

**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-06 _____

PETITION OF PUGET SOUND
ENERGY, INC. FOR APPROVAL OF ITS
2006 POWER COST ADJUSTMENT
MECHANISM ANNUAL REPORT

1 1. This Petition is brought by Puget Sound Energy, Inc. ("PSE" or the
2 "Company"). PSE's representative for purposes of this proceeding is:

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6 10885 N.E. Fourth Street
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8 and its legal counsel for purposes of this proceeding is:

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18 2. This Petition brings into issue: WAC 480-07-370(1)(b).

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I. BACKGROUND

A. The Company's PCA Mechanism Requires Annual True-Up Filings

3. In the Commission's Twelfth Supplemental Order in Docket Nos. UE-011570 and UG-011571 ("Twelfth Supplemental Order"), the Commission approved the parties' Settlement Stipulation for Electric and Common Issues for PSE's 2001 general rate case ("Stipulation"). Among other things, the Twelfth Supplemental Order authorized a Power Cost Adjustment Mechanism (PCA). Exhibit A to the Stipulation, which is attached to the Twelfth Supplemental Order, sets forth details regarding the PCA, and is hereinafter referred to and cited as the "PCA Settlement."

4. Following verification of certain numbers set forth in the exhibits to the PCA Settlement, the Commission ordered that revised pages of Exhibits A, B, D and F be substituted for the corollary pages of Exhibits A, B, D and F of the PCA Settlement. The Commission further ordered that the resulting adjusted calculations be used for purposes of the PCA accounting required by the PCA Settlement beginning July 1, 2002. *See* Fifteenth Supplemental Order in Docket Nos. UE-011570 and UG-011571 (May 13, 2003). A copy of the PCA Settlement, as revised, is attached to this Petition as Exhibit A.

5. The PCA Settlement describes the PCA as:

a mechanism that would account for differences in PSE's modified actual power costs relative to a power cost baseline. This mechanism would account for a sharing of costs and benefits that are graduated over four levels of power cost variances, with an

1 overall cap of \$40 million (+/-) over the four year period July 1,
2 2002 through June 30, 2006. If the cap is exceeded, costs and
3 benefits in excess of \$40 million would be shared at a different
4 level of sharing.

5 PCA Settlement, ¶ 2. The PCA Settlement sets forth the various levels of costs and
6 benefits sharing between the Company and its customers, and provides that "[t]he
7 customer's share of the power cost variability will be deferred as described below. . . ."
8 *Id.* at ¶ 3.

9 6. In order to implement its sharing provisions and overall cap, the PCA
10 Settlement requires an annual true-up of actual power costs (versus the normalized level
11 set in rates) and an accounting of sharing amounts. To accomplish this, the PCA
12 Settlement provides that "[i]n August of 2003 and each year thereafter, the Company
13 shall file an annual report detailing the power costs included in the deferral calculation, in
14 a form satisfactory to the Commission, for Commission review and approval." PCA
15 Settlement, ¶ 4.

16 II. PSE'S 2006 PCA REPORT

17 7. In compliance with the PCA Settlement and Twelfth Supplemental Order,
18 this Petition presents to the Commission PSE's Power Cost Adjustment Mechanism
19 Annual Report for the Twelve Months Ended June 30, 2006—PCA Period Four ("2006
20 PCA Report") for the Commission's review and approval. The 2006 PCA Report is being
21 filed along with this Petition. Accompanying workpapers are being provided to the

1 Commission Staff and Public Counsel with this filing. As described below, PSE requests
2 that the Commission approve the 2006 PCA Report as filed.

3 8. As detailed in PSE's 2006 PCA Report, PSE's actual power costs were
4 below the amounts recovered through the Power Cost Baseline Rate during PCA Period 4
5 by approximately \$10.5 million.

6 9. The primary drivers of this over-recovery were: (1) actual power loads
7 were five percent greater than forecast; and (2) an adjustment to Hopkins Ridge fixed
8 costs to reflect lower capital costs. The market heat rates during PCA Period 4 were less
9 than forecast, reducing the quantity of generation at PSE's gas-fired generation plants,
10 which in turn reduced PSE's level of secondary sales transactions and increased the level
11 of secondary purchase transactions.

12 10. With respect to the deferral balance under the PCA Mechanism, as of
13 June 30, 2005 the Company had deferred \$5,101,727 of under-recovered power costs.
14 There were no additional deferrals required at the end of PCA Period 4. Therefore, the
15 deferred balance remains at \$5,101,727. However, interest of \$407,644 had been accrued
16 at the end of PCA Period 3. An additional \$736,238 of interest was earned on this
17 deferral during PCA Period 4 as allowed for under the PCA Mechanism. Adding the
18 total accrued interest of \$1,143,882 to the deferred balance of \$5,101,727, results in a
19 total customer deferral balance under the PCA mechanism at June 30, 2006 of
20 \$6,245,609.

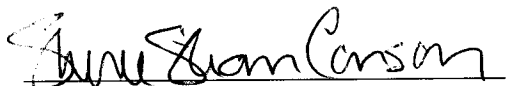
1 11. The Company is not requesting any rate increase as part of this filing as
2 the deferral balance is not at a level where an increase is warranted.

3 **III. REQUESTED ACTION**

4 12. PSE respectfully requests that the Commission issue an order approving
5 PSE's 2006 PCA Report, as filed.

6 DATED: August 31, 2006.
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PERKINS COIE LLP

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