

EXHIBIT NO. _____ (WAG-49)
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

Agenda Date: January 11, 2001
Item Number: 2F

Docket: UG-001934
Company Name: Puget Sound Energy (Gas)

Staff: Jim Russell, Policy Research Specialist
Yohannes Mariam, Rate Research Specialist

Recommendation:

Allow the filing in Docket No. UG-001934 to become effective January 12, 2001, as filed.

Discussion:

On December 8, 2000, Puget Sound Energy (Company or PSE) filed a Purchase Gas Adjustment (PGA) in Docket No. UG-001934 with an effective date of January 12, 2001. The proposed PGA filing will increase the Company's annual revenues by \$128.6 million (an increase of 19.7%). The requested revenue increase is intended to recover higher costs associated with purchasing natural gas supplies. Puget Sound Energy serves approximately 590,000 natural gas customers (91.7% residential) in Western Washington.

The primary cause for the recent unprecedented increase in natural gas prices is due to the substantial increase in demand without a corresponding increase in production and deliverability. Low prices for natural gas in recent years discouraged new development. While current prices are substantially higher and drilling activities have intensified as a result, the lag time of six to 18 months for markets to respond to prospects of new supplies means that the impact of drilling activities on gas prices this winter will be minimal. Moreover, construction of new Canadian pipelines to move gas from Western Canada to the Midwest and Eastern US markets contributed to reduced gas supply for the Northwest markets. Other causes for the recent price increase is due to higher demand for natural gas supplies used to generate electric power. The combined impact of these and other demand-push factors have contributed to increased withdrawal of gas from underground storage, thus further aggravating expectation of reduced gas supplies for this heating season.

The Company has issued a press release about the pending PGA filing and has also notified its customers by providing a bill message about the requested gas price increase. The Company is also publishing an article about the PGA in its monthly newsletter, "Energy Wise", and will be providing additional bill information if the filing is ultimately approved by the Commission. As of January 3, 2001, the Commission has received 12 letters from customers opposed to this filing. Customers believe that the proposed rates are exorbitant. Customers believe that the Company should look for alternative ways to obtain natural gas and not rely on Canada.

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In addition, our Consumer and Public Affairs sections have received more than 100 calls in the past three weeks from consumers expressing concern about rising gas and electric prices and the impact on their bills of the September / October PGA increases.

Purchased Gas Adjustment (PGA):

The PGA is designed to reflect the actual cost of gas supplies. The proposed PGA increase of \$128.6 million is designed to recover an increase in fixed gas costs of \$11.6 million and an increase in commodity gas costs of \$117.0 million. The weighted average cost of commodity gas is proposed to increase from \$0.36348 per therm to \$0.49564 per therm (an increase of 36.4%).

Analysis of forecasts of gas prices from various sources show a continued increase throughout this winter. The increase requested by the Company corresponds to forecasts of natural gas prices produced by major commodity markets (e.g., NYMEX). Denial of the requested increase may result in a significant gap between the cost of gas and the revenue designed to recover gas costs, thus substantially increasing deferred gas costs in subsequent periods. Staff believes that the natural gas price proposed by the Company in this filing is reasonable estimate given current market conditions.

The impact of the PGA filing on a monthly natural gas bill for a residential customer with an average consumption of 78 therms (PSE's residential average) will be a net increase of \$11.40 (an increase of 18.9%). The net effect of the PGA filing on Puget Sound Energy's monthly billing rates and annual revenues are as follows:

<u>Schedule</u>	<u>Per Therm Change</u>	<u>Annual Revenue Change</u>	<u>Percent Change</u>
Residential	\$0.14617	\$74,000,000	18.85%
Commercial	\$0.14539	\$29,100,000	20.05%
Industrial	\$0.14229	\$ 8,100,000	21.49%
Interruptible	\$0.14258	\$17,400,000	26.39%
<u>Average/Total</u>	<u>\$0.14521</u>	<u>\$128,600,000</u>	<u>19.68%</u>

Conclusion:

Staff has reviewed the Company's methodology and calculations of average gas purchase price in light of the regional and national gas price increases. Staff believes that the gas prices used by the Company in the derivation of its requested gas rate increase correspond to natural gas price increases observed in the market place. Therefore, Staff recommends that the filing be allowed to become effective on January 12, 2001, as filed.