

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION)	
)	
Complainant,)	DOCKET NO. UE-070804
)	and
v.)	DOCKET NO. UG-070805
)	(consolidated)
)	
AVISTA CORPORATION d/b/a AVISTA)	
UTILITIES)	
)	
Respondent.)	
_____)	
In the Matter of the Petition of)	
)	
AVISTA CORPORATION d/b/a AVISTA)	DOCKET NO. UE-070311
UTILITIES,)	
)	
For an Accounting Order Regarding the)	
Appropriate Treatment of the Net Costs)	
Associated With the Repurchase of Debt)	
_____)	

EXHIBIT NO.____(DWS-6)

EXCERPT OF PSE 2006 10-K SEC FILING

October 17, 2007



FORM 10-K

PUGET ENERGY INC /WA - PSD

Exhibit:

Filed: March 01, 2007 (period: March 01, 2007)

Annual report which provides a comprehensive overview of the company for the past year

standards will apply to PSE and will be enforced by the ERO subject to FERC oversight. PSE expects the standards to become mandatory in June 2007. Failure to comply with these reliability standards once they become mandatory could result in a financial penalty.

State Regulation

PSE's retail electric service is fully regulated by the Washington Commission. PSE is not aware of any proposals or prospects for retail deregulation in the state of Washington.

PSE's retail gas service is also regulated by the Washington Commission. Since 1986, PSE has been offering gas transportation as a separate service to industrial and commercial customers who choose to purchase their gas supply directly from producers and gas marketers. The shifting of customers between sales and transportation service does not materially impact utility margin, as PSE earns similar margins on transportation service and large-volume, interruptible gas sales.

Electric Regulation and Rates

Power Cost Adjustment Mechanism. On June 20, 2002, the Washington Commission approved a PCA mechanism that triggers if PSE's costs to provide electricity falls outside certain bands established in an electric rate case. The cumulative maximum pre-tax earnings exposure due to power cost variations over the four-year period ending June 30, 2006 was limited to \$40.0 million plus 1.0% of the excess. In October 2005, the Washington Commission approved a shift to an annual PCA measurement period from January through December starting in 2007. On January 5, 2007, the Washington Commission approved the PCA mechanism for continuation under the same annual graduated scale without a cumulative cap for excess power costs. All significant variable power supply cost variables (hydroelectric and wind generation, market price for purchased power and surplus power, natural gas and coal fuel price, generation unit forced outage risk and transmission cost) are included in the PCA mechanism.

The PCA mechanism apportions increases or decreases in power costs, on a calendar year basis, between PSE and its customers on a graduated scale:

Annual Power Cost Variability	July-December 2006 Power Cost Variability ¹	Customers' Share	Company's Share ²
+/- \$20 million	+/- \$10 million	0%	100%
+/- \$20 - \$40 million	+/- \$10 - \$20 million	50%	50%
+/- \$40 - \$120 million	+/- \$20 - \$60 million	90%	10%
+/- \$120 million	+/- \$60 million	95%	5%

- ¹ In October 2005, the Washington Commission in its Power Cost Only Rate Case order allowed for a reduction to the power cost variability amounts to half the annual power cost variability for the period July 1, 2006 through December 31, 2006.
- ² Over the four-year period July 1, 2002 through June 30, 2006, the Company's share of pre-tax power cost variations is capped at a cumulative \$40.0 million plus 1.0% of the excess. Power cost variation after December 31, 2006 will be apportioned on a calendar year basis, without a cumulative cap.

Electric General Rate Case. On January 5, 2007, the Washington Commission issued its order in PSE's electric general rate case filed in February 2006, approving a general rate decrease for electric customers of \$22.8 million or 1.3% annually. The rates for electric customers were effective January 13, 2007. In its order, the Washington Commission approved a weighted cost of capital of 8.4%, or 7.06% after-tax, and a capital structure that included 44.0% common equity with a return on equity of 10.4%. The Washington Commission had earlier approved (on June 28, 2006) a power cost only rate case (PCORC) increase of \$96.1 million annually effective July 1, 2006.

Power Cost Only Rate Case. A limited-scope proceeding called a PCORC was created in 2002 by the Washington Commission to periodically reset power cost rates. The main objective of the PCORC proceeding is to provide for timely review of new resource acquisitions costs and inclusion of such costs in rates at the time the new resource goes into service. To achieve this objective, the Washington Commission agreed to an expedited five-month PCORC decision timeline rather than the statutory 11-month timeline for a general rate case.

On October 20, 2005, the Washington Commission approved a PCORC filing that increased electric rates 3.7% or \$55.6 million annually. Included in the increase is the recovery of capital and operating costs of the Hopkins Ridge wind generating facility. The Hopkins Ridge wind generating facility was completed on November 27, 2005. As a wind generating facility, Hopkins Ridge is eligible for Federal Production Tax Credits (PTCs) that will ultimately offset some of the costs associated with generating power from Hopkins Ridge. The PTC is a tax credit provided by the federal government for generating electricity from certain renewable resources. The current amount of the tax credit is \$0.019 per kilowatt hour (kWh) for wind generation and may be subject to inflation adjustments over time. The tax credit can be claimed for 10 years for a new wind project put into service prior to January 1, 2008. The use of the credit is restricted to offset only 25.0% of current taxes payable. Unused credits can be carried forward for up to 20 years. In the Washington Commission's October 2005 order, a new tariff schedule was approved which provides for the pass through to ratepayers of all benefits of the PTCs of the Hopkins Ridge project. This mechanism (a PTC Tracker) will pass through to the customer the actual PTCs of the Hopkins Ridge project as they are generated. The PTC Tracker would not be subject to the sharing bands in the PCA. The credits passed through to the customer will be adjusted by the carrying costs of unused PTCs. Since the customer is receiving the benefit of the tax credits as they are generated and the Company does not receive a credit from the IRS until the tax credits are utilized, the Company is reimbursed its carrying costs for funds through this calculation.

Gas Regulation and Rates

Gas General Rate Case. On January 5, 2007, the Washington Commission issued its order in PSE's gas general rate case, granting an increase in gas rates of \$29.5 million or 2.8% annually, effective January 13, 2007. In its order the Washington Commission approved the same weighted cost of capital of 8.4%, or 7.06% after-tax, and capital structure that included 44.0% common equity with a return on equity of 10.4%, as allowed for the Company's electric operations.