Attachment A

A. Determination of Revenue Requirement

The costs included in the rate adjustment will be based on actual and forecasted incremental: (1) return on ratebase, net of accumulated depreciation and applicable deferred federal income tax; and (2) change in depreciation expense calculated on net book value which is net of retirements of assets that are included in existing rates. Additionally, the rate adjustment will include a true-up of estimates used in the previous filing to actual costs and loads. The rate adjustment will be updated each year with a November 1 effective date. Further detailed discussion of the determination of revenue requirement can be found below.

The initial scope of the Pipeline Integrity Program ("PIP") includes the following programs: (1) Bare Steel Replacement; (2) Wrapped Steel Service Assessment; (3) Wrapped Steel Main Assessment; and (4) Older Polyethylene Pipe Replacement. For ratebase, the rate adjustment will be based on projected changes through the end of the PIP rate period. For depreciation expense, the base on which depreciation expense is calculated is net of the retirement of plant already included in existing rates. Thus, the rate is based on the incremental plant added from what is already included in rates for each of the programs identified for inclusion in the PIP. PSE will track existing program plant assets as well as the assets used for replacement by Work Breakdown Structure (PSE's accounting system job tracking structure) and in separate FERC subaccounts to facilitate program reporting. The formula for the revenue requirement is summarized as follows:

Ratebase Calculation (based on AMA)**:**

Rate Year Gross Plant
Less: Rate Year Accumulated Depreciation
<u>Less: Rate Year Accumulated Deferred Tax</u>
Rate Year Ratebase

Revenue Requirement Calculation:

Rate Year Ratebase
<u>x Authorized Rate of Return (After-Tax)</u>
Required Return on Plant
<u>÷ FIT Conversion Factor (65%)</u>
Plant Revenue Requirement
<u>+ Rate Year Depreciation Expense</u>
Rate Year Revenue Requirement Before Other Taxes
<u>÷ Revenue Taxes Conversion Factor</u>
Rate Year Revenue Requirement
<u>Less Revenue Requirement from Most Recent Rate Filing</u>
<u>= Revenue Deficiency</u>

The deficiency is determined by the difference between the Test Year and the Rate Period ratebase and depreciation expense, each determined as follows:

"Test Year" - Plant Balances in Current Rates

Plant balances in current rates consist of all bare steel, wrapped steel and additions for the replacement plastic pipe added for each of the programs listed above. Depreciation expense already included in rates is based on the monthly plant balances during the test year multiplied by approved depreciation rates. Test year rate base for replacement of older polyethylene pipe consists of the new plastic pipe added. The test year rate base for the steel replacement consists of the steel pipe yet to be replaced under the program as well as the pipe used to replace steel pipe that was previously retired under the program.

The deferred tax calculation at the corporate level is done at the aggregate level for distribution and does not track by individual type of distribution plant. Therefore, the deferred tax calculation at the distribution plant type level was simulated based on the year the plant was added and the tax rules that were in effect at that time. The accumulated deferred tax balance equals the accumulated tax depreciation less accumulated book depreciation multiplied by 35%.

"Rate Period" - Projected Balances

Maturity of Plant Balances in Existing Rates

The actual plant balances in current rates declines over time due to depreciation. To capture the plant installed during the test year but not yet fully reflected in ratebase due to the use of the average of the monthly averages methodology, the balances at the end of the test year are projected out to the end of the rate period[1] assuming ongoing depreciation expense at authorized depreciation rates and the associated changes in the deferred tax liability over the same time period.

Incremental Net Plant Additions after the Last Test Year

For each of the programs, plant additions and retirements are tracked beginning the month after the end of the last test year. For the initial filing, net plant additions are based on actual amounts through February 2011 and forecast amounts thereafter to the end of the rate period. The depreciation expense calculation is based on the plant balances resulting from new plant additions net of retirements of test year plant multiplied by approved depreciation rates. The deferred tax calculation for new plant follows the tax rules that are in effect for 2010, 2011 and 2012. The AMA calculation for projected deferred tax balances follows the IRS guidelines for the calculation.

Adjustment of PIP Rate

The rate periods for the PIP rate will coincide with the PGA. Therefore, due to the timing of the initial filing, the initial rate period will only be four months, from July 1, 2011 through October 31, 2011

[1] October 2011 in the initial filing

and be based on a four month revenue requirement of $732,000 spread over the estimated therms for July 2011 through October 2011. The next adjustment to the rate will be based on an annual revenue requirement and will occur on November 1, 2011. The revenue requirement for that filing is anticipated to be $5.7 million based on incremental net plant additions through October 31, 2012.

Estimates used in the previous filing will be trued up to actual costs and loads as they become known. The true up will be included in the next rate year calculation.

To compensate for changes that occur in general rates due to approval of a natural gas general rate proceeding, the impact on the PIP rate will be changed as soon as practicable, but filed no later than 2 months after the effective date of new rates from the general rate case proceeding. Items within the PIP that will be recalculated include the plant balances and depreciation expense approved in general rates, as well as recalculation of the remaining PIP revenue requirement using the approved rate of return and depreciation rates resulting from the general rate case proceeding.

B. <u>Cost Tracking</u>

Costs for both existing plant to be retired and replacement plant additions will be tracked by designated program at the FERC subaccount level on a per-job basis using WBS elements.

C. <u>Annual Timeline</u>

- Prior to August 1 of each year: Meeting with interested parties to discuss forecast of programs and budgets for following year
- October 1 of each year: Tariff Update Filing
- November 1 of each year: Effective Date

D. <u>Cost Allocation and Rate Design</u>

Costs included in PIP will be allocated to rate schedules based on the natural gas cost of service study filed by PSE in its most recently completed gas rate case. Mains in FERC Account 376 will be allocated based on the allocation of Account 376 in the cost of service study, and Services in FERC Account 380 will be allocated based on the allocation of Account 380 in the cost of service study.

Rates will be designed to recover eligible program costs on a per-therm basis for each applicable sales and transportation schedule.

For this first four-month time period the estimated customer impacts are displayed in the table below:

Table 1: Estimated Customer Impacts July – October 2011

Schedule	Proposed PIP Revenue	Estimated Percent Increase
Residential (16, 23)	$490,909	0.4%
Commercial & Industrial (31)	$168,084	0.4%
Large Volume (41, 41T)	$32,880	0.2%
Interruptible (85, 85T)	$15,366	0.3%
Limited Interruptible (86, 86T)	$3,127	0.1%
Non-Exclusive Interruptible (87, 87T)	$15,708	0.2%
Contracts	$5,477	1.1%
Total	$731,552	0.4%

E. **Annual Budget and Program Forecast Report**

In order to help assess the composition and cost impact of the PIP recovery, no later than August 1, PSE will schedule a meeting for all interested parties to discuss the proposed programs and budgets for the upcoming program year. At this meeting, the Company will provide: the scope of the programs for the upcoming Program Year; a forecast of expenses for the upcoming Program Year; and report on the program results and actual (and forecasted) expenses for the current Program Year.