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 STATE OF WASH.
 UTIL. AND TRANSP.
 COMMISSION

March 1, 2005

Ms. Carole J. Washburn
 Washington Utilities and Transportation Commission
 1300 S. Evergreen Park Drive S.W.
 P.O. Box 47250
 Olympia, WA 98504-7250

RE: 2004 Demand Side Management (DSM) Programs Recovered Through the Electric Rider and Gas Tracker

Dear Ms. Washburn:

Enclosed is Puget Sound Energy's summary of accounting for the 2004 DSM rider and tracker programs through December 31, 2004, and through March 31, 2005. This summary is prepared in accordance with the accounting treatment and annual electric rider and gas tracker recovery mechanisms approved by the Commission in Dockets numbered UE-970686 and UG-950288 respectively.

The Company spent \$20,869,468 during calendar year 2004 on DSM programs which are to be recovered through its electric rider. The electric under-collection variance between actual expenditures and revenue collected from September 1, 2002 through March 31, 2005 is estimated to be \$2,369,083. This under-collection will be allocated to the ratepayers in the 2005 program year.

The current electric conservation rider recovery rates were set in April 1, 2004, in accordance with the Settlement Agreement approved by the Commission in Docket No. UE-011570, to recover the costs of the 12-month program that began on April 1, 2004. PSE is requesting changes (increase) in the electric rates. If PSE's request of rate changes is granted, the effective date for the new rates will be from April 1, 2005 through March 31, 2006.

The Company spent \$3,982,380 during calendar year 2004 on DSM programs which are to be recovered through its gas tracker. The gas recovery amounts associated with the 2004 program year plus the 2003 tracker recovery true-up is \$3,570,547.

This amount would support new gas conservation tracker recovery rates for the firm schedules of 0.437 cents per therm and for the interruptible schedules of 0.406 cents per therm. The current gas conservation tracker recovery rates are 0.325 cents per therm and 0.302 cents per therm for the firm and interruptible schedules, respectively.

An increase in the firm schedules from 0.325 cents per therm to 0.437 cents per therm would result in additional gas revenues of approximately \$882,862 dollars for the 12-month period from April 2005 through March 2006. An increase in the interruptible rate from 0.302 cents per therm to 0.406 cents per therm would result in additional gas revenues of approximately \$71,980 dollars for the 12-month period from April 2005 through March 2006.

Please direct any inquiry related to the accounting issues in this annual report to me at (425) 456-2797.

Sincerely,

A handwritten signature in black ink, appearing to read 'Karl R. Karzmar', written over a horizontal line.

Karl R. Karzmar
 Director, Regulatory Relations
 Enclosures

cc: Simon J. ffitich; Joelle Steward; Paula Pyron

***Puget Sound Energy
Electric Conservation Rider Report
Program Expenditure: January 1, 2004 through December 31, 2004***

| <u>Order Number</u> | <u>Tariff Sch. No.</u> | <u>Description</u> | <u>Jan - Dec 2004 Expenditures *</u> |
|---|----------------------------|--|--|
| <u>RESIDENTIAL</u> | | | |
| 18230128 | 150 | Net Metering | \$ 27,167 |
| 18230601/18230602/ 18230603/18230604/18230427/18230430 | 200 | Residential Energy Efficiency Services | 445,099 |
| 18230611 | 201 | Low-Income Retrofit | 898,248 |
| 18230621 | 202 | In Concert with the Environment | 285,714 |
| 18230631/18230633 | 203 | Duct Systems Pilot | 106,465 |
| 18230455 | 212 | Targeted Fuel Choice Project | 96,719 |
| 18230440/18230454 | 214 | Energy Efficient Lighting Program | 1,322,901 |
| 18230480 | 249 | Energy Star New Constru Pilot -El (Resident) | 340,786 |
| Summary of Residential Conservation Programs: | | | \$ 3,523,098 |
| <u>COMMERCIAL/INDUSTRIAL</u> | | | |
| 18230711/18230712 | 250 | C/I Energy Efficiency Services | \$ 13,150,613 |
| 18230715 | 251 | Non Residential Energy Code Program | 550,990 |
| 18230150/18230723 | 252 | UCM/ICM | 358,579 |
| 18230725 | 255 | Small Business Energy Efficiency | 1,437,388 |
| 18230429 | 260 | Commercial Energy Efficiency Services | 91,098 |
| 18230448/18230419 | 261 | Energy Efficient Technology Eval. | 6,134 |
| 18230449/18230457 | 262 | Commercial Rebates- Electric | 213,571 |
| Summary of Commercial/Industrial Conservation Programs: | | | \$ 15,808,374 |
| <u>REGIONAL MARKET TRANSFORMATION SUPPORT</u> | | | |
| 18230641 | 205 | CFL Conservation Pilot | \$ - |
| 18230422/18230651 | 206 | High Efficiency Clothes Washers Pilot | - |
| 18230421 | 254 | NW Energy Efficiency Alliance | 520,510 |
| 18230726 | 256 | Building Commissioning | - |
| 18230728 | 257 | LED Traffic Lights | 76,952 |
| 18230729 | 258 | High Voltage Pilot | 606,509 |
| 18230730/18230809 | 270 | Local Infrastructure/Market Transformation | 334,025 |
| Summary of Regional Market Transformation Support Programs: | | | \$ 1,537,996 |
| Total Conservation Spending as of December 31, 2004 | | | \$ 20,869,468 |

Puget Sound Energy
Electric Conservation Rider Report
Program Balance: September 1, 2002 to March 31, 2005 (Note)

| | |
|---|----------------------|
| Recoveries (Amounts in 18230621): | |
| September 2002 - March 2005 Actual & Estimated | \$ 57,294,899 |
| Conversion Factor | 0.95788 |
| Amount After Applying Conversion Factor | <u>54,881,355</u> |
| 2000 & 2001 Program Under Recovery Authorized | (9,261,566) |
| Schedule 258 Recoveries That Allow Self-Direct, After Conversion Factor (Sept 02 thru Mar 05): | <u>(4,056,143)</u> |
| Total Recoveries Without Schedule 258 & Without Prior Programs (A) | \$ 41,563,646 |
| Expenditures (Amounts in 18230021): | |
| September 2002 - March 2005 Actual & Estimated | \$ 46,139,878 |
| September 2002 - March 2005 Schedule 258 Expenditures | <u>(2,207,149)</u> |
| Total Expenditures Without Schedule 258 (B) | \$ 43,932,729 |
| Total September 02 Through March 05 Under Collections In 2005 Program Year Rates (C=A-B) | \$ 2,369,083 |
| Projected 2005 Expenditures Without Schedule 258 (D) | \$ 18,497,000 |
| Total Amounts in 2005 Program Year Rates (4/1/05-3/31/06) (=C+D) | \$ 20,866,083 |

Note: Per agreement with schedule 258 customers, schedule 258 rates will not change until the end of the 40-month program period (9/1/02 to 12/31/05).

PUGET SOUND ENERGY

Filing Date: March 1, 2005

Docket No. UG-05 _____

Gas Rate Calculation**CALCULATION OF RATE CHANGE**

| | | | |
|---------------------------|--|--|--------------|
| DSM Costs to be Recovered | | | \$ 3,570,547 |
|---------------------------|--|--|--------------|

| | | | |
|-------------------------------------|--------|----|-----------|
| To be Recovered from Firm Schedules | 92.29% | \$ | 3,300,829 |
|-------------------------------------|--------|----|-----------|

| | | | |
|--|-------|----|---------|
| To be Recovered from Interruptible Sales Schedules | 7.71% | \$ | 269,718 |
|--|-------|----|---------|

Projected Sales Volumes in Therms, Calendar 2005

| | |
|--------------------|-------------|
| Firm Sales Volumes | 787,875,661 |
|--------------------|-------------|

| | |
|-----------------------------|------------|
| Interruptible Sales Volumes | 69,335,077 |
|-----------------------------|------------|

| | |
|---------------------|-------------|
| TOTAL SALES VOLUMES | 857,210,738 |
|---------------------|-------------|

Cents Per Therm to be Recovered:

| | | |
|-----------------|-------------------------------------|---------------------|
| Firm Schedules: | $\$3,300,829 / 787,875,661 * 100 =$ | 0.41895 cents/therm |
|-----------------|-------------------------------------|---------------------|

| | | |
|--------------------------|----------------------------------|---------------------|
| Interruptible Schedules: | $\$269,718 / 69,335,077 * 100 =$ | 0.38901 cents/therm |
|--------------------------|----------------------------------|---------------------|

Cents Per mantle for Schedule No. 16

1 mantle = 19 therms

(19 therms)(0.41895 cents) =

7.960 cents/mantle

Round to nearest 5 cents per mantle =

10.000 cents/mantle

Change in Rate:**Recovery Cents Per Therm times Conversion Factor**

And rounded to nearest 1,000th of a cent

| | | | |
|-----------------|----------------------|-------|-------------|
| Firm Schedules: | (=0.41895 x 1.04321) | 0.437 | cents/therm |
|-----------------|----------------------|-------|-------------|

| | | | |
|--------------------------|----------------------|-------|-------------|
| Interruptible Schedules: | (=0.38901 x 1.04321) | 0.406 | cents/therm |
|--------------------------|----------------------|-------|-------------|

Exhibit A

PUGET SOUND ENERGY

| | |
|--------------|---------------------------------|
| DOCKET NO. | UG-950288 |
| EXHIBIT NO. | 2004 Annual Report Exhibit A |
| SCHEDULE NO. | |
| SHEET NO. | OF 1 1 |

2005 Annual Forecast of Therms and Gas Cost Recoveries

| Line No. | Gas Cost Recovery Rates | | | | 4/05 - 3/06 Forecast Volumes (e) (in therms) | Total Forecast Gas Cost Recoveries (f) | | | |
|----------|-------------------------|---------------|---------------------------|--------------|--|---|---------|-----------------------|-----------------------|
| | Rate (a) | Demand (b) | Commodity (c) | Total (d) | | | | | |
| 1 | 11,16 | \$ | 0.06211 | \$ | 0.56211 | \$ | 0.62421 | - | - |
| 2 | 23,24 | \$ | 0.08738 | \$ | 0.56196 | \$ | 0.64934 | 530,170,584 | 344,260,967 |
| 3 | 53 | \$ | 1.60257 | \$ | 0.26113 | \$ | 1.86370 | 4,643 | 8,653 |
| 4 | 31,36,51 | \$ | 0.07875 | \$ | 0.56196 | \$ | 0.64071 | 205,634,572 | 131,752,126 |
| 5 | 41 | \$ | 0.04409 | \$ | 0.56196 | \$ | 0.60605 | 52,016,307 | 31,524,483 |
| 6 | 43 | \$ | - | \$ | - | \$ | - | - | - |
| 7 | 50 | \$ | 0.02829 | \$ | 0.56196 | \$ | 0.59025 | 49,556 | 29,250 |
| 8 | | | | | | | | <u>787,875,661</u> | <u>\$ 507,575,479</u> |
| 9 | 85 | \$ | 0.06068 | \$ | 0.56196 | \$ | 0.62264 | 15,733,117 | 9,796,068 |
| 10 | 86 | \$ | 0.06068 | \$ | 0.56196 | \$ | 0.62264 | 21,525,007 | 13,402,330 |
| 11 | 87 | \$ | 0.03651 | \$ | 0.56196 | \$ | 0.59847 | 32,076,953 | 19,197,094 |
| 12 | | | | | | | | <u>69,335,077</u> | <u>\$ 42,395,492</u> |
| 13 | | | TOTAL SALES VOLUMES | | | | | <u>857,210,738</u> | |
| 14 | | | FIRM SCHEDULES | | | | | <u>787,875,661</u> | 91.91% |
| 15 | | | INT. SCHEDULES | | | | | <u>69,335,077</u> | 8.09% |
| 16 | | | TOTAL GAS COST RECOVERIES | | | | | <u>\$ 549,970,971</u> | |
| 17 | | | FIRM SCHEDULES | | | | | <u>\$ 507,575,479</u> | 92.29% |
| 18 | | | INT. SCHEDULES | | | | | <u>42,395,492</u> | 7.71% |

Exhibit B**PUGET SOUND ENERGY**

| | | |
|--------------|---------------------------------|---------|
| DOCKET NO. | UG-950288 | |
| EXHIBIT NO. | 2004 Annual Report Exhibit B | |
| SCHEDULE NO. | | |
| SHEET NO. | 1 | OF 1 |

2005 Annual Forecast of Therms and Gas Cost Recoveries**Tracker Recovery Calculation**Line
No.

(a)

(b)

(c)

| | | | |
|----|--|---------------------|----------------|
| 1 | April 2005 - Mar 2006 Budget Therms | | |
| 2 | Firm | 787,875,661 | 91.91% |
| 3 | Interruptible | 69,335,077 | 8.09% |
| 4 | Total Sales Volumes | <u>857,210,738</u> | <u>100.00%</u> |
| 5 | 2004 Program Costs | <u>\$ 3,982,380</u> | |
| 6 | .2002 Tracker Recovery True-up | | |
| 7 | Firm | \$ (374,561) | 90.95% |
| 8 | Interruptible | \$ (37,271) | 9.05% |
| 9 | Total Required True-Up | <u>\$ (411,833)</u> | <u>100.00%</u> |
| 10 | Tracker Recovery Allocation - Including prior period recovery | | |
| 11 | Firm | \$ 3,300,829 | 92.29% |
| 12 | Interruptible | \$ 269,718 | 7.71% |
| 13 | Tracker Recovery | <u>\$ 3,570,547</u> | <u>100.00%</u> |
| 14 | Tracker Recovery Cents per Therm (Excluding Revenue Sensitive Items) | | |
| 15 | Firm (line 11 / line 2) | \$ 0.00419 | 92.29% |
| 16 | Interruptible (line 12 / line 3) | \$ 0.00389 | 7.71% |
| 17 | Total Required Recovery | <u>100.00%</u> | |