EXHIBIT NO. ___(DEM-13C)
DOCKET NO. UE-07___
PCA 5 COMPLIANCE
WITNESS: DAVID E. MILLS

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of **PUGET SOUND ENERGY, INC.** **For Approval of its March 2007 Power Cost Adjustment Mechanism Report**	**Docket No. UE-__________**

TWELFTH EXHIBIT (CONFIDENTIAL) TO PREFILED DIRECT TESTIMONY OF DAVID E. MILLS ON BEHALF OF PUGET SOUND ENERGY, INC.

REDACTED VERSION

March 30, 2007

Fundamental Summary

Week ending 1/21/2005

Natural Gas

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Storage

- Currently 14% above the 5-year average and 7% above last winter's levels. (EIA)
- Storage levels are providing excess supply to the market and thus continue to be a significant bearish factor. Demand over the remainder of the winter will have to increase substantially to offset the existing surplus; otherwise prices may continue to fall.

Weather

- The national weather service is forecasting above normal temperatures for most of the nation for the next 6-10 days. In addition, the NWS is predicting February temperature will be above normal.

Oil

- Crude oil prices have risen sharply in the past 2 weeks, lending some strong upside support to natural gas.
- Crude oil inventories are right at the five-year average, while distillate inventories have increased relative to the last fundamental repor Three weeks ago distillate inventories were below the five-year average, but have moved above this in the past few weeks. This would indicate that there is additional supply to provide some cushion in eastern fuel prices should a short cold spell arise.
- As always, geopolitical threats and supply disruptions continue to lend upside support.
- As the dollar weakens crude becomes more expensive for the U.S. relative to foreign currencies, thus providing some upside support.

Hydro

- Early forecasts are indicating a lower than normal runoff season due to meager snowpack. NWRFC is at 95% of normal above GCL, and HyMet is at 88% for the runoff season.
- Snowpack is 67% of normal for the Cascades (NOAA – NCDC).
- California accumulated precip is well above average at 119% of normal.
- Columbia above Coulee precipitation for January is 100% of normal and is 87% of normal for the water year. Columbia above the Dalles precipitation for January is 72% of normal and 78% of normal for the water year (NWRFC)
- Runoff at Grand Coulee is 121% of normal, 99% of normal at The Dalles for the month of January (NWRFC).

REDACTED VERSION

Fundamental Summary

Week ending 2/25/2005

Natural Gas

[redacted]

Power

[redacted]

Storage

Currently 26% above the 5-year average and 31% above last winter's levels. (EIA)
Storage levels are providing excess supply to the market and thus continue to be a significant bearish factor. Demand over the remainder of the winter will have to increase substantially to offset the existing surplus; otherwise prices may drop at the end of the withdraw season.

Weather

The national weather service is forecasting bullish weather conditions for the Midwest and Northeast over the next 6-10 days. Earthsat has changed there forecast from above normal normal temperatures to normal temperatures for the remainder of the year.

Oil

Crude oil prices have risen sharply in the past week, lending strong upside support to natural gas.

Crude oil inventories are right at the five-year average, while distillate inventories have hovered around the five-year low for the past few months. Recent weather forecasts for the Northeast have caused upward price movements in heating oil and this is carrying over to crude oil and natural gas.

As always, geopolitical threats and supply disruptions continue to lend upside support.

Forecasts are indicating a lower than normal runoff season due to meager snowpack and precip. NWRFC reduced their forecast to 80% of normal above GCL, and HyMet is at ***XX***% of normal for the runoff season.

Snowpack is 42% of normal for Columbia above Methow (NOAA – NCDC).
California accumulated precip and water supply is well above normal.
Columbia above Coulee precipitation for February is 41% of normal and is 81% of normal for the water year. Columbia above the Dalles precipitation for February is 40% of normal and 73% of normal for the water year (NWRFC)

Runoff for inflow at Grand Coulee is 125% for the month of February. While runoff for inflow at the Dalles is 89% of normal for the month of February (NWRFC).

REDACTED VERSION

PUGET SOUND ENERGY

Fundamental Summary

Week ending 3/25/2005

Natural Gas

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Storage

Currently 22% above the 5-year average and 24% above last year's levels. (EIA)
Although recent cold weather in the major consuming regions reduced the y-o-y surplus in storage, the storage level remains strong and is providing extra cushion to the market.

Weather

The national weather service is forecasting normal to above normal weather for the Midwest and Northeast for the next 6 to 10 days. Weather for the region is expected to be normal to slightly below normal for the

Oil

Crude oil prices have risen sharply in the few weeks, lending strong upside support to natural gas.

Crude oil inventories are right at the five-year average, while distillate inventories have hovered around the five-year low for the past few months. As always, geopolitical threats and supply disruptions continue to lend upside support.

Hydro

Forecasts are indicating a lower than normal runoff season due to meager snowpack and precip. NWRFC Jan-Jul runoff forecast is at 79% of normal (77% Apr-Sep) for GCL, and 63% for TDA.
Snowpack is 43% of normal for Columbia above Methow (NOAA – NCDC).
Columbia above Coulee precipitation for March is 78% of normal and is 77% of normal for the water year.
Columbia above the Dalles precipitation for March is 58% of normal and 69% of normal for the water year
Runoff for inflow at Grand Coulee is 77% for the month of March. While runoff for inflow at the Dalles is 58% of normal for the month of March (3.15 NWRFC).

REDACTED
VERSION

PUGET SOUND ENERGY

Fundamental Summary

Week ending 4/29/2005

Natural Gas

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Storage

- Currently 29% above the 5-year average and 24% above last year's levels. (EIA)
- Mild weather across the nation has increased the storage surplus and storage levels remain comfortable. This should provide sc price relief for the near-term, at least until summer when gas fired generation is expected to increase.

Weather

- The national weather service is forecasting slightly below normal temperature for most of the nation the next 6-10 days, with the exception of the Northwest, which is forecasted to have slightly above normal temperatures.

Oil

- In the past few weeks crude oil prices have declined from their previous highs and gas has closely followed. Throughout the winter fear over distillate levels added strength to crude oil. Now this fear has moved to gasoline inventories and refinery outages. This fear of gasoline shortages and/or refinery glitches should add support to crude oil prices for the near-term.

- Crude oil inventories are above the two-year high, while distillate inventories have hovered around the five-year low for the past few months. This week the EIA reported a much larger then expected build in crude oil inventories, providing a significant bearish si to the market. As always, geopolitical threats and supply disruptions continue to lend upside support.

Economics

- This week the Commerce Department reported Q1 2005 economic growth slowed to 3.1%, both lower then forecasted and a two-year low. This slowing of the economy may be evidence of demand destruction due to higher energy prices and other rising consumer costs.

Hydro

- Forecasts are indicating a lower than normal runoff season due to meager snowpack and precip. NWRFC Jan-Jul runoff forecast is at 83% of normal for GCL, and 69% for TDA.
- Snowpack is 60% of normal for Columbia above Methow (NOAA – NCDC).
- Columbia above Coulee precipitation for April is 96% of normal and is 83% of normal for the water year. Columbia above the Da precipitation for April is 109% of normal and 78% of normal for the water year (NWRFC)
- Runoff for inflow at Grand Coulee is 70% for the month of April. While runoff for inflow at the Dalles is 63% of normal for the mo of April (NWRFC).

REDACTED VERSION

PUGET SOUND ENERGY

Fundamental Summary

Week ending 5/27/2005

Natural Gas

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Storage

- Currently 22% above the 5-year average and 16% above last year's levels. (EIA)
- Decreased demand for gas fired generation, mild weather, and a weak cash market for gas relative to the winter strip all have increased the rate of injections into storage. These comfortable storage levels may to help soften any short-term price spiked due to increased gas-fired generation or the hurricane season.

Weather

- The national weather service is forecasting normal temperatures for most of the nation the next 6-10 days, with the exception of Northwest, which is forecasted to have above normal temperatures.

Oil

- Crude oil prices continue to show signs of weakness, with gas following closely.
- Crude oil inventories have been increasing sharply the past few weeks and are currently well above their two-year range. Refinery capacity has also increased sharply, while gasoline inventories are 3% above their five-year average. However, fear over the summer driving season is adding price support for crude.

Hydro

- Forecasts are indicating a lower than normal runoff season due to meager snowpack and precip. The NWRFC Jan-Jul runoff forecast is currently at 86% of normal, up 3% since their last forecast.
- Water supply for the Dalles and the Snake River has increased substantially during the month of May.
- Columbia above Coulee precipitation for May is 124% of normal and is 86% of normal for the water year. Columbia above the Dalles precipitation for May is 185% of normal and 87% of normal for the water year (NWRFC)
- Runoff for inflow at Grand Coulee is 76% for the month of May. While runoff for inflow at the Dalles is 72% of normal for the mor of May (NWRFC).

REDACTED VERSION

Fundamental Summary

Week ending 10/7/2005

Natural Gas

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Oil

- Crude oil prices continue to find support well above $60/barrel, even though the EIA reported today that gasoline demand is off by nearly 3% vs last year, and distillate demand is off by nearly 4%. In the near term, the prices appear to have found a trading range between $60 - $66/bbl. Opec had record production figures last month, producing well above 30 million bbl/d. However, to do so, Saudi Arabia is using 2x as many rigs as they were 2 years ago. Near term, some demand mitigation is occurring at these price levels, but longer term the trend is upward, as there is no real signs of slowing the Chinese and Indian economies, and global political unrest keeps a premium in place.

Gas

- Along with a much above normal winter temperature, LNG imports hold the only other real key to a bearish natural gas scenario that brings prices back to the $5-$6/Dth price levels. We are now clearly out bidding Europe for the next year, and new LNG is landing on our shore. If we continue to do so, we could get as much as 5 Bcf/day of LNG by 2Q2006, since both new liquifaction and expansion of domestic re-gasification terminals are being constructed. European gas prices vis a vis Nymex need to be monitored. Nevertheless, we will not see significant new import volumes until the end of this winter.

Weather

- Most weather sources indicate that there are no strong macro winter weather signals. The general consensus is that the PacNW will be slightly cooler and wetter than last year, but still warmer and drier than the 30 year average.
  Weather patterns are still in a multi-year warming trend, and snow pack in the Northern Hemisphere is virtually non-existent. Therefore, we would err on the warmer side of the forecast, but will continue to watch snow cover levels (mainly in Russian & Asia).

  The Northeast is projected to be warmer than last year, particularly in 4Q2005. (Sources: EarthSat, Global Climate & Sempra.)

  http://www.ssd.noaa.gov/PS/SNOW/DATA/cursnow.gif

Hydro

- Aproximate precip above GCL was 145% of normal for Sep, while precip above TDA was 104% of normal. (NWRFC)
- Jan-Jul runoff for WY2005 was 86.5% for GCL, 76% of norm at TDA. Major regoinal reservoirs for WY006 started at approx 98% full.

REDACTED VERSION

PUGET SOUND ENERGY

Fundamental Summary

November 30, 2005

HEDGING OUTLOOK

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WEATHER

- The market is being driven almost exclusively by short-term weather forecasts, primarily on the East Coast. Weather from Chicago to New York and Boston has been well below normal, and the forecast of such was what spiked the market last week.
- Northeast weather is expected to approach more normal temperatures by the weekend.
- Pacific Northwest weather has been slightly below normal, and is expected to be near normal for the 6-10 day period.

CRUDE

- Crude oil prices are back up above $60/bbl, driven primarily by northeast cold and spiking natural gas prices. However, from supply and demand perspective, large additions to distillate (heating oil) inventories have been climbing prodigiously to the point where they are 11% ahead of last year. This should also help quell and heating oil shortage fears for this winter.
- OPEC is considering increasing stockpiles so that they cover 56 days of global demand from the current 52 days forward cover. This is a very encouraging from a supply and price stability perspective. Finally, global oil demand growth is slowing. Preliminary data according EIA shows that November year-on-year global oil demand came in at just +0.4%.

NATURAL GAS SUPPLY

- November weather was significantly above normal for the entire country, and this allowed the market to inject a significant amount of gas into storage in what is traditionally a withdrawal month.
- If we make a very conservative assumption that even with max winter withdrawals, as mentioned above, and we add an additional 1.5 Bcf off-line due to the hurricanes for the remainder of the 110 days of winter, we still exit the heating season with 1 Tcf of gas in storage, which is close to the five year average.
- LNG imports are back to average daily import numbers of approximately 1.4 bcf/day.

HYDRO

- Dry conditions the last 2 weeks mean forecasts for Mid-Columbia runoff have come off, but are still hovering near normal.
- Normal conditions feel optimistic since the last three years we have consistently averaged in the mid-80% of normal range.

REGIONAL SUPPLY & DEMAND

- Though the econnomy will likely struggle through the winter, forecasts indicate a better outlook on economic growth for 2006, esp Q2 and beyond.
- The West storage region has record inventory levels, and even with one month of winter already behind us, withdrawals have not yet really begun. Ample West gas supplies are reflected in a very weak basis that ranges from ($1.75) – ($2.25) for the rest of winter.
- The West is fortunate that there have been significant increases in Rockies gas production that has averaged about ¼ Bcf/year of growth with few pipelines able to take the that gas to higher priced Eastern markets.
- Supplies are adequate to meet winter demand, particularly in light of the fact that industrial demand continues to suffer. For example, the Methanex plant in BC, which consumed a consistent 75,000 Dth/d of gas shut its doors permanently after the hurricane induced price spike.

NOVEMBER 2005 VITALS

Nat'l Temperature DFN Nov '05:	+-0.3
Local Temperature DFN Nov '05:	-2.9
Forecast Nat'l HDD Winter 05-06:	112%
WTI Prompt 5-day rolling avg:	$56.14
WTI 12-mth fwd:	$59.85
US Storage:	3,299
US Gas Rig Counts:	+240 yoy
Canadian Rig Counts:	+169 yoy
Precip Above GCL Nov '05:	87%
GCL Avg Runoff Forecast:	98%
Forecasted GDP growth 2006:	3.3%

REDACTED VERSION

PUGET SOUND ENERGY

Fundamental Summary

January 3, 2006

HEDGING OUTLOOK

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January 2006

WEATHER

- The market is being driven almost exclusively by short-term weather forecasts, primarily on the East Coast.
- Weather from Chicago to New York and Boston has been well above normal, on the order of 10 degrees or more, and this is forecast to continue for at least the next 6 days.
- Weather for the Pacific Northwest is expected to be slightly above normal, and rain is expected on the west side of the cascades for the next week.

Nat'l Temperature DFN Dec '05: -0.3

Local Temperature DFN Dec '05: -2.9

Forecast Nat'l HDD Winter 05-06: 0%

CRUDE

- Crude oil prices have continued to strengthen. Prompt month Nymex traded close to $64/bbl today and the forward curve is in a contango pattern.
- OPEC has indicated a desire to cut production at its next meeting to support prices, Iraq export volumes are at their lowest since the start of the war (~1.1 mm bbl/day), and solid global economic growth and demand. On an MMBtu equivalency, natural gas prices are now significantly below crude oil and its equivalency price, and this could lend support to natural gas prices going forward.

WTI Prompt: $61.06

NATURAL GAS SUPPLY

- Natural gas supplies appear to be adequate to avoid any shortages this winter, and that fear premium is what has primarily lowered gas prices so massively.
- With the warm weather, and minimal storage withdraws expected during the next two weeks, it looks like we will exit the winter with at the very least 1.1 Bcf of gas in storage (based on largest historic draws). More likely, we will exit the winter with 1.2 Bcf or more based on average withdrawal patterns over the last 5 years.'
- With the cold European winter and disputed gas supplies between Russia and Ukraine, EU natural gas prices have been soaring, while US prices have been falling. Imported LNG supplies are at a trickle of about 1 Bcf/day, and well below average or capacity.

US Storage: 2,641

US Gas Rig Counts: +228 yoy

Canadian Rig Counts: +18 yoy

HYDRO

- Near term historic as well as projected precipitation and natural stream flows through July are expected to be 98% of normal versus the 30-year average according to the Northwest River Forecast Center.
- Runoff Forecasts were volatile over the last month, varying +/- 5% with precipitation and temperature fluctuations.

NWRFC Current GCL Jan-Jul: 106%

GCL Avg Runoff Forecast: 71%

REGIONAL SUPPLY & DEMAND

- West natural gas supplies are abundant. We may even see a West storage injection in the next EIA report on Thursday. Jackson Prairie has gone from about ***XX***% full before Christmas to ***XX***% full today! West gas storage facilities are currently at record full levels for this time of year.
- Demand for both gas and power is below average and below forecast, as temperatures at least temporarily are warmer than normal.
- Since precipitation is also at near normal levels, heat rates are at near term historic or lower levels, and there does not appear to be much need for gas fired power generation at the moment.

Forecasted GDP growth 2006: 3.4%

Forecasted GDP growth 2007: 2.7%

REDACTED VERSION

PUGET SOUND ENERGY

Fundamental Summary

February 1, 2006

HEDGING OUTLOOK

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February 2006

WEATHER

- January 2006 was the warmest January on record for the USA. Weather for the next 6-10 days look like they will be fairly close to normal, but the market has just about written off winter now.
- PacNW weather remains slightly above normal. No cold fronts are expected. The big story is precipitation and hydro. We appear to have broken the prolonged near drought condition. (More hydro discussions below).

Nat'l Temperature DFN Jan '06: +6.46

Local Temperature DFN Jan '06: +2.6

Forecast Nat'l CDD Summer '06: 92%

CRUDE

- Global geopolitical risk remains a real concern for this market, particularly in the Middle East (Iran, Hamas in Palestine, etc.). Crude is the commodity most in play under such circumstances. However, domestic natural gas markets can be affected by such events due to the fuel switching capability of primarily Northeast power plants.
- Crude trade up to $70/bbl last week.

WTI Prompt: $67.81

NATURAL GAS SUPPLY

- Natural gas prices, although weak in the near term (next 6 months out), are still rather strong beyond summer 2006. This is reflecting that the market feels that it has ample supplies due to a storage inventory overhand for the summer 2006 period, but beyond that, North America is still supply constrained.
- LNG imports are a mere trickle, about 1 Bcf/day, production is flat, and new storage field development is virtually non-existent. Natural gas storage inventory is growing at a slower rate than overall market demand for natural gas, so storage is a smaller and smaller percentage of overall supply to meet demand.

US Storage: 2,494

US Gas Rig Counts: +231 yoy
Canadian Rig Counts: +104 yoy

HYDRO

- Precipitation for January, as measured at Grand Coulee has been 170% of normal. For the water year Oct 1 – Jan 23, precipitation has been 116% of normal.
- Snowpack: Cascades are 100 - 110 % of normal. BC roughly normal, and the Sierras are 122 - 160 % of normal.
- NOAA predicts a weak La Nina forming in the Pacific Ocean. La Ninas generally bring cold, snowy & wet winters to the NW Cascades & Rockies.
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NWRFC Current GCL Jan-Jul: 106%

GCL Avg Runoff Forecast: 104%

REDACTED VERSION

REGIONAL SUPPLY & DEMAND

- Since there is ample hydro spot market Heat Rates are XX (All gas fired turbines are off-line) Q2 2006 Heat Rates are XX, reflecting the markets expectation of significant runoff. (All gas-fired turbines are expected to be off-line)

Q4 GDP Growth 2006: 1.1%

PUGET SOUND ENERGY

Fundamental Summary

March 1, 2006

HEDGING OUTLOOK

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WEATHER

- We are clearly heading into a "shoulder period" when demand softens, but the market has already factored this in. Furthermore, we have already been operating in a low demand condition, since the winter has been so mild. New York will have temperatures in the low 60s this week. However, this weather pattern is no longer the story.
- The real concern weather-wise is that the Gulf of Mexico is already 1.5 degrees above normal, which is very favorable for hurricane formations. The expectation is that we will have 20 named storms this hurricane season. Significant Gulf of Mexico gas and oil production is still off-line from last year…

CRUDE

- Global geopolitical risk remains a huge concern for crude oil market. Iran's nuclear weapons ambitions, attacks on Saudi Refineries, attacks on drilling platforms in Nigeria, Venezuelan instability, etc., etc.
Any one of these factors, among others, could seriously disrupt crude oil shipments to the U.S., not to mention that nearly 400,000 bbl per day are still shut-in in the Gulf from last year's hurricanes.
- It is unlikely that OPEC at its next meeting will curb output, since prices remain in the low $60/bbl range and the feared risk of a supply glut in the 2nd quarter appear unfounded – the market is using all of the oil that is being pumped.

NATURAL GAS SUPPLY

- As the market soaks up the excess supply over the next few months through electric generation and returning industrial demand, the focus will have to turn to our lack of reliable supply resources. LNG is essentially non-existent – we are importing less than 1 Bcf/day on average so far this year. That is less than in 2004 and 2005.
- 1.5 Bcf of natural gas is still off-line from last year's hurricane season. The lack of recovery over the last month is rather surprising, and troubling.
- Encana announced last week that it was reducing its exploration budget for 2006, fearing that lower prices may not make all of its prospects profitable.

HYDRO

- Forecasts continue to fluctuate around normal (100%) vs the 30-year average. This is a fairly healthy hydro situation, particularly in light of the fact that we have been operating at about 85% of normal the last few years.
- Conditions in February were somewhat less positive than in the previous month. Precipitation above Coulee for February only 60% of normal. Healthy snowpack, although February build was not as impressive as January: Cascades are 100 - 110 % of normal. BC roughly normal.
- Heat rates remain compressed under 5 for Q2 due to the ample water situation, and power prices may remain weak or weaken a bit further during the run-off, but these hydro supplies can only be bearish in the short-term, since very little water can be stored in the system for future use.

REGIONAL SUPPLY & DEMAND

- As discussed, there is plenty of gas, hydro and thus power on the market. Spot market prices can weaken further in our region, but forward prices seem well supported.

KEY FIGURES Feb '06:

Nat'l Temperature DFN Feb '06: +6.46

Local Temperature DFN Feb '06: +2.6

Forecast Nat'l CDD Summer '06: 92%

WTI Prompt: $59.76

US Storage: 2,143

US Gas Rig Counts: +262 yoy

Canadian Rig Counts: +82 yoy

NWRFC Current GCL Jan-Jul: 106%

Feb Precipitation Above Coulee: 60%

Regional Snowpack: 100-10%

REDACTED VERSION

PUGET SOUND ENERGY

Fundamental Summary

April 1, 2006

HEDGING OUTLOOK

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KEY FIGURES Mar '06:

- Nat'l Temperature DFN Mar '06: +15.3
- Local Temperature DFN Mar '06: -0.3
- Forecast Nat'l CDD Summer '06: 90%
- WTI Prompt: $63.90
- US Storage: 1,809
- US Gas Rig Counts: +240 yoy
- Canadian Rig Counts: +323 yoy
- NWRFC Current GCL Jan-Jul: 106%
- Precipitation Above Coulee: 78%
- Regional Snowpack: 100-10%

WEATHER

- Temperature fluctuations at this time of year are a fairly insignificant driver of energy prices. We are in a shoulder period, when demand is low, and temperatures cannot reach real extremes either high or low. Again, if we did not have one of the warmest winters on record, we could be facing real energy shortages on both natural gas and refined products. However, this warm weather effect has left markets well supplied in the short term.
- Looking forward, hurricane fears continue to provide support for domestic energy markets for the second half of summer and beyond. Also, summer 2006 temperatures are projected to be above normal, but not as warm as last year, which was a record warm summer.

  (We realize that if the summer is not very warm, and hurricanes do not interrupt production this summer, we could have a significant glut of natural gas on the market in the fall, with only a finite amount of storage. However, even in this bearish scenario, where spot prices for natural gas fall below $5, or even $4 per Dth, we expect this to be short lived, since natural gas will displace coal fired power plants, and incremental industrial demand will emerge. Also, a cold winter can quickly wipe out these types of surpluses).

CRUDE

- Crude oil and refined products continue to rally! WTI is approaching record territory. The Dec 2006 contract is trading well over $71/bbl fueled by geopolitical concerns over Iran. Over the weekend
- Gasoline inventory concerns heading into the summer driving season are also lending support to refined products markets.

NATURAL GAS SUPPLY

- 1.36 Bcf of natural gas is still off-line from last year's hurricane season. The recovery has been very slow vs expectation. Again, ample supplies exist on the market and in storage, but cash prices have not collapsed because of it – daily Henry Hub prices have been fairly range bound since Mar 1, trading between $6.30 - $7.40.
- LNG cargoes have picked up during the last few days to more historic levels of about 1.8 Bcf/day, but imports for the first quarter were well below the 2004 & 2005 averages. This also illustrates that natural gas is becoming more and more of a global commodity, like crude oil, metals, etc., which we have to compete for. Long-term we have not made any improvements to ensuring, or even attracting LNG shipments

HYDRO

- Mid Columbia runoff expectations have decreased slightly to 96% due to low precipitation in Feb and Mar. Conversely, the Snake River runoff forecast has increased, lifting runoff volumes at The Dalles back to normal levels (100%).
- BPA is being forced to draft heavily to meet flood control levels, and spring runoff is commencing, so there is a great deal of hydro power currently available to the market. This has depressed spot and Balance of the Month (BalMo) markets, where prices are now averaging in the upper teens.
- Heat rates remain compressed under 4 for Q2 due to the ample water situation, and power prices may remain weak or weaken a bit further during the run-off, but these hydro supplies can only really influence the market in the short-term.

REGIONAL SUPPLY & DEMAND

- As discussed, there is plenty of gas, hydro and thus power on the market. Spot market prices have weakened significantly for Balance of the Month (BalMo) power markets, gas prices have remained fairly stable. We have record gas in storage for the west.

REDACTED
VERSION

PSE PUGET SOUND ENERGY

Fundamental Summary

May 1, 2006

HEDGING OUTLOOK

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WEATHER

- The official hurricane season begins in less than two weeks, and another round of hurricane forecasts comes out next week, which could very well hype-up the market. Furthermore, the summer and its air condition driven load is just around the corner, so significant incremental demand may be on the horizon.
- April was one of the warmest ever on record in the US. (Actually, it was the 7th warmest). We saw record heat in the Southwest, and rolling brown outs in Texas, because of it. This could the harbinger of a very warm summer.

CRUDE

- Crude oil has fallen dramatically during the last week as well, and contributed to natural gas falling below $6.50/Dth. Prompt month WTI is down ~ $6/bbl in the last week, on fears that high prices are dampening demand. Furthermore, US crude oil inventories are 5% higher than last year, and crude oil imports are on the rise.
- However, even though the market looks a bit weak at the moment, compounded by rising inflation and rising interest rates, the fact remains that China & India are growing at nearly 10% annually, and little global spare capacity exists.

NATURAL GAS SUPPLY

- As discussed, natural gas supplies are ample for the time being due to the large storage overhang. However, in the longer term, with the return of normal weather, we still suffer from a lack of new supplies.
- 1.25 Bcf of natural gas is still off-line from last year's hurricane season, and recovery has been so slow that MMS has said that they will stop reporting on the progress.
- LNG cargoes so far this year are averaging well below 2004 & 2005 average daily imports. Massive coal fired power plants like Mohave (1500 MW) are being shut down due to emissions limits, and the short fall according to the State of California must be made up by natural gas fired power plants and renewables.

HYDRO

- The band of uncertainty of seasonal runoff volumes has narrowed dramatically in the past month, and the markets are virutally ensured near normal runoff volumes and refill at this point. Current runoff forecasts for Coulee have fallen slightly to around 98%.
- The system is largely in 'refill' mode, so there is little room for deviation. Later runoff might enable the system to hold some water over until the more valuable third quarter, but recent warm temperatures suggest that there will be little opportunity for optimization.

REGIONAL SUPPLY & DEMAND

- As with the US as a whole, the Pacific NW market currently has ample supplies of natural gas and power, but summer heat, run-off ending in July, decent mid-8 average flat heat rates from July – Dec 06, and potential hurricane production impacts all have the potential to cut into the surplus and again add a bullish tone to this market.
- In the longer them, the Cal ISO's chief economist stated that plant retirements will outpace in-state generation additions starting in 2006. California's load has grown on average 1000 MW annually during the last four years and the state has been able to keep pace with new plant additions. However, the state now is losing ground on meeting demand.

KEY FIGURES Apr '06:

Nat'l Temperature DFN Apr '06: +15.3

Local Temperature DFN Apr '06: -0.3

Forecast Nat'l CDD Summer '06: 90%

WTI Prompt: $63.90

US Storage: 1,851

US Gas Rig Counts: +240 yoy

Canadian Rig Counts: +323 yoy

NWRFC Current GCL Jan-Jul: 106%

Precipitation Above Coulee: 141%

Regional Snowpack: 100-10%

REDACTED VERSION

PSE PUGET SOUND ENERGY

Fundamental Summary

June 1, 2006

HEDGING OUTLOOK

[redacted]

KEY FIGURES May '06:

Nat'l Temperature DFN May '06:	+15.3
Local Temperature DFN May '06:	-0.3
Forecast Nat'l CDD Summer '06:	90%
WTI Prompt:	$70.90
US Storage:	2,320
NWRFC Current GCL Jan-Jul:	106%
Precipitation Above Coulee:	86%
Regional Snowpack:	50-75%

WEATHER

- The official hurricane season has begun and this will probably keep the market from selling off further for the time being.
- NOAA's Climate Prediction Center is forecasting the West and the Northeast to have a higher probability of being warmer rather than colder than normal for July-September 2006. Certainly this can stimulate significant residential AC demand, but last summer was the hottest on record, so it is unlikely that hot summer weather alone can drastically reduce the natural gas surplus; particularly in light of growing production, and storage injections keeping pace with last year

CRUDE

- Crude oil prices have been on the rise for the last two weeks. Currently prompt month WTI is trading near $73/bbl. The rise is driven by geopolitical events. Iran has rejected direct talks with the US regarding its nuclear weapons program, and the UN Security Council may consider sanctions. Nigerian output is also being compromised as rebels have taken foreign oil workers hostage.
- As noted last month, little global spare capacity coupled with significant geopolitical risk will keep crude oil prices well supported. However, the impact that crude oil can have on domestic natural gas and power prices is waning. Approximately a month ago the crude oil to natural gas ratio was in the mid 9s, now it is above 11.

NATURAL GAS SUPPLY

- As discussed last month, we still suffer from a lack of significant new supplies for the long-term. LNG imports are limited, Arctic gas is making virtually no progress, and big fields are not being discovered. However, new supplies are being brought on line in the Rockies and Texas in particular, and Gulf of Mexico production is being reinforced to deal with the hurricane season. Therefore, it looks more and more like the storage surplus will not evaporate this summer, and its effects will stay with us well
- Natural gas supplies appear to be in good shape for the next 12-18 months, because of the rolling and continuos effects of the storage surplus. It will be interesting to see just how gas we can actually store in the US. Regardless, if its 3.5, 3.6 or 3.7 Tcf, storage will be filled to the maximum come November, and we can anticipate that there will be a great deal of price weakness after the hurricane season.

HYDRO

- Runoff forecasts for Grand Coulee went back above normal this month, and forecasts for the Snake and Lower Columbia are even more optimistic; providing further near-term downward pressure in the market.
- Warm May temperatures means that spring runoff is in full swing. Even with the deep drafting due to flood control, with healthy runoff and forecasts inching back above normal, summer refill is virtually assured.

REGIONAL SUPPLY & DEMAND

- As with the US as a whole, the Pacific NW market currently has ample supplies of natural gas and power. The CAL ISO is showing approximately 2% annual load growth on a weather adjusted basis year on year, and the 1500 MW Mojave coal plant is off-line, so there was some reason to be concerned about California this summer. But, there has been 4,750 MW of new installed capacity place in the WECC in the last year, most of it gas fired generation, along with some wind, and the new Springerville 400 MW coal plant has come on line. So, although gas may be called upon to make up the Mojave shortfall, there are ample quantities available to fill the void.
- Moreover, California hydro supplies are above average and west storage is at record levels (11% ahead of last year). Thus, California load curtailments appear unlikely this summer.

REDACTED VERSION

PSE PUGET SOUND ENERGY

Fundamental Summary

June 1, 2006

HEDGING OUTLOOK

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WEATHER

So far the summer weather has been rather bearish. No significant heat has hit the Northeast, and California has only had an occassional spell of above normal temperatures. The national 11-15 day forecast continues this trend with near normal temperatures across the country, with the exception of Chicago and the Great Lakes, which will see above normal temperatures.

If these weather forecasts are accurate, we will have gotten through most of July without particularly warm weather, so this potentially bullish market catalyst will diminish in influence.

CRUDE

Crude oil prices simply continue to rise! We are again above $74/barrel and approaching new record highs driven by geopolitical unrest provided by Iran, North Korea, Iraq, and Israeli / Palestinian conflicts over Gaza. Fundamentally the market seems very well supplied, with OPEC pumping near 30 million barrels/day, and exports increasing from Iraq. However, the fear of future supply disruptions apparently is what the market has decided to focus on.

Thankfully the very high oil and gasoline prices have had virtually no impact on the natural gas and power markets, as crude and natural gas have completely de-coupled. The traditional 6:1 price relationship of crude oil to natural gas is a distant memory at the moment. As described last month, that relationship has been widening and widening, and that phenomenon is continuing, particularly for near term markets.

Currently the relationship for the spot market stands at 12 to 1. Looking beyond the near term, the natural gas / crude oil price ratio has also started to widen. It currently stands at 7.8 for winter 2006/07 reference NYMEX. Over the long term, the relationship should remain closer to 6:1, but for the time being, the fact that crude is a global market and natural gas is still very much a continental one, means that the relationship can diverge significantly.

NATURAL GAS SUPPLY

As evident by the widening natural gas to crude oil price relationship the market has ample natural gas supplies. Not much new data on this front. Record storage inventories, increasing Rockies and Gulf Coast production is masking in the short term that we are importing very little LNG and still have over 1 Bcf of Gulf Coast production off-line from last year's hurricane season. Nevertheless, the fact that we have had and continue to have exceptionally mild weather in 2006, both from a Cooling & Heating Degree Day perspective, is ultimately what has created this well supplied market situation. And, there is a growing degree of likelihood that it will be exacerbated as we move into the fall period, since unless we have significant supply disruptions, we will run out of storage space. At that point gas will begin to displace significant amounts of coal fired generation, which we suspect is just starting to occur now in limited quantities for inefficient coal units.

HYDRO

An unexpectedly wet June added to an already healthy runoff, and coupled with warm temperatures, pushed outflows at Coulee to levels not seen since 2002. End of season reservoir refill targets were easily reached, and extra storage in Canada will provide supplemental generation and ample downward market pressure through the end of Q3.

NWRFC's final forecast of the water year indicates 106% of normal Jan-Jul runoff for 2006.

REDACTED VERSION

REGIONAL SUPPLY & DEMAND

As with the US as a whole, the Pacific NW market currently has ample supplies of natural gas and power, although baseload plant outages have raised power prices in the second half of June by as much as $25/MWh for on-peak deliveries. These power plants, however, are due to return to full operation in early July, and this should settle power prices down again.

The Jackson Prairie storage facility is now nearly XX% full, so we suspect that IT storage holders will be forced to withdraw gas to make room for Firm shippers. This will make even more natural gas available to the market, and spot prices should continue to weaken, and an even larger forward market Contango may be created.

CONCLUSION

Although summer heat and potential hurricane production impacts have the ability to quickly add a bullish tone this market, the longer time marches on without these events occurring the more likely it will be that forward market prices start to weaken. Power prices for 2007 have shown remarkable resilience to the near term bearish natural gas market trend. We believe that as the fear premium associated with heat and hurricanes starts to fade prices in 2007 will start to show more pronounced weakness.

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PUGET SOUND ENERGY

Fundamental Summary

August 1, 2006

HEDGING OUTLOOK

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WEATHER

The record setting heat wave at the end of July for both the West & East Coast has not been able to sustain itself, and temperatures since then have been near normal. Furthermore, there appears to be little tropical storm activity on the horizon. And, hurricane experts, including Dr Grey, have revised down their forecasts for the 2006 season, showing less named storms. This is primarily due to a Gulf Coast “wind sheer effect” that is not allowing storms to form over the warm Gulf waters.

Both of these bearish weather patterns should enable storage surplus volumes to remain in tact, at least for the next couple of weeks. The peak of the hurricane season is late August / early September, so if we can make it through that without any devastating hurricane effect, prices should start to fall again as the weather “fear premium” fades away.

CRUDE

Crude oil prices remain strong as they consistently trade in the mid-$70/bbl range. Geo-political fears persist, primarily from Middle East conflicts and tensions, but also from a shutdown of BP’s Alaska Pipeline which supplies 400,000 barrels per day to US markets. This accounts for between 2-3% of US demand. On the bearish side, a multi-pronged Al-Queda plot to destroy 10 Trans-Atlantic flights from Britain to the US has the market wondering what demand destruction that may present.

Nevertheless, the current crude oil price structure has little impact on our natural gas and power markets in the near and medium term, as crude and natural gas price remain very divergent. Natural gas is still trading well below residual fuel oil, as it has for months, but the delta between the two as tightened a bit during the last month. If for some reason the two fuels converge, this can only be bearish for natural gas, since more gas would be available to the market, as residual fuel oil takes over its power generation role.

NATURAL GAS SUPPLY

Well, we started to bump up against inefficient coal fired generation displacement in the West during the first half of July, and the market rallied hard. Although, the issues already mention (Heat, Chris & MotherRock) probably were more of a catalyst for the rally, pricing below $5/Dth should be views as at least the start of a price floor.

The massive natural gas electric generation demand that we experienced in July certainly reduced the storage surplus year on year. Nevertheless, storage volumes both in the West and across the country remain at record levels, and there is ample gas on the market. Barring significant hurricane supply destruction, there should be plenty of gas available during the “shoulder month” period.

HYDRO

The runoff season has largely concluded for 2006, with Jan-Jul ending up at 107% of normal for Grand Coulee.

REGIONAL SUPPLY & DEMAND

Forward Heat Rates for the PacNW for the next few months of Sept and October are 9.5 and 8.5 (Flat), respectively. This shows the market expectation that there will be incremental fall gas demand vs last year, when actual Heat Rates were almost a full point less for both months. We are inclined to believe that the forward market heat rates will decline a bit, since these elevated forward Heat Rates appear to be an artifact of the near load shedding event that the entire West experienced in late July, when Heat Rates shot up to 25-30 during a few days.

What may also be contributing to the relatively high near-term forward market Heat Rates is the fact that a greater than expected number of baseload generating facilities are not operating at full capacity, or are tripping off-line more frequently, including Centralia, Boardman and Colstrip. Also, Jackson Prairie is actually slightly less full now than it was last month. (XX% vs XX%)

Nevertheless, storage volumes both in the West and across the country remain at record levels, and there is ample gas on the market. We still believe that there will be a surplus on the market in Oct & Nov period looking for a home that storage cannot completely provide.

CONCLUSION

Summer heat and the looming hurricane peak period has added a somewhat bullish tone to this market, as we suspected it might. But, we continue to believe that the fundamentals for natural gas still dictate that we will be able to hedge prices at lower levels in the Sept – Nov period, although we have become slightly less confident in this view, since the heat wave wiped out more than 100 Bcf of storage surplus in the month of July

Weather patterns are forecasted to be near normal for at least the next 10 days, and hurricane activity is minimal. The longer time marches with this situation, the more likely it will be that forward market prices start to weaken, spurred on by a building fall gas glut.

REDACTED VERSION