

**EXHIBIT NO. \_\_\_\_\_ (WAG-3)**  
**DOCKET NO. \_\_\_\_\_**  
**2001 PSE INTERIM 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.**

**EXHIBIT TO DIRECT TESTIMONY OF WILLIAM A. GAINES**  
**ON BEHALF OF PUGET SOUND ENERGY, INC.**

1  
2 **Calculation of Unrecovered Power Costs**

3 **(Part 1 of 3)**

4  
5 The Unrecovered Power Costs were calculated as follows:

6  
7 Projected monthly amounts in FERC Accounts 501 – Steam generation fuel, 547 –  
8 Other power generation fuel, 555 – Purchase & Interchange, 447 – Sales to Other Utilities,  
9 565 – Transmission of electricity by others, and certain costs relating to brokerage fees for the  
10 purchase and sale of electricity charged to 557 – Other expenses, were added to arrive at the  
11 Subtotal (line 14 of the attached Spreadsheet A)<sup>1</sup>.

12 Projected amortization of amounts associated with the Bonneville Exchange Power  
13 Agreement ("BEP") was entered on line 16 (amounts used in determining net power cost as this  
14 item was used in the determination of power costs in the last general rate case and the  
15 Company's PRAMs). Projected Competitive Bid, Consulting and other expenses charged to  
16 FERC Account 557 (some of which were excluded on line 22, as discussed below) were  
17 entered on line 17. Lines 16 and 17 were added to arrive at the Total Net Power Costs (line  
18 19).

19 Projected amounts for certain items were deducted from or added to the monthly  
20 projected Total Net Power Cost to make them comparable to those unit power costs in rates  
21 at the time that rates were determined through the Company's most recent electric rate case  
22 under Docket No. UE 921262 updated for the effect of the PRAMs and the Merger  
23 Stipulation. Projected amounts in FERC Account 557 that were more closely related to  
24

25 \_\_\_\_\_  
26 <sup>1</sup> References to line numbers below are references to line numbers in the attached Spreadsheet A.

1 operations than power costs were deducted (line 22). Projected Non-Core Gas credits or  
2 costs accounted for in FERC 456 – Other Electric Revenues were added on line 23 because  
3 such amounts are actually components of power costs.

4 The Total Projected Power Costs (line 26) were determined by adding lines 19, 22 and  
5 23.

6 The Total Projected Power Costs (line 26) were divided by the projected Delivered  
7 Load MWh (line 28) to arrive at the Unit Cost (line 29) expressed in \$/MWh. (Delivered Load  
8 was determined by multiplying projected Load MWh (GPI) (line 27) by 93.5% (using a 6.5%  
9 loss factor)).

10 Unit Power Cost in Rates (line 31) is \$24.74/MWh. The Unit Power Cost in Rates is  
11 reflected in the attached Spreadsheet B. This amount was determined as follows:(i) variable  
12 fuel, purchases and interchange, wheeling and secondary sales components of power costs from  
13 the Electric Cost of Service Study (Docket UE-921262) were added; (ii) rate changes as a  
14 result of the Company's PRAMs and Merger Stipulation, for purposes of this calculation, were  
15 then added to the Cost of Service Study amounts to arrive at the total unit power costs in rates  
16 (\$485,423,763); (iii) the power costs in rates were then divided by energy delivered per the  
17 Electric Cost of Service Study (19,622,026,883) to arrive at the Unit Cost in Rates  
18 (\$24.74/MWh).

19 Projected Unit Cost (line 29) was then compared to Unit Power Cost in Rates (line 31)  
20 to arrive at the amount of Unrecovered Unit Power Cost (line 33) expressed in \$/MWh.  
21 Unrecovered Unit Power Cost was multiplied by the Delivered Load MWh (line 28) to  
22 determine the amount of total unrecovered power cost (line 34).