EXHIBIT NO. ___(JHS-1T)
DOCKET NO. UE-09______
PCA 7 COMPLIANCE
WITNESS: JOHN H. STORY

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of **PUGET SOUND ENERGY, INC.** **For Approval of its 2008 Power Cost Adjustment Mechanism Report**	**Docket No. UE-09______**

PREFILED DIRECT TESTIMONY OF JOHN H. STORY (NONCONFIDENTIAL) ON BEHALF OF PUGET SOUND ENERGY, INC.

MARCH 31, 2009

PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY OF JOHN H. STORY

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PUGET SOUND ENERGY, INC.

PREFILED DIRECT TESTIMONY OF JOHN H. STORY

I. INTRODUCTION

Q. Please state your name, business address and present position.

A. My name is John H. Story. My business address is 10885 N.E. Fourth Street, P.O. Box 97034, Bellevue, Washington 98009-9734. I am the Director of Cost and Regulation for Puget Sound Energy, Inc. ("PSE" or "the Company").

Q. What is your educational and professional experience?

A. Exhibit No. ___(JHS-2) describes my educational and professional experience.

Q. What are your duties as Director of Cost and Regulation for PSE?

A. As Director of Cost and Regulation, I am responsible for the Revenue Requirement department at PSE.

Q. What is the purpose of this filing?

A. In accordance with the Commission's Twelfth Supplemental Order in Docket No. UE-011570, the Company must file an annual report detailing the power costs included in its deferral calculation under the Power Cost Adjustment (“PCA”) Mechanism. By approving the Settlement Agreement in the Fourth Order in PSE’s power cost only rate case, Docket No. UE-050870, the Commission authorized an amendment to the annual reporting period for the PCA Mechanism from a June 30th fiscal year to a calendar year. In compliance with this order, annual PCA true up filings will be due by the end of each March for the prior PCA calendar year. Through its Petition, filed herewith, the Company is requesting approval of PSE's PCA Mechanism Report for the Twelve Months Ended December 31, 2008 ("PCA Period 7" or "2008 PCA Report").

II. BACKGROUND REGARDING THE PCA MECHANISM

Q. Please provide a brief summary of the Power Cost Adjustment Mechanism.

A. As authorized by the Commission, the Company's PCA Mechanism accounts for differences in PSE's modified actual power costs relative to a power cost baseline. This mechanism accounts for a sharing of costs and benefits that are graduated over four levels of power cost variances. *See* the Stipulation associated with the Commission's Twelfth Supplemental Order in Docket No. UE-011570, attached as Exhibit A to the Petition, which defines the specific sharing levels and conditions.

Q. Please describe the categories of power costs that are included in the PCA Mechanism.

A. The following fixed and variable power costs are included. These costs are adjusted as described below.

Fixed Costs:

For PCA calculation purposes, fixed costs are power production related costs and rate of return. Power production related costs from the most recent general rate case or power cost only rate case are included and do not change during the PCA period except for the special treatment of Baker Lake Relicensing as noted below. These costs include depreciation, property taxes for production plant, and specifically identified transmission plant. Other fixed costs include FERC Accounts 557 Other production expense, Hydro and Other Production O&M, and 500 KV O&M. Regarding the rate of return, the rate from the most recent general rate case is applied as appropriate in the PCA period.

Pursuant to the 2006 General Rate Case ("2006 GRC"), WUTC Docket No. UE-060266, *et al.* (Consolidated), forecasted amounts established in Exhibit A-1 for Baker Lake Relicensing return on ratebase, depreciation expense, and production O&M have been removed for the period from January 1, 2008 through October 31, 2008 as the final license had not yet been approved. The difference between these actual and forecasted amounts is considered to be included in Purchased Power, a variable cost component in the PCA Mechanism, thus resulting in no net impact on the overall power cost baseline rate used in the PCA Mechanism calculations.

Variable Costs:

PCA variable costs include actual monthly amounts recorded in FERC Accounts 501 – Steam generation fuel, 547 – Other power generation fuel, 555 – Purchased power, 447 – Sales for resale, 565 – Transmission of electricity by others. In addition, variable costs and credits for sales of non-core gas, Transmission Revenue for Colstrip 1-4 lines, Third AC and Northern Intertie, and costs related to the hedging line of credit are included. Allowed regulatory return on regulatory assets and liabilities associated with Tenaska, Cabot, Bonneville Exchange Power Agreement ("BEP"), White River Relicensing and CWIP, White River Plant Costs, CanWest Liability, Hopkins Ridge Prepaid Transmission, Goldendale Fixed Cost Deferral and Hopkins Ridge Mitigation Credit are also included in variable costs.

Adjustments per the 2001 General Rate Case Settlement:

The following are adjustments as determined in Docket UE 011570:

1) Prudence disallowance from UE-921262, disallowing a portion of the power costs associated with March Point 2 (3%) and Tenaska (1.2%);

2) Colstrip Availability adjustment if the actual availability factor for the four plants at Colstrip falls below a 70% equivalent availability factor; and

3) New long-term resource pricing adjustment to bring the variable cost of the new resource to the lower of actual unit cost or the average embedded cost. This adjustment is reflected on Exhibit G,

"New Resource Adjustment". PCA Period 6 was the first period in which this adjustment was necessary. The specifics behind the calculation of this adjustment are further discussed below.

No adjustment was required during PCA Period 7 for item 2 above. Adjustments under items 1 and 3 are shown in the workpapers related to this filing.

Q. Are there other adjustments to be considered along with those determined in UE-011570?

A. Yes, per the Commission orders issued in Docket UE-031725, PSE is subject to the disallowance of costs associated with the Tenaska Benchmark Disallowance.

III. PCA PERIOD 7 ACCOUNTING

Q. Please explain how the Company has tracked its PCA Period 7 power costs.

A. The Company has detailed accounting instructions, which are provided in the supporting workpapers to this filing that provide guidance on how to track PCA Mechanism activity. Each month the Company calculates the power costs subject to PCA sharing using the same methodology shown in Exhibit B from the original PCA Mechanism filing. Allowed power costs include the fixed and adjusted variable costs, net of the adjustments discussed above. Total allowable costs are then compared to the baseline power cost rate from Exhibit A-1 times the actual delivered load and any difference is allocated to the Company or customers based on the different levels of sharing defined in the PCA Mechanism. Any difference allocated to the customers is recorded in FERC Account 182.3, Other regulatory assets or Account 254, Other regulatory credits depending on whether the accumulated balance is a debit or credit.

Under the PCA Mechanism, the deferred amount at the time of the next PCA annual true-up filing, along with the projected variable and fixed costs through the next proposed rate year could be considered in the determination of any rate change for the subsequent PCA period. Amounts deferred, when authorized, will be amortized to FERC Account 407.3, Regulatory debits or 407.4, Regulatory credits as they are recovered or refunded by the Company to customers.

The Company accrues interest monthly on any deferred balance (debit or credit) at the interest rate calculated in accordance with WAC 480-90-233(4).

Q. Did the baseline power cost rate change within PCA Period 7?

A. Yes. From January 1, 2008 through October 31, 2008, the baseline rate was $59.813 as established in Docket No. UE-070565, the Company's 2007 power cost only rate case. Included in Exhibit No.___(JHS-3C), 2008 PCA Report, pages 10 through 17, is the calculation of this baseline rate and supporting schedules for this period.

From November 1, 2008 through December 31, 2008, the baseline rate was $62.841 as established in Docket No. UE-072300, the Company's 2007 GRC.

Included in Exhibit No.____(JHS-3C), 2008 PCA Report, pages 18 through 25, is the calculation of this baseline rate and supporting schedules for this period.

Q. What is the average baseline rate experienced at the end of PCA Period 7?

A. As shown on Exhibit No.___(JHS-3C), 2008 PCA Report, page 5, Exhibit A-1 Power Cost Rate Updated, the average baseline rate experienced for the twelve month period ended December 31, 2008 is $60.441. Actual power costs exceeded the average baseline rate in effect during the PCA period by $1,194,774 (after adjustment for Firm Wholesale).

The average baseline rate differs from the two baseline rates in effect during PCA Period 7 for the following reasons:

1) Changes in variable components of the PCA Mechanism;

2) Adjustments to specific fixed costs for Baker Lake Relicensing as discussed earlier; and

3) Change in the baseline rate that occurred in November 2008.

Q. Were there any Exhibit G adjustments necessary in PCA Period 7?

A. Yes. As discussed in David Mills' testimony, there were two new resources included in PCA Period 7, each of which required analysis to determine whether an adjustment was necessary under Exhibit G. These resources are summarized as follows:

Resource	In-Service / Effective	Rates in Effect / Expected to be in Effect	Actual variable unit cost > Baseline Rate?	Exhibit G Adjustment?
Klondike III PPA	12/01/2007	11/01/2008	At times	No
Sumas CCCT	07/25/2008	11/01/2008	Yes	Yes

Q. How was the amount of the Exhibit G adjustment determined?

A. The period that each new resource was analyzed for purposes of Exhibit G was the period between the effective date of the new resource and the expected date that rates would be in effect (the bridge period). Each month during the bridge period, the estimated variable costs were determined for the bridge period. The estimated generation attributable to that resource for the bridge period was then used to determine the estimated variable unit cost. This unit cost was compared to the baseline rate in effect for that month. When the actual variable unit cost exceeded the baseline rate in effect, the excess unit cost was multiplied by the ratio of the current month's generation to the estimated bridge period generation to determine the amount of the Exhibit G adjustment for that month. The only new resource that resulted in an adjustment during PCA Period 7 was the Sumas generating station. The results of this calculation were a total reduction of $364,700 and are displayed on Exhibit G and are included in the Updated Power Cost Rate on Line 24b.

Q. What is the resulting deferral balance for PCA Period 7?

A. As of December 31, 2007 the Company had deferred $1,804,703 of under-recovered power costs. During PCA Period 7, there was no addition or offset to this amount related to sharing with customers of an under- or over-recovery. Therefore, the deferred balance at December 31, 2008 is $1,804,703. Interest of $1,309,440 had been accrued at the end of PCA period 6. PCA Period 7 interest was $12,273. Adding the total accrued interest of $1,321,713 to the deferred balance of $1,804,703, results in a total customer deferral balance under the PCA Mechanism at December 31, 2008 of $3,126,416. *See* Exhibit No.___(JHS-3C), 2008 PCA Report, page 4.

Q. Will there be a rate increase as a result of this filing?

A. No. The deferral balance is not at a level where an increase is warranted.

IV. ADJUSTMENT OF COSTS OUTSIDE OF THE PCA PERIOD

Q. Please describe the need for "Adjustment of Costs Outside of the PCA Period".

A. In the Company's PCA Period 1 compliance filing, Docket No. UE-031389, a procedure entitled "Methodology for Adjustments of Costs Outside of the PCA Period" ("the Methodology") was agreed to by the parties and approved by the Commission for the treatment of such adjustments in that and future PCA periods. *See* Exhibit No.___(JHS-4).

Q. Were there any such adjustments in PCA Period 7?

A. Yes, there were accounting adjustments totaling $2,115,667 made in June, September, November and December 2008 to FERC account 501. These adjustments were associated with increases in Colstrip units 3 and 4 loss reserves in connection with Minerals Management Service's claims against PSE, and should not be considered fuel expense as they relate to coal deliveries prior to July 1, 2002. This would reduce the Steam Operating Fuel in 2008 from $61,024,741 to $58,909,074. Supporting documentation related to these adjustments has been provided in the workpapers related to this filing.

Q. Does this conclude your testimony?

A. Yes, it does.