

**EXHIBIT NO. \_\_\_(DEM-9T)  
DOCKET NO. UE-072300/UG-072301  
2007 PSE GENERAL RATE CASE  
WITNESS: DAVID E. MILLS**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY, INC.,**

**Respondent.**

**Docket No. UE-072300  
Docket No. UG-072301**

**PREFILED SUPPLEMENTAL  
DIRECT TESTIMONY (NONCONFIDENTIAL) OF  
DAVID E. MILLS  
ON BEHALF OF PUGET SOUND ENERGY, INC.**

**APRIL 11, 2008**

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**PREFILED SUPPLEMENTAL  
DIRECT TESTIMONY (NONCONFIDENTIAL) OF  
DAVID E. MILLS**

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**PUGET SOUND ENERGY, INC.**

**PREFILED SUPPLEMENTAL  
DIRECT TESTIMONY (NONCONFIDENTIAL) OF  
DAVID E. MILLS**

**I. INTRODUCTION**

**Q. Are you the same David E. Mills who provided prefiled direct testimony in this Docket on behalf of Puget Sound Energy, Inc. (“PSE” or “the Company”)?**

A. Yes.

**Q. What topics are you covering in your supplemental direct testimony?**

A. I am updating the projected rate year power costs submitted with my Prefiled Direct Testimony, Exhibit No. \_\_\_\_ (DEM-1CT), for changes that have occurred since the time of the original filing on December 3, 2007.

**Q. Please summarize your testimony regarding the update of power costs.**

A. Projected rate year net power costs in this supplemental filing, including production operation and maintenance (“O&M”) expenses and power cost ratemaking adjustments, are \$1,149 million, a \$13.3 million increase from the originally filed power costs of \$1,135 million. The updated power costs are

1 provided in Exhibit No. \_\_\_(DEM-10). As discussed by Mr. John Story in his  
2 supplemental testimony, Exhibit No. \_\_\_(JHS-9T), Mr. Story used these updated  
3 power costs, plus other data, to adjust the revenue deficiency for the rate year.

## 4 II. UPDATE TO PROJECTED POWER COSTS

5 **Q. Have you reconciled the projected power costs filed in December 2007 to the**  
6 **updated projected power costs?**

7 A. Yes. A detailed reconciliation of power cost projections is provided in Exhibit  
8 No. \_\_\_(DEM-10) and Exhibit No. \_\_\_(DEM-11C).

9 **Q. How did the Company update its power costs for the rate year?**

10 A. PSE updated forward market gas prices and PSE resources assumption inputs to  
11 the AURORA hourly dispatch model. In addition, cost projections outside of the  
12 AURORA model were updated to reflect these and other changes as noted below.

13 **Q. Did forecast power costs outside of the AURORA model change as a result of**  
14 **the update to rate year gas prices?**

15 A. Yes. As I noted above, projected power costs have been adjusted outside of the  
16 AURORA model to properly reflect fixed-price natural gas contracts in place at  
17 March 10, 2008 for the rate year power portfolio. The combination of updating  
18 the forecast rate year gas prices and including new short-term fixed priced natural  
19 gas contracts, decreased rate year power costs by \$6.9 million.

1 **Q. Were any changes made to the AURORA database for this revised filing?**

2 A. Yes, PSE revised the unit heat rate and forced outage rating for Colstrip and made  
3 minor modifications to the Company's gas-fired unit availability. The Company  
4 also updated the AURORA hourly dispatch model to include all fixed-price short  
5 term rate year power contracts in place at March 10, 2008. The AURORA  
6 modeled power costs for the rate year increased \$21.5 million due to the updates  
7 to forecast gas prices and resources and contracts data.

8 **A. Natural Gas Prices Updated**

9 **Q. What natural gas prices did the Company use for the rate year in running its**  
10 **AURORA model for this supplemental testimony?**

11 A. PSE used a three-month average of daily forward markets gas prices for the rate  
12 year for each trading day in the three-month period ending March 11, 2008.  
13 These data were input into the AURORA model for each of the months in the rate  
14 year. This is the same methodology as described in my original prefiled direct  
15 testimony except that it uses the more recent three-month period described above.  
16 For purposes of comparison, the updated average price at Sumas for the rate year  
17 resulting from use of the updated information is \$8.51/MMBtu, which is  
18 \$0.50/MMBtu higher than the average price of \$8.01/MMBtu provided in the  
19 Company's original filing of December 3, 2007.

1 In addition, projected power costs have been adjusted outside of the AURORA  
2 model to properly reflect fixed-price natural gas contracts in place at March 10,  
3 2008.

4 **B. Colstrip Update**

5 **Q. Please explain the change to projected rate year Colstrip costs.**

6 A. The Company revised the seven-year historical forced outage rating period from  
7 2000-2006 to 2001-2007. The Colstrip forced outage rate for 2000 was  
8 significantly higher than normal so dropping this year from the historical dataset  
9 improved the forced outage rate and decreased power costs.

10 **C. Mid-C Power Contracts Update**

11 **Q. What caused the increase to the Mid-Columbia (“Mid-C”) power contracts?**

12 A. Mid-C power contracts cost increases were primarily driven by projected  
13 increases in O&M costs. As originally filed, PSE based many of these cost items  
14 on the 2007 budget data and then applied an escalation factor for years 2008 and  
15 2009. This update is now reflected on the 2008 budget and escalated for 2009.  
16 The increase between 2007 and 2008 was greater than the escalation factor and  
17 was primarily due to fish-related operations.

1 **III. CONCLUSION**

2 **Q. Does this conclude your testimony?**

3 **A. Yes, it does.**