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 c	ounsel for purposes of this proceeding is:
9		Kirstin S. Dodge
10		Perkins Coie LLP
11		10885 N.E. Fourth St., Suite 700
12		Bellevue, WA 98004
13		Telephone: 425-635-1407
14		Facsimile: 425-635-2407
15		kdodge@perkinscoie.com
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 19 20 21 22	a mechanism that would account for differences in PSE's modified actual power costs relative to a power cost baseline. This mechanism would account for a sharing of costs and benefits that are graduated over four levels of power cost variances, with an overall cap of \$40 million (+/-) over the four year period July 1, 2002 through June 30,

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1 2	2006. If the cap is exceeded, costs and benefits in excess of \$40 million would be shared at a different level of sharing.
3	PCA Settlement, \P 2. The PCA Settlement sets forth the various levels of costs and benefits
4	sharing between the Company and its customers, and provides that "[t]he customer's share
5	of the power cost variability will be deferred as described below" Id. at \P 3.
6	6. In order to implement its sharing provisions and overall cap, the PCA
7	Settlement requires an annual true-up of actual power costs (versus the normalized level set
8	in rates) and an accounting of sharing amounts. To accomplish this, the PCA Settlement
9	provides that "[i]n August of 2003 and each year thereafter, the Company shall file an annual
10	report detailing the power costs included in the deferral calculation, in a form satisfactory to
11	the Commission, for Commission review and approval." PCA Settlement, \P 4.
12	II. PSE's 2005 PCA REPORT
13	7. In compliance with the PCA Settlement and Twelfth Supplemental Order,
14	this Petition presents to the Commission PSE's Power Cost Adjustment Mechanism Annual
15	Report for the Twelve Months Ended June 30, 2005-PCA Period Three ("2005 PCA
16	Report") for the Commission's review and approval. The 2005 PCA Report is being filed
17	along with this Petition. Accompanying workpapers are being provided to the Commission
18	Staff and Public Counsel with this filing. As described below, PSE requests that the
19	Commission approve the 2005 PCA Report as filed.

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- 8. As detailed in PSE's 2005 PCA Report, PSE's actual power costs exceeded
 the amounts recovered through the Power Cost Baseline Rate during PCA Period 3 by
 \$10,302,187 (after adjustment for Firm Wholesale).
- 9. The primary drivers of this under-recovery were: (1) higher per MWh power
 caused by, among other reasons, reduced hydro runoff for the past two water years that was
 only 88% and 83% of normal above Grand Coulee; and (2) natural gas and power prices that
 were higher than assumed in the PCA Power Cost Baseline Rate. The market heat rates
 during PCA Period 3 were less than forecast, reducing the quantity of generation at PSE's
 gas-fired generation plants, which in turn reduced PSE's level of secondary sales transactions
 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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1	III. REQUESTED ACTION
2	12. PSE respectfully requests that the Commission issue an order approving
3	PSE's 2005 PCA Report, as filed.

DATED: August 31, 2005. 4

PERKINS COIE LLP

By ______Kirstin S. Dodge Attorneys for Puget Sound Energy, Inc.

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