechanism relating to the PCA periods will be included in power costs for the month of the final PCA calculation and the deferral will be adjusted accordingly. Note the exceptions in item D., below.

C. Adjustments for Previous PCA Periods:

1. Power cost adjustments or true-ups for prior periods that fall within the PCA mechanism period (July 1, 2002 forward) are included as recoverable power costs under the PCA mechanism. Adjustments for previous PCA periods that are equal to or less than \$1 million (debit or credit) will flow through the current month PCA calculation. Note the exceptions in item D below.
2. Adjustments or true-ups greater than \$1 million (5% of the \$20 million 'deadband') (debit or credit) that relate to prior PCA periods will be flowed through a recalculation of the previous PCA period for regulatory purposes. Any changes to the customer deferrals from the prior PCA period will be indicated in a reconciliation schedule for deferrals by PCA period. Note the exceptions in item D., below.

D. Exceptions:

Exceptions will be made for items A, B and C adjustments for the following power costs:

1. Company Accounting Errors:
For all accounting errors made by the Company, except for Colstrip fuel costs, if an error has been made in regard to accounting for power cost transactions, to the extent that the Company should have known at the time of the transaction, the Company will reflect the appropriate adjustment to the appropriate PCA period(s) and adjust the deferral for the period (s) accordingly.
2. Mid-Columbia Power Costs:
PSE books debt and O&M expense as billed from the Mid-Columbia Public Utility Districts, each dam is identified below. Current month power cost expense equal the current month debt service cost plus an estimate of actual O&M costs. This estimation is calculated differently for different Dams. PSE does not accrue for estimated true-ups to monthly O&M billed costs. Subsequent to the PUD's annual audits,

PSE receives a bill or credit for any prior year adjustments. For example, Chelan PUD (Rocky Reach & Rock Island I & II) operates on a calendar year and audit true ups are normally received in May of the following year.

Since it is difficult to determine to what month(s) the annual true-ups actually impact, audit true-ups for the MidC projects should be treated as debits or credits in the PCA period those adjustments are normally found, see below. If the annual true-ups are booked in a month, other than that listed below, which causes them to be recorded in a different PCA period, then the treatment of adjustments as identified in item C above apply. These annual true-ups include the Douglas County PUD Settlement Agreement that is typically a credit.

Normal true up periods for PSE Mid Columbia resources

Priest Rapids and Wanapum are trued-up in April for the prior calendar year. Rocky Reach and Rock Islands 1 and 2 are trued-up in May for the prior calendar year.

Wells, the year ended August is trued-up in the following months, September through December.

3. Colstrip Fuel Costs

Monthly fuel costs represent the tonnage burned at the embedded inventory unit cost. Inventory cost represents commodity charges, royalties, reclamation accruals and true-ups from prior periods for all these types of costs. Coal inventory costs include prior period adjustments as well as corrections of accounting errors due to the difficulty in determining what period of costs are included in the beginning and ending inventory balances. Therefore, no adjustments will be made for Colstrip inventory valuation for prior period adjustments, and any true-ups or corrections from prior periods will be included in power costs at the time they become known. Adjustments for prior periods that meet the criteria in item C will be adjusted for regulatory purposes outside of the inventory valuation process.