



The Energy To Do Great Things

Puget Sound Energy
P.O. Box 97034
Bellevue, WA 98009-9734
PSE.com

August 31, 2009

Mr. David Danner, Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Re: Advice No. 2009-16 (PGA) Natural Gas Tariff Filing – Filed Electronically

Dear Mr. Danner:

Puget Sound Energy, Inc. (“PSE” or “the Company”) hereby submits a proposed Purchased Gas Adjustment (“PGA”) including proposed revisions to its WN U-2 Tariff. Enclosed is the following proposed revised tariff sheet:

WN U-2 (Natural Gas Tariff)
32nd Revision of Sheet No. 1101 – Supplemental Schedule No. 101 – Gas Cost Rates

The proposed PGA tariff revision reflects changes in wholesale gas and pipeline transportation costs and includes an effective date of October 1, 2009. Posting of the proposed tariff change, as required by law and the Commission’s rules and regulations, for inspection and review by the public is being completed immediately prior to or coincident with the date of this transmittal letter, through web, telephone and mail access in accordance with WAC 480-90-193(1). The net effect of this filing is a decrease in customer bills therefore the Company will provide notice in accordance with WAC 480-90-195(3), however, the Company will also provide notice to customers through a notice published at least thirty days before the stated effective date of the filing.

Purpose of This Filing

The purpose of this filing is to adjust the Company’s PGA rates, which recover expected gas costs from the Company’s sales customers. On an average annual basis, the PGA rates included in this filing reflect an 18.0% decrease in gas costs due to decreases in forward market prices. The impact of the decreased gas costs, as proposed herein, is a 12.1% decrease in residential gas service rates and a 12.8% overall decrease in gas sales service revenues. The annual dollar amount of the change is -\$148.5 million. This filing also represents a corresponding decrease in expenses, resulting in no net decrease in revenue to the Company.

Simultaneous with this PGA filing, the Company has also filed a Deferral Amortization or “Tracker” filing (Advice No. 2009-17) to adjust the charge for deferred gas costs. That filing proposes to increase the current credit by approximately 5.5 cents per therm on average, which will have an impact of -4.3% on overall gas sales service revenues. The combined effect of both filings is to decrease residential rates by 16.1% and overall rates for gas sales customers by 17.1%.

Estimating Gas Commodity Costs

PSE has estimated annual gas supply costs for the period October 2009 through September 2010 using the same model used for more than ten years. This methodology creates a least cost supply portfolio that includes supply contracts, storage operations and transportation costs for the annual period based on expected costs of each resource.

A necessary component of the gas cost forecast is the assumed “forward strip” of monthly prices for the basins from which PSE acquires gas. PSE’s gas cost forecast utilizes a 3-month average of forward price marks. The 3-month price mark period is April 21 through July 20, 2009, the period immediately preceding the date of the analysis noted above. PSE believes the cost forecast overall is a reasonable basis for setting PGA rates. Actual market prices will most likely differ from the forecast.

Combined Impact of the PGA and Deferral Amortization Filings

As further described in the Deferral Amortization filing, PSE is proposing to increase the credit for over-recovered gas costs during the October 2009 – September 2010 period. The combined impact of the two filings is -\$198.1 million, or -17.1 percent. The following table summarizes the combined impact of the two filings, based on a percentage change in total revenue from each rate schedule after both rate revisions:

Estimated Impact on Annual Bills

Customer Class	PGA Impact	Amortization Impact	Total Impact
Residential			
23	-12.1%	-4.0%	-16.1%
16	-10.1%	-3.4%	-13.5%
Commercial and Industrial			
31	-13.0%	-4.3%	-17.4%
41	-15.4%	-5.3%	-20.6%
Interruptible			
85	-17.7%	-6.0%	-23.7%
86	-15.8%	-5.3%	-21.1%
87	-18.8%	-6.3%	-25.1%
Total Sales	-12.8%	-4.3%	-17.1%

Customer Notification

The Company has prepared a customer notice for this filing to advise customers of the combined effects of the proposed changes. Pursuant to WAC 480-90-195(3) the Company will publish the change in the same manner as it posts tariffs under WAC 480-90-193. In addition, PSE will publish a newspaper advertisement at least thirty days before the stated effective date of October 1, 2009. The Company also will issue press releases to advise the media across the service territory of the specifics of the combined effects of the two filings.

List of Exhibits

The following exhibits are being submitted to document the above revisions:

Exhibit	Description
Exhibit _____ (PGA-1)	Calculation of the revised Schedule 101 rates, by demand and commodity components, based on the estimated gas costs shown in Exhibit ____ (PGA-2), with a comparison to current Schedule 101 rates.
Exhibit _____ (PGA-2) "CONFIDENTIAL"	The estimated demand and commodity costs for the period October 1, 2009 through September 30, 2010.
Exhibit _____ (PGA-3)	The projected customer counts and sales volumes by rate schedule for the period October 1, 2009, through September 30, 2010, which were used in estimating the proposed gas costs for the period.
Exhibit _____ (PGA-4)	The calculated annual and monthly effect of the proposed PGA on the various customer classes based on the projected volumes for the proposed PGA period.
Exhibit _____ (PGA-5)	The estimated revenue impact of this filing, by customer class, based on normalized volumes for 2008.
Exhibit _____ (PGA-6)	The combined effect of the proposed PGA and Tracker rates on the various customer classes, based on the projected volumes for the proposed PGA period.
Exhibit _____ (PGA-7)	The combined revenue impact of the PGA and Tracker filings, by customer class, based on normalized volumes for 2008.

Please note that Exhibit PGA-2 contains commercially sensitive information, disclosure of which could adversely affect gas costs for the Company's customers. Therefore, this exhibit and workpapers have been filed under a separate cover letter requesting confidential treatment.

Conclusion

The Company's proposed PGA rate change in this filing reflects the Company's best forecast of gas costs that will be incurred to serve customers during the PGA period of October 1, 2009, through September 30, 2010. While actual costs will vary from projections due to volatility of market prices, the PGA and Amortization rates proposed in these two filings will provide a reasonable matching of gas costs with revenue generated by the revised rates.

Questions regarding this filing can be directed to Janet Phelps at (425) 456-2304. If you have any other questions or if I can be of any assistance, please contact me at (425) 462-3495.

Sincerely,



Tom DeBoer
Director, Federal & State Regulatory Affairs

Enclosure

cc: Simon J. ffitich
Paula Pyron
Sheree Carson