

1 I discuss the Staff recommendation in Section III of my testimony.

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3 **Q. Please summarize Staff's recommendation on natural gas and coal prices.**

4 A. This recommendation is covered in Section IV of my testimony. Based on the result
5 of statistical time series analysis, Staff concluded that three month average forward
6 strips should be used as the best estimate of natural gas forward spot prices. This
7 estimate was then used to calculate the natural gas price expected to prevail during
8 the rate year. The analysis produced an increase in the average gas price from
9 \$4.39/mmbtu, as proposed by PSE, to \$4.69/mmbtu.

10 PSE's contractual agreement with respect to the purchase price of coal for
11 Colstrip 1&2 will increase 11% from an average of \$0.562/mmbtu to \$0.625/mmbtu,
12 and for Colstrip 3&4 will increase 5% from \$0.589/mmbtu to \$0.618/mmbtu.

13 Incorporating these changes in the price of natural gas and coal, and using 50
14 hydro years to calculate hydropower production, results in a total increase in PSE's
15 net power costs of \$21,263,000. (Exhibit __ (YKGM-10). Changing only the price
16 of natural gas and using 50-year hydro results in an increase in PSE's net power cost
17 of \$18,798,000 ~~\$29,102,000~~. (Exhibit ____ (YKGM-9).