



PUGET SOUND ENERGY

The Energy To Do Great Things

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October 1, 2010

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

Re: Advice No. 2010-23 (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, pursuant to RCW 80.28.060 and Chapter 480-80 WAC, are the following proposed revised tariff sheets:

WN U-2 (Natural Gas Tariff)

33rd Revision of Sheet No. 1101 – Supplemental Schedule No. 101 – Gas Cost Rates

3rd Revision of Sheet No. 1101-B – 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 November 1, 2010.

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 a 4.3% decrease in gas costs due to decreases in forward market prices. The impact of the decreased gas costs, as proposed herein, is a 2.8% decrease in residential gas service rates and a 3.1% overall decrease in gas sales service revenues. The annual dollar amount of the change is a negative \$30.4 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. 2010-24) to adjust the charge for deferred gas costs. That filing proposes to decrease the current credit by approximately 5.5 cents per therm on average, which will result in a 5.0% increase to overall gas sales service revenues. The combined effect of both filings is to increase residential rates by 1.9% and overall rates for gas sales customers by 1.9%.

Estimating Gas Commodity Costs

PSE has estimated annual gas supply costs for the period November 2010 through October 2011 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 June 9 through September 8, 2010, 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 decrease the credit for over-recovered gas costs during the November 2010 – October 2011 period. The combined impact of the two filings is a revenue increase of \$18.3 million, or 1.9%. The following table summarizes the combined impact of the two filings, based on a percentage change in total revenue from each rate schedule:

Estimated Impact on Annual Bills

Customer Class	PGA Impact	Amortization Impact	Total Impact
Residential			
23	-2.8%	4.8%	1.9%
16	-2.3%	3.9%	1.6%
Commercial and Industrial			
31	-3.1%	5.2%	2.0%
41	-4.8%	5.7%	0.9%
Interruptible			
85	-5.3%	7.1%	1.8%
86	-4.5%	6.2%	1.6%
87	-5.8%	7.6%	1.9%
Total Sales	-3.1%	5.0%	1.9%

Customer Notification

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 combined filing is an increase in customer bills therefore the Company will provide notice in accordance with WAC 480-90-194(2) through a published notice at least thirty days before the stated effective date of the tariff changes. In addition to the notice published as a newspaper advertisement at least thirty days before the stated effective date of November 1, 2010, 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 and distribute the published notice to community agencies in the Company’s natural gas service area.

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 November 1, 2010 through October 31, 2011.
Exhibit ____ (PGA-3)	The projected customer counts and sales volumes by rate schedule for the period November 1, 2010, through October 31, 2011, 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 2009.
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 2009.

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 related 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 November 1, 2010, through October 31, 2011. 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

Enclosures

cc: Simon J. ffitich
Paula Pyron
Sheree Carson