

EXHIBIT NO. \_\_\_\_\_ (WAG-24)  
DOCKET NO. UE-031725  
2003 POWER COST ONLY RATE CASE  
WITNESS: WILLIAM A. GAINES

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

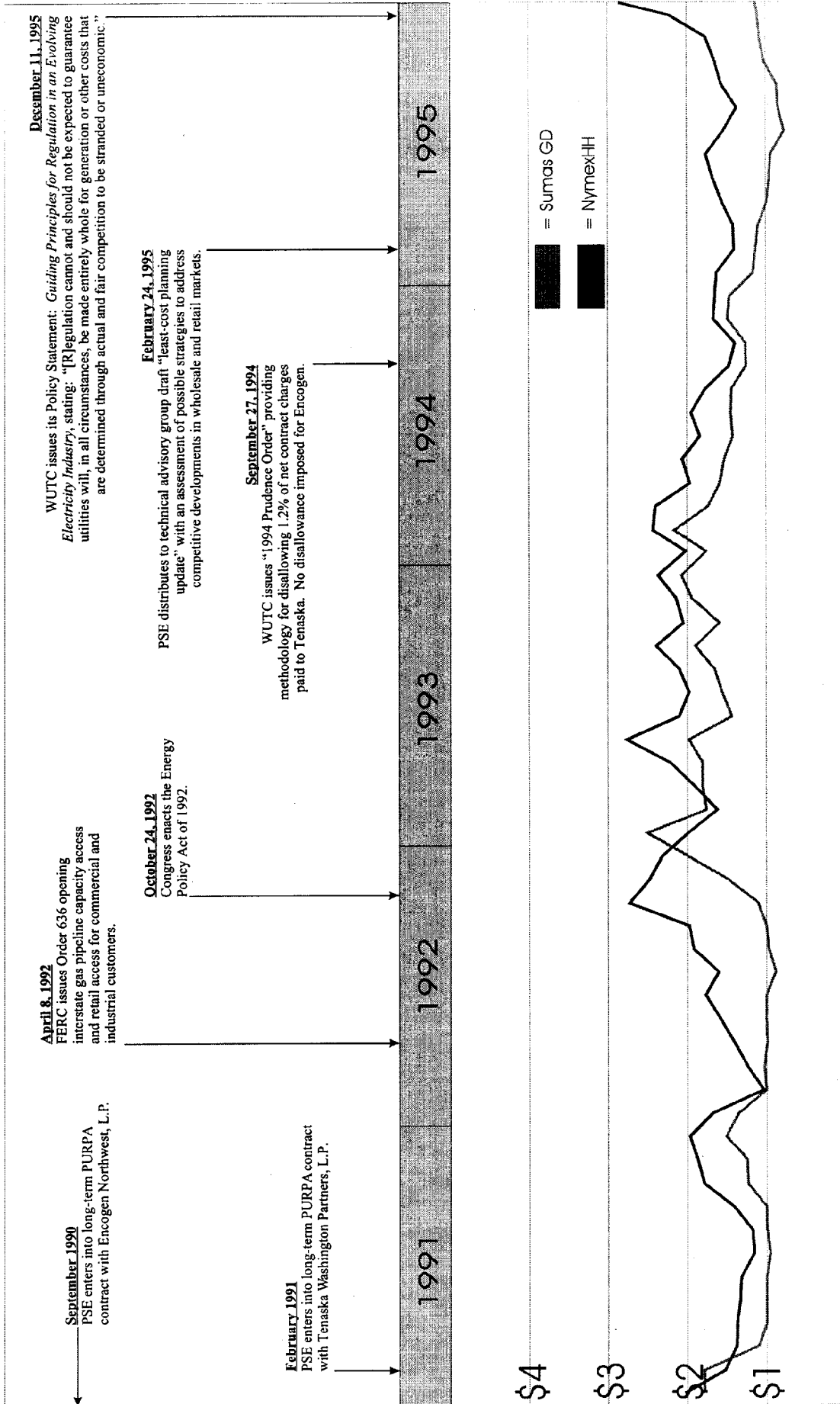
PUGET SOUND ENERGY, INC.,

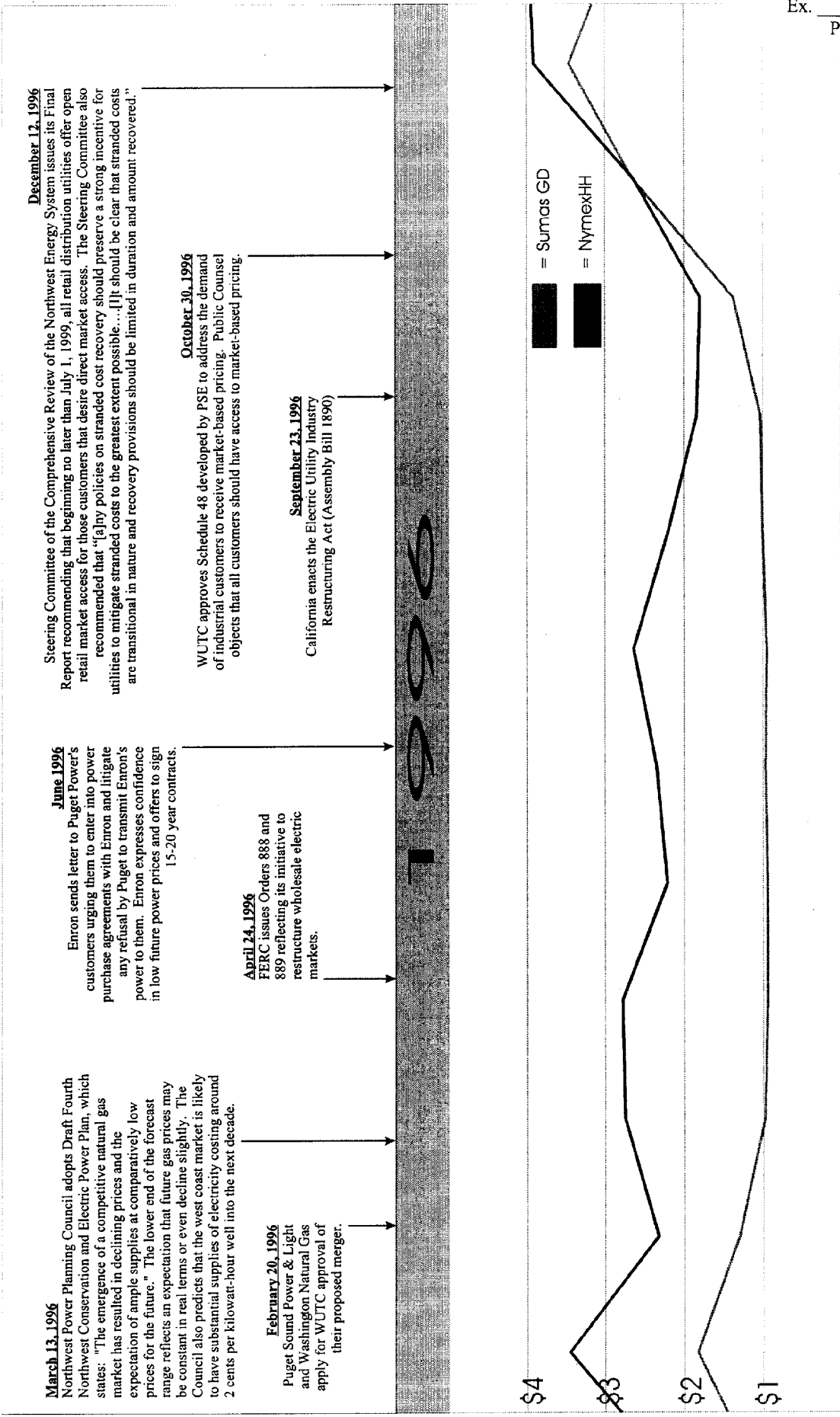
Respondent.

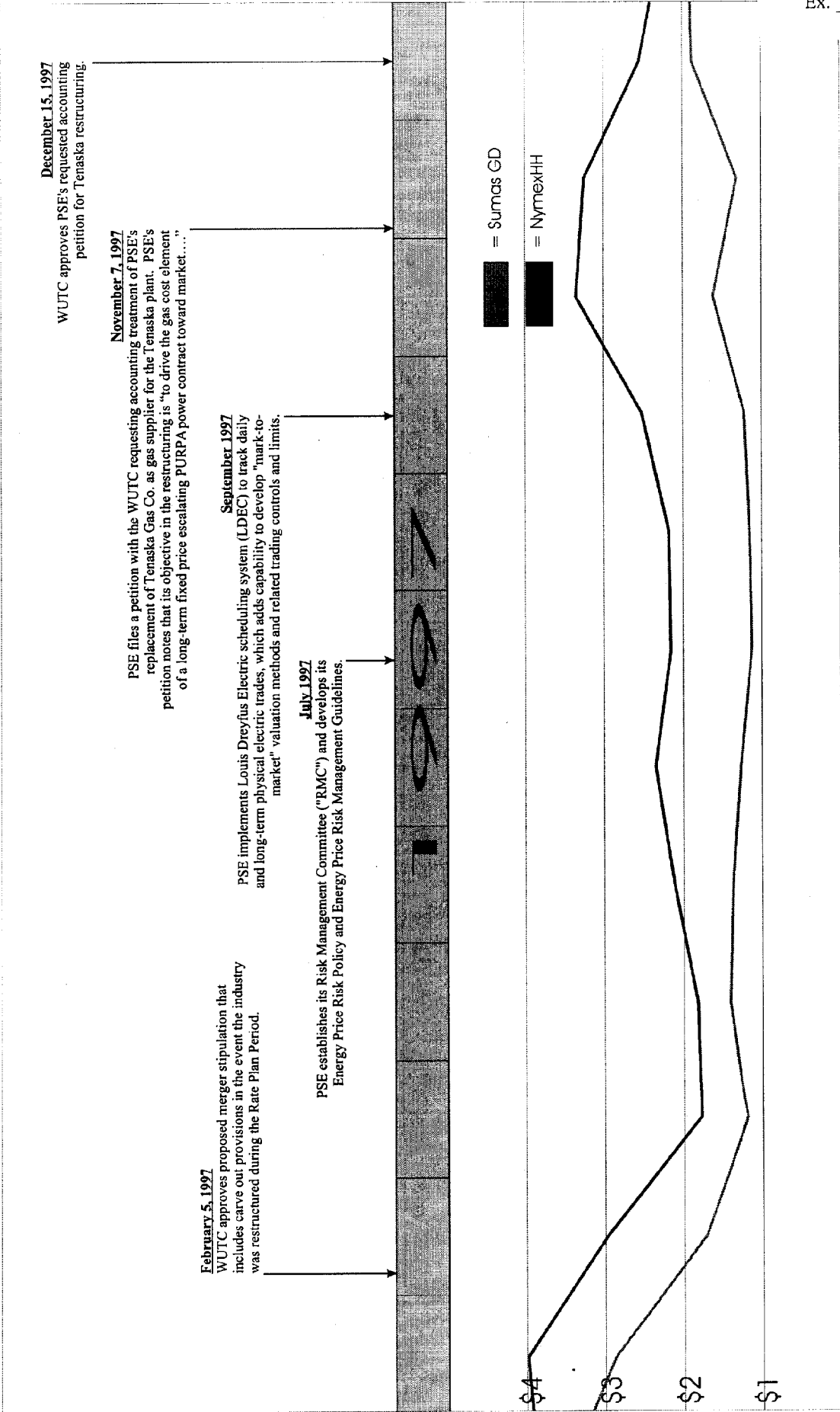
Docket No. UE-031725

**REBUTTAL TESTIMONY OF  
WILLIAM A. GAINES  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**FEBRUARY 13, 2004**







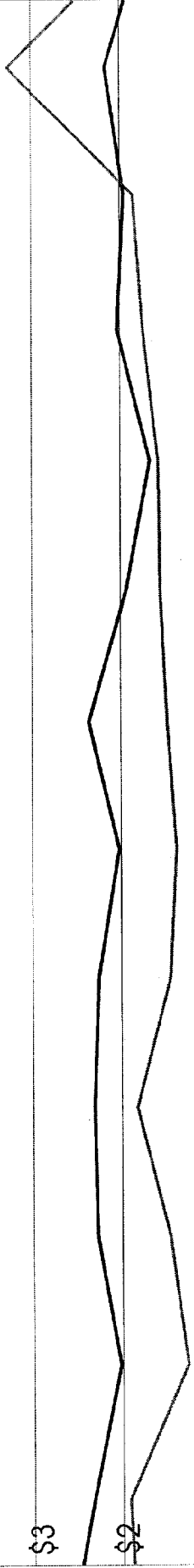
1998 PSE hedges Tenaska replacement gas through monthly and seasonal blocks. Tenaska is a marginal resource due to its operating cost and PSE is long on resources versus load.

April 22, 1998  
 The WUTC issues a Notice of Termination of its Notice of Inquiry, *Examining Regulation of Electric Utilities in the Face of Change in the Electric Industry*, noting, "The pace and scope of change in the electric industry has been faster and broader than the Commission could have imagined."

1998

█ = Sumas GD  
 █ = Nymex:H

\$4  
 \$3  
 \$2  
 \$1



**1999**

PSE continues hedging Tenaska replacement gas through monthly and seasonal blocks.

**Early 1999**

PSE establishes its Energy Risk Management ("ERM") Department, which is overseen by the RMC.

**Mid 1999**

PSE engages MEGA to provide risk advisory services and assist in developing risk control, trading and accounting systems, credit policies and procedures, and enhanced portfolio analysis tools.

**December 29, 1999**

PSE submits its 2000-01 Least Cost Plan to the WUTC, noting the changes and uncertainties in the industry and concluding: "To PSE it appears reasonable to address such risks through pursuing a strategy of increased use of flexible, short and intermediate term market responsive supply to meet incremental loads through this transition period...."

Despite recent gas price increases, prices are projected to return to lower levels and stay relatively flat over the longer term due to anticipated new supply availability.

WUTC approves PSE's petition for an accounting order to address the buyout of the Cabot gas agreement.

**October 27, 1999**

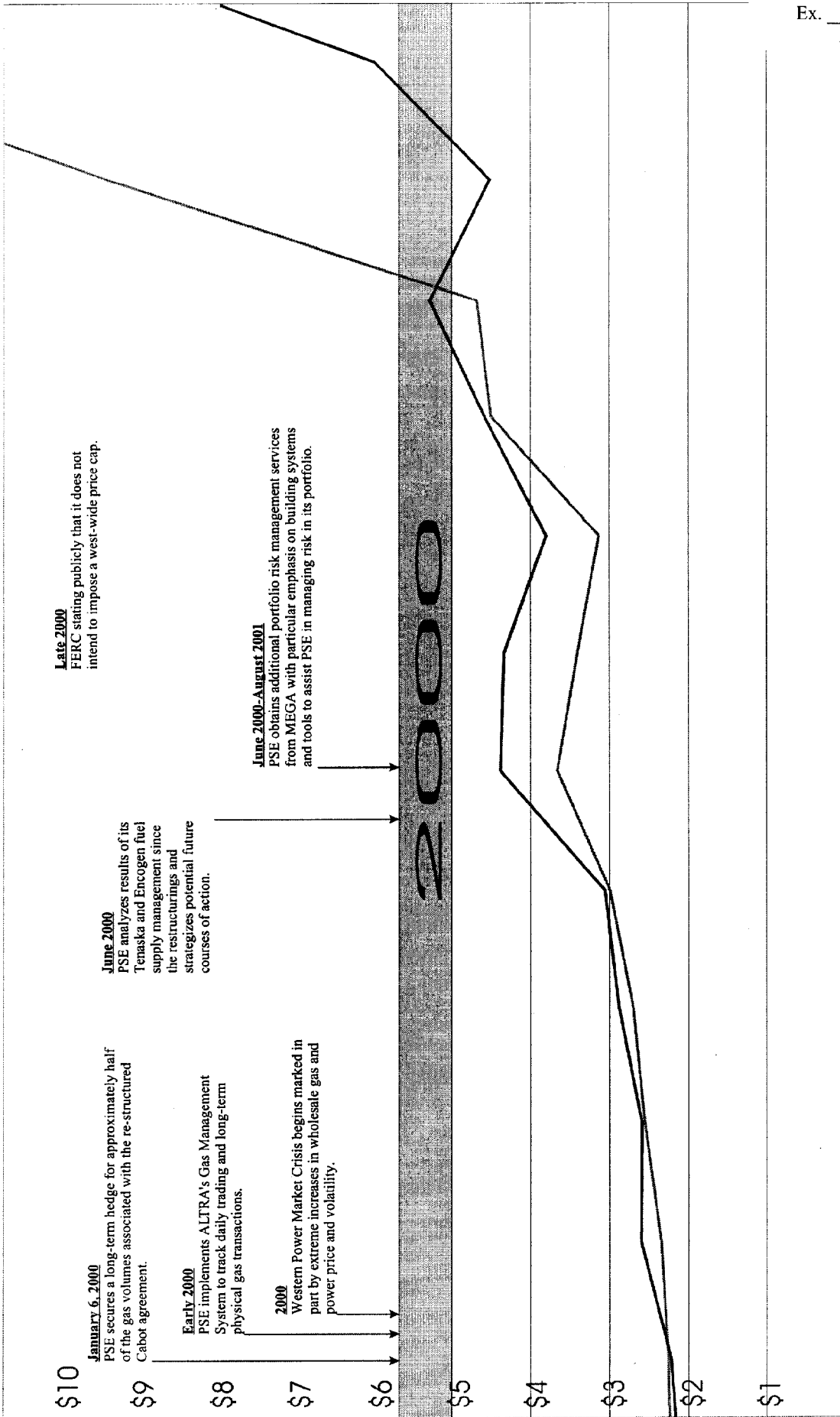
WUTC approves PSE's requested accounting petition for purchase of the Encogen plant.

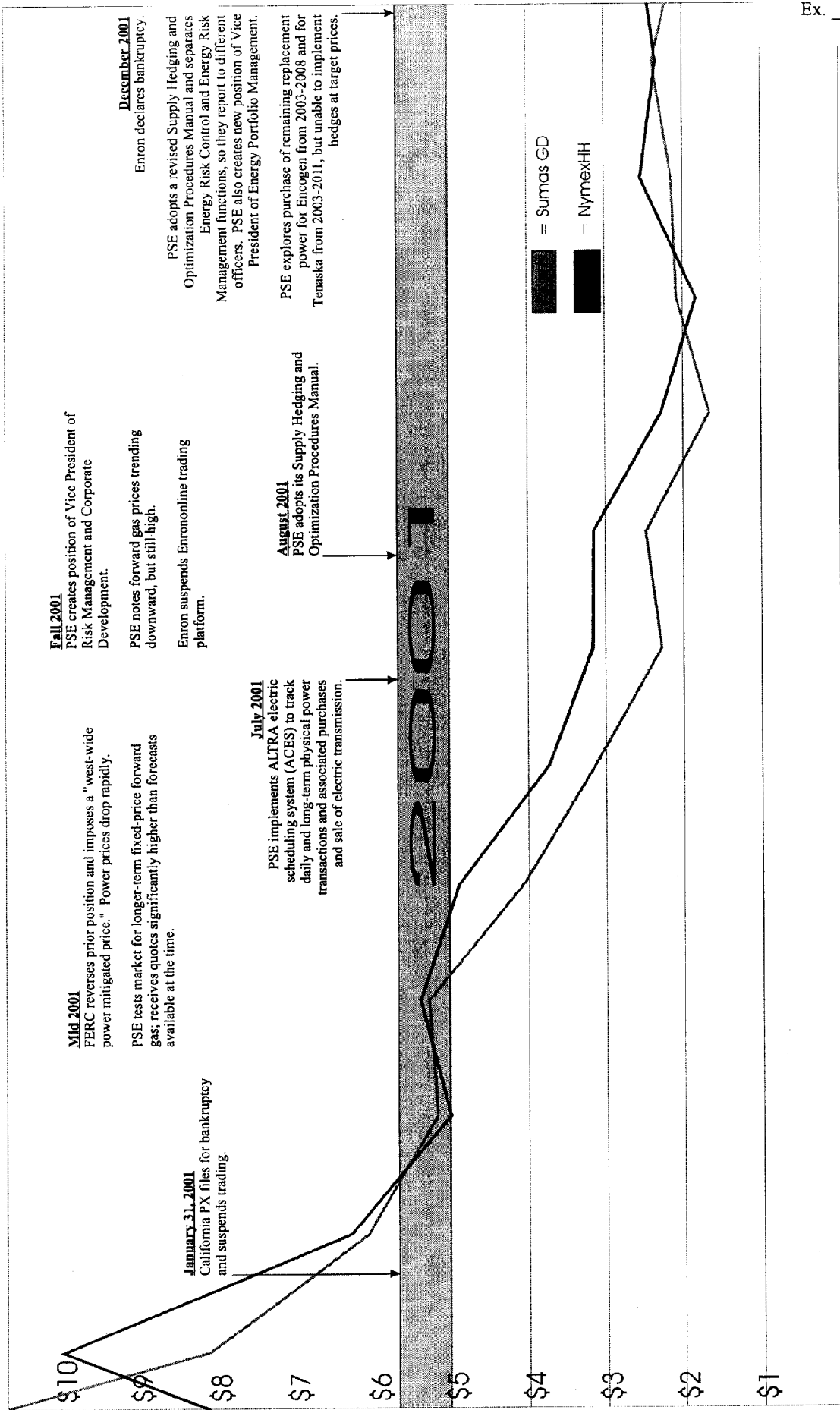
**October 13, 1999**

PSE and Cabot Oil & Gas Marketing Corp. agree to a gas supply contract buyout for Encogen plant.



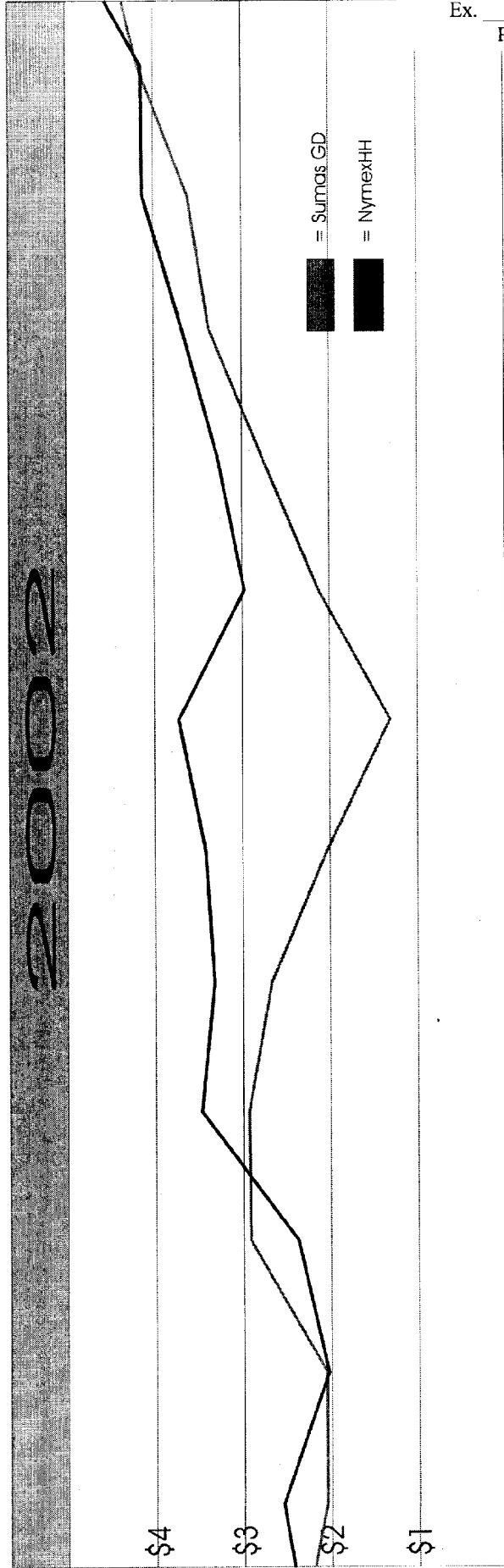
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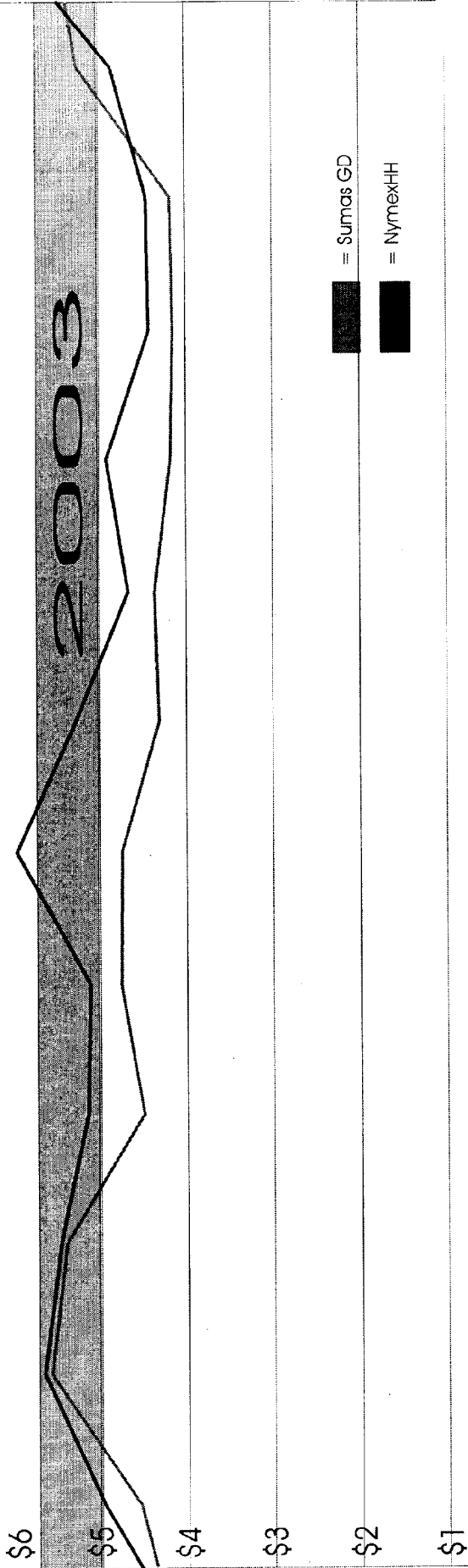




**2002**  
Long-term prices continue to carry a large premium over short-term prices, and long-term prices increase throughout much of the year.  
PSE implements KW3000, a system that models the probability of certain outcomes (i.e. spot prices) and incorporates PSE's contracts, load, resources, and trades and accounts for commodity and volumetric risks.



**Early 2003**  
 PSE implements dollar cost averaging hedging strategy,  
 which incorporates many hedging products including on-  
 peak power, off-peak power, gas, peaking capacity,  
 locational exchanges and some distillate oil.



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