EXHIBIT NO. ___(JHS-1T)
DOCKET NO. UE-07___
PCA 5 COMPLIANCE
WITNESS: JOHN H. STORY

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of PUGET SOUND ENERGY, INC. For Approval of its March 2007 Power Cost Adjustment Mechanism Report	Docket No. UE-07____

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF JOHN H. STORY ON BEHALF OF PUGET SOUND ENERGY, INC.

MARCH 30, 2007

PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF JOHN H. STORY

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PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF JOHN H. STORY

I. INTRODUCTION

Q. Please state your name, business address, and position with Puget Sound Energy, Inc.

A. My name is John H. Story and I am Director of Cost and Regulation with Puget Sound Energy, Inc. ("PSE"). My business address is 10885 NE 4th Street, Bellevue, Washington, 98009-5591.

Q. Have you prepared an exhibit describing your education, relevant employment experience, and other professional qualifications?

A. Yes, I have. It is Exhibit No. ___(JHS-2).

Q. What are your duties as Director of Cost and Regulation for PSE?

A. As Director of Cost and Regulation, I am responsible for the Revenue Requirement department at PSE.

Q. What is the purpose of this filing?

A. In accordance with the Commission's Twelfth Supplemental Order in Docket Nos. UE-011570 and UG-011571, the Company must file an annual report detailing the power costs included in its deferral calculation under the Power Cost Adjustment ("PCA") Mechanism. In Docket No. UE-050870, the Commission authorized an amendment to the PCA Mechanism, which changed the annual reporting period from the July 1 through June 30 period to a calendar year period. *See* Appendix A to the Fourth Order in Docket No. UE-050870. As a result of this order, annual PCA true up filings will be due by the end of each March for the prior PCA calendar year. The March 2007 PCA true up filing covers the six-month period from July 1, 2006 through December 31, 2006. For this transition year, the sharing bands under the PCA Mechanism have been cut in half to reflect the six month reporting period. Through its Petition, the Company is requesting approval of PSE's Power Cost Adjustment Mechanism Report for the Six Months Ended December 31, 2006 ("March 2007 PCA Report").

II. BACKGROUND REGARDING THE PCA MECHANISM

Q. Please provide a brief summary of the Power Cost Adjustment Mechanism.

A. As authorized by the Commission, the Company's PCA Mechanism accounts for differences in PSE's modified actual power costs relative to a power cost baseline. This mechanism accounts for a sharing of costs and benefits that are graduated over four levels of power cost variances These sharing levels are described in detail in the Settlement Stipulation for Electric and Common Issues, which the Commission approved in Docket Nos. UE-011570 and UG-011571 (the "Settlement Stipulation"). *See* Twelfth Supplemental Order, Docket Nos. UE-011570 and UG-

011571 (June 20, 2002) at Exhibit A to the Accounting Petition.

Q. Please describe the categories of power costs that are included in the PCA mechanism.

A. The following fixed and variable power costs are included in the PCA mechanism. These costs are adjusted as described below.

Fixed Costs:

For PCA calculation purposes, fixed costs are power production related costs and rate of return. Power production related costs from the most recent general rate case or power cost only rate case are included and do not change during the PCA period. These costs include depreciation, property taxes for production plant, and specifically identified transmission plant. Other fixed costs include the following FERC Accounts: 557 – Other production expense, Hydro and Other Production O&M; and 500 – KV O&M. The rate of return from the most recent general rate case is applied in the PCA period.

Variable Costs:

For PCA calculation purposes, variable costs are actual monthly amounts recorded in the following FERC Accounts: 501 – Steam generation fuel; 547 – Other power generation fuel; 555 – Purchased power; 447 – Sales for resale; and 565 – Transmission of electricity by others. In addition, variable costs and credits for sales of non-core gas, Transmission Revenue for Colstrip 1-4 lines, Third AC and

Northern Intertie are included. Allowed regulatory return on amounts associated with Tenaska, Cabot, Bonneville Exchange Power Agreement ("BEP"), White River Relicensing and CWIP, White River Plant Costs, CanWest and the Hopkins Ridge Prepaid Transmission regulatory assets and liabilities are also included in variable costs.

Adjustments per the 2001 General Rate Case Settlement:

The following are adjustments as determined in Docket Nos. UE-011570 and UG-011571:

(1) Prudence disallowance from Docket No. UE-921262, disallowing a portion of the power costs associated with March Point 2 (3%) and Tenaska (1.2%);

(2) Contract price adjustments to limit the rate or total cost to the most recently approved contract rate;

(3) Colstrip Availability adjustment if the actual availability factor for the four plants at Colstrip falls below a 70% equivalent availability factor; and

(4) New long-term resource pricing adjustment to bring the variable cost of the new resource to the lower of actual unit cost or the average embedded cost.

No adjustment was required during the July 1, 2006 through December 31, 2006 period ("PCA Period 5") for either item 3 or 4 above. Adjustments under items 1 and 2 are shown in the Company's work papers submitted with this filing.

Q. Are there other adjustments to be considered along with those determined in Docket Nos. UE-011570 and UG-011571?

A. Yes, per the Commission orders issued in Docket No. UE-031725, PSE is subject to the disallowance of costs associated with the Tenaska Benchmark Disallowance.

III. PCA PERIOD 5 ACCOUNTING

Q. Please explain how the Company has tracked its PCA Period 5 power costs.

A. The Company has detailed accounting instructions that track PCA Mechanism activity. These instructions are included in the supporting workpapers submitted with this filing. Each month the Company calculates the power costs subject to PCA sharing using the same methodology shown in Exhibit B to the Settlement Stipulation. Allowed power costs include the fixed and adjusted variable costs, net of the adjustments discussed above. Total allowable costs are then compared to the baseline power cost rate from Exhibit A-1 times the actual delivered load and any difference is allocated to the Company or customers based on the different levels of sharing defined in the PCA Mechanism. Any difference allocated to the customers is recorded in FERC Account 182.3 -- Other regulatory assets, or Account 254 -- Other regulatory credits, depending on whether the accumulated balance is a debit or credit.

Under the PCA Mechanism, the deferred amount at the time of the next PCA annual true-up filing, along with the projected variable and fixed costs through the next proposed rate year, could be considered in the determination of any rate change for the subsequent PCA period. Amounts deferred, when authorized, will be amortized to FERC Account 407.3 -- Regulatory debits, or 407.4 -- Regulatory credits, as they are recovered or refunded by the Company to customers.

The Company accrues interest monthly on any deferred balance (debit or credit) at the interest rate calculated in accordance with WAC 480-90-233(4).

Q. Did the baseline power cost rate change during PCA Period 5?

A. No. From July 1, 2006 through December 31, 2006, the baseline rate was $56.901 as established in Docket No. UE-060783, the Company's 2005 Power Cost Only Rate Case Update filing. Attached in Exhibit No. ___(JHS-3C), March 2007 PCA Report, pages 5 through 15, is the calculation of this baseline rate and supporting schedules for this period.

Q. What is the effective baseline rate at the end of PCA Period 5 when changes in the variable power cost components are considered?

A. As shown on Exhibit No. ___(JHS-3C), when changes in variable components of the PCA Mechanism plus the change in baseline rate that occurred in July 2006 are considered, the baseline rate for the six month period ended December 31, 2006 is $56.895. The baseline rate exceeded actual power costs by $57,848 (after adjustment for Firm Wholesale). *See* Exhibit No. ___(JHS-3C), March 2007 PCA Report, page 4, Exhibit A-1 Power Cost Rate Updated.

Q. What is the resulting deferral balance for PCA Period 5?

A. As of June 30, 2006, the Company had deferred $5,101,727 of under-recovered power costs. There were no additional deferrals required at the end of PCA Period 5. Therefore, the deferred balance remains at $5,101,727. Interest of $1,143,882 had been accrued at the end of PCA period 4, and additional interest of $111,206 has accrued for PCA Period 5 as allowed by the PCA Mechanism. Adding the total accrued interest of $1,255,088 to the deferred balance of $5,101,727, results in a total customer deferral balance under the PCA mechanism at December 31, 2006 of $6,356,815. *See* Exhibit No. ___(JHS-3C), March 2007 PCA Report, page 3.

Q. Will there be a rate increase as a result of this filing?

A. No. The deferral balance is not at a level where an increase is warranted.

IV. ADJUSTMENT OF COSTS OUTSIDE OF THE PCA PERIOD

Q. Please describe the need for "Adjustments of Costs Outside of the PCA Period".

A. In the Company's PCA Period 1 compliance filing, Docket No. UE-031389, a procedure entitled "Methodology for Adjustments of Costs Outside of the PCA Period" was agreed to by the parties and approved by the Commission for the treatment of such adjustments in that and future PCA periods. *See* Exhibit No. ___(JHS-4).

Q. Were there any such adjustments in PCA Period 5?

A. Yes, there was an accounting adjustment in the amount of $759,600 made in September 2006. This adjustment was associated with an increase in the Colstrip units 3 and 4 loss reserve in connection with minerals management service claim against PSE, and should not be considered a fuel expense as it relates to coal deliveries prior to July 1, 2002. This would reduce the Steam Operating Fuel in September 2006 from $4,391,889 to $3,632,289. *See* Exhibit No. ___(JHS-3C), March 2007 PCA Report, page 12.

Q. Does this conclude your testimony?

A. Yes, it does.