



PUGET SOUND ENERGY

Puget Sound Energy, Inc.
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VIA ELECTRONIC E-mail and US MAIL

December 15, 2004

Washington Utilities and Transportation Commission
Attn. Mr. Tim Sweeney
1300 South Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250

RE: Docket P-041344, Responses to Questions

Dear Mr. Sweeney,

Puget Sound Energy, Inc. ("PSE" or "the Company") appreciates the opportunity to respond to the questions in the Notice Of Opportunity To File Written Comments dated November 23, 2004, in the Pipeline Fee Methodology Rulemaking to Review WAC 480-93-240 and WAC 480-75-240 in the above-noted docket. PSE offers the following responses to those questions.

Question 1): What is your position as to what program costs or activities your company should pay for directly? That is, should the program make every effort to directly assign as many of the program costs to company fees as possible or should there be limits on what is directly assigned? Please be as specific as possible and explain how your position is consistent with the applicable statute.

1) Response: It is the Company's interpretation of the controlling statute (RCW 80.24.060) that there are two methods in which the costs of pipeline inspections are to be collected. The first is reflected in section (2)(a) of the statute and is the "**direct assignment** of average costs associated with annual standard inspections" (emphasis added). The second is reflected in section (2)(b) of the statute and is a "uniform and equitable means of **estimating and allocating costs of other duties**" (emphasis added). The first clearly calls for only standard inspection costs to be directly assigned to the Company. The second would allow for allocating other program costs to the Company based on a formula that uses the prior year's inspection activities directly assigned to the Company. Therefore, direct assignment of program costs should be limited to annual standard inspections.

Washington Utilities and Transportation Commission
Attn. Mr. Tim Sweeney
December 15, 2004
Page 2 of 6

Question 2): For those program costs that can be directly assigned to an industry group, should they be allocated to the companies within that industry group (and how should they be allocated) or should they be treated as unassigned costs allocated to all companies?

2) Response: Program costs that can be directly assigned to an industry group should be allocated to the companies within that industry group, and the costs should be allocated based upon directly charged time.

Question 3): What is your position as to what costs or activities should not be directly assignable to companies? Please be specific and explain how your position is consistent with statute.

3) Response: Costs that should not be directly assignable to companies include all costs other than the costs related to annual standard inspections (see response to question 1). This is not to say that all costs, other than those related to annual standard inspections, should not be used as a basis for allocating costs among companies in the following year. However, costs that are not attributable to a particular group or company (such as costs related to this rulemaking) should be allocated using some other method, such as dividing the costs by the total number of companies inspected by the Commission.

Question 4): What is your preferred method for allocating non-directly assignable program costs to operators and why? (e.g.: 1. Allocating non-directly-assignable costs by using pipeline miles is the best method because it directly correlates to the program's effort or 2. Allocating non-directly-assignable costs by using directly assigned time most closely correlates to the program's effort or 3. I have a better idea.)

4) Response: Allocating non-directly-assignable costs by using directly assigned time within an industry group most closely correlates to the program's effort. In addition, those costs that are not attributable to an industry, group or company should be spread by the number of companies inspected by the Commission. These costs are not dependent on the effort, but simply the fact that the Commission is charged with the responsibility to inspect.

Washington Utilities and Transportation Commission
Attn. Mr. Tim Sweeney
December 15, 2004
Page 3 of 6

Question 5): Should some portion of the unassigned program costs be covered by a flat base fee paid uniformly by all companies?

5) Response: See response to Question 4.

Question 6): In addition to directly assigning average costs of planned standard inspections, the program has charged companies for significant incident and construction-related inspection activities. This additional charge did NOT increase the total amount of fees collected by the program but rather reduced the fees for others.

Question 6 a): Do you support an additional fee or charge to cover unexpected incident and construction-related activities that occurred over the previous year? That is, after a year when the program expends more time than was planned for a company because of incidents and construction activities, should the program attempt to recoup those costs directly from the company in the next year's fees (recognizing that this would reduce the fees of the other companies for that year)? If yes, please indicate how state law supports this type of billing.

6a) Response: PSE supports an additional fee or charge to cover incident investigations that significantly exceed a pre-determined program allocation for this activity. This should be considered an "equitable means of ...allocating costs of other duties" as provided in section (2)(b) of RCW 80.24.060. PSE does not support this type of additional fee or charge for construction-related activities because construction inspections are often selected due to geographic convenience.

Question 6 b): Should the program recoup costs from companies for every incident and construction-related activity or should the program do so only in those situations when the company-related activities significantly exceeded the program's plan for incident and construction activities?

6 b) Response: No. The program should only recoup costs from companies for incidents that significantly exceed the program's plan. See response to question 5.

Question 6 c): How should assignment of actual program costs for such activities affect the fees paid by other companies?

Washington Utilities and Transportation Commission
Attn. Mr. Tim Sweeney
December 15, 2004
Page 4 of 6

6 c) Response: The assignment of costs to a specific company or group would reduce the amount of fees paid by other companies or groups.

Question 7): Currently, the program's federal grant is received in a hazardous liquid component and a natural gas component, but the sum of the two grants is divided between the interstate and intrastate companies. The federal grant is deducted from these two cost pools before specific operator fees are set and no distinction is made whether a company pays a federal fee or not. What other method would your company suggest for crediting companies for the federal grant? For those companies who pay a pipeline safety fee to the federal program, what portion, if any, should be returned directly to them through the grant and fee methodology?

7) Response: The federal grant dollars should be applied as closely as possible to the method in which the dollars are received.

Question 8): State law states that "average costs" should be used with direct assignment. The current fee method estimates what the average costs will be to conduct an average standard inspection for that fee year. Many of the options presented at the Nov. 16 workshop uses a two-year average of the program's historical costs in setting the next year's fee. What is your position regarding how to determine average costs?

8) Response: Use of a single year to determine "average costs" would result in an average cost that is more responsive to changes in inspection requirements and guidelines of the federal government, state safety standards and engineering practices as well as cost increases caused by wages, vehicles and fuel.

Question 9): Are you satisfied with the current fee methodology?

9) Response: No. It allocates the majority of costs by line miles which has nothing to do with how safe a system a company operates.

Question 10): If current fee method was retained, what changes would you suggest?

10) Response: Redefine cost pools to natural gas and hazardous liquids to reflect federal allocation of grant monies.

Question 11): Below are some of the fee concepts presented at the workshop, either by our consultant or by participants. Please indicate which of the concepts below you would like to see as part of an improved fee method:

- a) Single pool where fee is based on company's two-year average of directly assignable inspection time.
- b) Inspection pools where fee is based on company's two-year average of inspection time as a percentage within each of the four major inspection activities. (See Option 3a in workshop materials)
- c) Industry pools where fee is based on company's two-year average direct charged time as a percentage within one of the four industry pools. (See Option 4a in workshop materials)
- d) Gas/Liquid Pools where fee is based on company's two-year average direct charge time as percentage within either the gas or hazardous liquid pool. (See Option 5a)
- e) Inter/Intrastate Pools where fee is based on company's two-year average direct charge time as percentage within interstate or intrastate pools. (See Option 6a)
- f) Indirect costs, however defined, are allocated on a per mile basis.
- g) Annual company fee increases are limited to 20 percent per year.
- h) Indirect costs, however defined, are reduced by a minimum base charge assessed to all companies.
- i) Directly assign as much of the costs as possible so as to limit the amount of indirect costs that have to be allocated.

11) Response: The company would favor some combination of c), d), g) and h).

Question 12): Please submit any suggestions you have for developing a regulatory incentive program consistent with state statute?

12) Response: The statute provides that "The regulatory incentive program created by the commission shall not shift costs among companies paying pipeline safety fees and shall not decrease revenue to pipeline safety programs." Funds from fines, late fees and other Commission fees could be used to establish a fund to be used as an incentive to operate a safe pipeline.

Washington Utilities and Transportation Commission
Attn. Mr. Tim Sweeney
December 15, 2004
Page 6 of 6

PSE is grateful for the opportunity to comment and respond to these questions and hopes that the responses will be of assistance to the Commission. If you have any questions regarding these comments or if we can be of any additional assistance, please contact Lynn Logen at (425) 462-3872.

Very truly yours,

Karl R. Karzmar
Director, Regulatory Relations

cc: Kimberly Harris
Sue McLain
Jim Hogan