

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For Approval of its 2005 Power Cost
Adjustment Mechanism Report

DOCKET NO. _____

PETITION OF PUGET SOUND
ENERGY, INC. FOR APPROVAL OF ITS
2005 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:

3 Karl R. Karzmar
4 Director of Regulatory Relations
5 Puget Sound Energy, Inc.
6 10885 N.E. Fourth St.
7 Bellevue, WA 98004

8 and its legal counsel for purposes of this proceeding is:

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

1 **I. BACKGROUND**

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

3 3. In the Commission's Twelfth Supplemental Order in Docket Nos. UE-
4 011570 and UG-011571 ("Twelfth Supplemental Order"), the Commission approved the
5 parties' Settlement Stipulation for Electric and Common Issues for PSE's 2001 general rate
6 case ("Stipulation"). Among other things, the Twelfth Supplemental Order authorized a
7 Power Cost Adjustment Mechanism (PCA). Exhibit A to the Stipulation, which is attached
8 to the Twelfth Supplemental Order, sets forth details regarding the PCA, and is hereinafter
9 referred to and cited as the "PCA Settlement."

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

17 5. The PCA Settlement describes the PCA as:

18 a mechanism that would account for differences in PSE's modified
19 actual power costs relative to a power cost baseline. This mechanism
20 would account for a sharing of costs and benefits that are graduated
21 over four levels of power cost variances, with an overall cap of \$40
22 million (+/-) over the four year period July 1, 2002 through June 30,

1 8. As detailed in PSE’s 2005 PCA Report, PSE's actual power costs exceeded
2 the amounts recovered through the Power Cost Baseline Rate during PCA Period 3 by
3 \$10,302,187 (after adjustment for Firm Wholesale).

4 9. The primary drivers of this under-recovery were: (1) higher per MWh power
5 caused by, among other reasons, reduced hydro runoff for the past two water years that was
6 only 88% and 83% of normal above Grand Coulee; and (2) natural gas and power prices that
7 were higher than assumed in the PCA Power Cost Baseline Rate. The market heat rates
8 during PCA Period 3 were less than forecast, reducing the quantity of generation at PSE's
9 gas-fired generation plants, which in turn reduced PSE's level of secondary sales transactions
10 and increased the level of secondary purchase transactions.

11 10. With respect to the deferral balance under the PCA Mechanism, as of
12 June 30, 2004 the Company had deferred \$5,101,727 of under-recovered power costs. No
13 additional deferrals were accrued during PCA Period 3. Therefore, the deferred balance
14 remains at \$5,101,727. However, interest of \$61,868 had been accrued associated with the
15 period ended June 30, 2004. An additional \$345,776 of interest was earned on this deferral
16 during PCA Period 3 as allowed for under the PCA Mechanism. Adding the total accrued
17 interest of \$407,644 to the deferred balance of \$5,101,727, results in a customer deferral
18 balance under the PCA mechanism at June 30, 2005 of \$5,509,371.

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

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III. REQUESTED ACTION

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12. PSE respectfully requests that the Commission issue an order approving

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PSE's 2005 PCA Report, as filed.

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DATED: August 31, 2005.

PERKINS COIE LLP

By _____
Kirstin S. Dodge
Attorneys for Puget Sound Energy, Inc.

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