~~$782.6 million.~~ $773.4 million. *See* Exhibit No. ___(JMR-10). This revised level of projected power costs incorporates the anticipated impact of the Tenaska disallowance set forth in the Commission's Order No. 14 in the PCORC proceeding, Docket No. UE-031725. Mr. John Story adjusts this cost to a test period level per his Exhibit No. ___(JHS-E3, page 2.03).

Q. How has PSE developed its forecast of Production O&M costs in this filing?

A. In estimating its rate year power costs, PSE has made the following adjustments to its test year (October 2002 through September 2003) production O&M costs:

i) Restated the test year costs for Colstrip coal handling costs which have been reclassified to fuel costs to be in accordance with FERC accounting;

ii) Proformed the Colstrip O&M costs to preliminary rate year budget amounts;

iii) Removed the White River O&M costs to reflect retirement of the project for hydroelectric generation purposes;

iv) Proformed the O&M costs of the new Frederickson 1 resource based on forecasted operation and maintenance costs;

v) Restated the test year to normalize O&M for major maintenance for PSE's owned simple-cycle gas and oil-fired combustion turbines based on operating cost studies;

vi) Restated the test year to normalize O&M for major maintenance for PSE's owned Encogen plant based upon operating cost studies;

vii) Proformed the Whitehorn 2 & 3 lease costs to reflect the lower costs of the lease extension; and

viii) Proformed the Fredonia 3 & 4 lease costs to reflect the lower rate year lease costs.

Q. Please describe the principal differences between this forecast of normalized power costs and the forecast of normalized power costs ~~that is included~~ in the ~~Company's~~ PCORC proceeding ~~filing~~.

A. Please refer to Exhibit No. ___(JMR-11)**,** which shows a comparison of the PCORC normalized power costs for the period April 2004 through March 2005 and the forecasted normalized power costs for the rate year.

In terms of supply / demand balance, the new forecast shows an increasing generation supply deficit due to load increases and continuing reduction in PSE's contract share with the Mid-Columbia operators.

This supply deficit is partially offset by increased generation from PSE's existing gas and oil-fired resources, including the Fredrickson 1 plant. On average, the market heat rates are higher in the new forecast, causing this increased generation. Therefore, this forecast projects fewer market purchases to meet PSE's loads.

In terms of the impacts on power costs, higher natural gas prices are driving higher costs for generation from PSE's gas and oil-fired resources. In turn, these higher gas prices result in higher power market prices, which increase the cost of the net market purchases in the forecast. Other factors affecting power costs include changes in the planned maintenance for PSE's Westside hydro, Colstrip and Sumas, as well as escalation in the costs of PSE's existing power purchase contracts.

Altogether, this forecast of power costs, including production O&M, is approximately ~~$39.4 million~~ $40.2 million higher than what is presently reflected in ~~PSE's PCORC filing~~ the PCA Power Cost Baseline Rate as approved in Order No. 14 in the PCORC proceeding.

Q. Does this conclude your testimony?

A. Yes, it does.

[BA041530015 (revising: BA040850050)]