

Exhibit No. ____ (SML-1CT)

Revisions of July 19, 2004

REDACTED

1 In addition to the value of the contractor arrangements and the associated annual
 2 review of costs, collaboration with the builder community has also resulted in cost
 3 saving measures that have benefited all parties. For example, the majority of new
 4 residential single family job sites involve installation of new gas services. A jointly
 5 developed process for installation of new services has reduced the number of red
 6 tags, which are job sites unready for utility construction when the PSE contractor
 7 crew arrives. This prevents the crew from having to return at a later date. This
 8 collaborative work has resulted in more jobs being installed on the first trip, which
 9 provides direct savings for the builders and will ultimately mitigate costs for the
 10 Company when pricing reviews take place with the contractors.

11 **Q. How much does the Company anticipate spending in the future to support**
 12 **this growth?**

13 A. In the next five years (2004-2008), the Company anticipates capital spending to
 14 support growth in the following categories:

- 15 • Electric new customer construction (the construction of both line extensions in
 16 plats and services as requested by customers)--average annual expenditures of
 17 approximately \$█ million;

- 18 • Electric increased capacity (the construction and/or upgrade of facilities to
 19 support current and future anticipated system demands)--average annual
 20 expenditures of approximately \$█ million;

- 21 • Gas new customer construction (the construction of both main extensions and

1 resulting in a gradual degradation of equipment. Eventually, this results in
 2 equipment that can no longer function reliably or at all.

3 **Q. What is the status of the Company's pole replacement initiatives?**

4 A. PSE began a ground inspection program in 1999 to inspect the approximately
 5 31,500 transmission poles on its system. Since the program's inception, 84% of
 6 our transmission poles have been inspected. As a result of our inspection efforts,
 7 708 poles have been replaced.

8 PSE currently replaces distribution poles based both on field reports and the use of
 9 the TESP pole replacement program, which reviews areas of pre-1961 installed
 10 poles and prioritizes them for replacement.

11 During 2003, 598 distribution poles were replaced as part of the proactive TESP
 12 pole replacement program. Approximately 525 additional distribution poles were
 13 replaced when they were damaged during storms or when field reports indicated
 14 immediate replacement was necessary.

15 **Q. What are the costs associated with pole replacements?**

16 A. Since 1999, the Company has spent \$14.5 million in capital and \$3 million in O&M
 17 on the proactive replacement of 708 transmission and 2,009 distribution poles.
 18 Through 2008, PSE's anticipates an average annual budget of \$[REDACTED] million for
 19 replacement of poles. The Company may increase proactive replacement should
 20 inspections indicate the need to do so.