PSE PUGET SOUND ENERGY
The Energy To Do Great Things

Puget Sound Energy
P.O. Box 97034
Bellevue, WA 98009-9734
PSE.com

September 26, 2012

Mr. David Danner, Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Re: **Advice No. 2012-28 (PGA and Tracker) Natural Gas Tariff Filing – Filed Electronically**

Dear Mr. Danner:

Puget Sound Energy, Inc. ("PSE" or "the Company") hereby submits a proposed Purchased Gas Adjustment ("PGA") and proposed deferred account adjustment ("Tracker") including proposed revisions to its WN U-2 tariff. Enclosed, pursuant to RCW 80.28.060 and Chapter 480-80 WAC, are the following proposed revised tariff sheets:

WN U-2 (Natural Gas Tariff)
36th Revision of Sheet No. 1101 – Supplemental Schedule No. 101 – Gas Cost Rates
39th Revision of Sheet No. 1106 – Supplemental Schedule No. 106 – Deferred Account Adjustment

The filing consists of proposed changes to both Schedule 101 ("PGA"), which reflects changes in wholesale gas and pipeline transportation costs, and Schedule 106 ("Tracker"), which reflects changes in deferral amortization rates. The net impact of this filing is to decrease the amount billed to customers under the PGA and its associated Tracker. The filing includes an effective date of November 1, 2012.

Purpose of This Filing

The purpose of this filing is to adjust the Company's PGA and Tracker rates. The PGA rates recover expected gas costs from the Company's sales customers. On an average annual basis, the PGA rates included in this filing reflect a 10.9% decrease in gas costs due to decreases in forward market prices. The impact of the decreased gas costs, as proposed herein, is a 6.0% decrease in residential gas service rates and a 6.5% overall decrease in gas sales service rates. The annual dollar amount of the change is a reduction in revenue of $64.5 million. This filing also represents a corresponding decrease in expenses, resulting in no net decrease in net operating income to the Company.

In addition to the proposed PGA rate changes, the proposed Tracker rate changes adjust the credit for deferred gas costs. The proposed Tracker rate changes increase the current credit by approximately 1.4 cents per therm on average, which will result in a 1.3% decrease to overall gas sales service revenues. This change also results in no impact on net operating income. The combined effect of both the PGA and Tracker proposed rate changes is to decrease residential rates by 7.2% and overall rates for gas sales customers by 7.7%.

The Tracker rates are designed to true-up prior over or under recoveries of revenue to recover purchased gas expenses. This filing reflects the true-up of actual costs to actual revenue collected through August 31, 2012 and estimated costs to estimated revenue through October 31, 2012. The Company projects the balance in its 191 account will indicate a $39.5 million over-collection at the end of October 2012. Of the $39.5 million net over-collection, $42.0 million is commodity related over-recovery resulting from the differences between actual gas market prices and forward prices used in preparation of the 2011 PGA filing. This over-recovery of commodity costs is partially offset by $1.4 million in demand cost under-recovery related to differences between actual demand costs and those estimated in preparation of the 2011 PGA filing, and approximately $1.1 million of under-recovered costs in the amortization account.

The Company is proposing to transfer $35.6 million of the $42.0 million projected balance of over-collected commodity costs and none of the under-collected demand costs to the amortization account. The remainder of the commodity deferral will remain in the current commodity account, as it relates to Docket No. UG-120812, wherein the Commission approved the Company's request to apply a portion of amounts owed to customers for over collected commodity costs toward recovery of 2012 gas conservation expenditures. In that docket an amortization schedule for the transfer of $14.6 million from the PGA commodity account to the 2012 gas conservation program account was established. Through the end of the current PGA period, an estimated $8.2 million will be transferred through amortization to the gas conservation program account. In this PGA filing, the Company proposes to retain the remaining $6.4 million designated for the conservation program in the current commodity account, to be transferred between November 2012 and April 2013 in accordance with the amortization schedule. None of the PGA demand balance is proposed to be transferred to the amortization account because an under-collected balance is expected at the end of October due to the cyclical nature of demand gas cost recoveries relative to cost incurrence. When the current costs the Company is proposing to transfer to the amortization account are combined with the remaining under-recovered balance of $1.1 million in the amortization account, the net effect is $34.5 million to be credited to customers through Schedule 106 Tracker rates over the upcoming PGA period. Because current Schedule 106 Tracker rates reflect the amortization of a $22.3 million credit to customers established in the 2011 Tracker filing, the proposed rates result in an increase in the credit provided to customers through the Tracker rates.

Estimating Gas Commodity Costs

PSE has estimated annual gas supply costs for the period November 2012 through October 2013 for the purpose of determining PGA rates using the same model used in previous years. This methodology creates a least cost supply portfolio that includes supply contracts, storage operations and transportation for the annual period.

A necessary component of the gas cost forecast is the assumed "forward strip" of monthly prices for the basins from which PSE acquires gas. PSE's gas cost forecast utilizes a 3-month average of forward price marks. The 3-month price mark period is June 8 through September 7, 2012, the period immediately preceding the date of the analysis noted above. PSE believes the cost forecast overall is a reasonable basis for setting PGA rates. Actual market prices will most likely differ from the forecast.

Combined Impact of the Proposed PGA and Tracker Rates

With the proposed Tracker rates PSE is proposing to increase the credit to customers for over-recovered gas costs during the November 2012 – October 2013 period, the same time period as the proposed PGA rates are expected to be in effect. The combined impact of the proposed PGA and Tracker rates is a revenue decrease of $77.0 million, or 7.7%. The following table summarizes the separate and combined impact of the proposed PGA and Tracker rates, based on a percentage change in total revenue from each rate schedule:

Estimated Impact on Annual Bills

Customer Class	PGA Impact	Tracker Impact	Total Impact
Residential			
23	-6.0%	-1.2%	-7.2%
16	-6.0%	-1.2%	-7.2%
Commercial and Industrial			
31	-6.6%	-1.3%	-7.9%
41	-8.5%	-1.6%	-10.1%
Interruptible			
85	-10.3%	-2.0%	-12.3%
86	-8.8%	-1.7%	-10.5%
87	-11.3%	-2.2%	-13.4%
Total Sales	-6.5%	-1.3%	-7.7%

Customer Notification

Posting of the proposed tariff change, as required by law and the Commission's rules and regulations, for inspection and review by the public is being completed immediately prior to or coincident with the date of this transmittal letter, through web, telephone and mail access in accordance with WAC 480-90-193(1). The effect of the proposed rates in this filing results in a decrease in customer bills, therefore the Company will publish the change in accordance with WAC 480-90-195(3) in the same manner as tariff changes are posted under WAC 480-90-193(1). The Company will issue press releases to advise the media across the service territory of the specifics of the effects of the filing.

List of Exhibits

The following exhibits are being submitted to document the above revisions:

Exhibit	Description
Exhibit _____ (PGA-1)	Calculation of the revised Schedule 101 rates, by demand and commodity components, based on the estimated gas costs shown in Exhibit___(PGA-2), with a comparison to current Schedule 101 rates.
Exhibit _____ (PGA-2) **"CONFIDENTIAL"**	The estimated demand and commodity costs for the period November 1, 2012 through October 31, 2013.
Exhibit _____ (PGA-3)	The projected customer counts and sales volumes by rate schedule for the period November 1, 2012 through October 31, 2013, which were used in estimating the proposed gas costs for the period and developing rates.
Exhibit _____ (PGA-4)	The calculated annual and monthly effect of the proposed PGA Schedule 101 rates on customer classes based on projected volumes for the proposed PGA period.
Exhibit _____ (PGA-5)	The estimated revenue impact of the Schedule 101 rates proposed in this filing, by customer class, based on normalized volumes for 2011.
Exhibit _____ (PGA-6)	The combined effect of the proposed PGA and Tracker rates on customer classes, based on projected volumes for the proposed PGA period.
Exhibit _____ (PGA-7)	The combined revenue impact of the PGA and Tracker filings, by customer class, based on normalized volumes for 2011.

Exhibit	Description
Exhibit _____(Tracker-1) **"CONFIDENTIAL"**	FERC Account No. 191 balances by category.
Exhibit _____(Tracker-2)	Calculation of the balance proposed to be collected through Schedule 106 rates during the PGA period.
Exhibit _____(Tracker-3)	Calculation of Schedule 106 rates, by demand and commodity components, based on the balances shown in Exhibit___(Tracker-2).
Exhibit _____(Tracker-4)	The calculated effect of the proposed Schedule 106 tracker rates on the various customer classes based on the projected volumes for the proposed amortization period.
Exhibit _____(Tracker-5)	The estimated revenue impacts of the tracker filing, by customer class, based on normalized volumes for 2011.

Please note that Exhibits PGA-2 and Tracker-1 contain commercially sensitive information, disclosure of which could adversely affect gas costs for the Company's customers. Therefore, these exhibits and related workpapers have been filed under a separate cover letter requesting confidential treatment.

Conclusion

The Company's proposed PGA rates in this filing reflect the Company's best forecast of gas costs that will be incurred to serve customers during the PGA period November 1, 2012, through October 31, 2013. The proposed Tracker rates reflect the proposed treatment of deferred costs during the same time period. The rates proposed in this filing reflect a balancing of customer impacts with reasonable results for gas utility operations. While actual costs will vary from projections due to volatility of market prices and sales, the rates proposed in this filing will provide a reasonable matching of gas costs with revenue generated by the revised rates.

Questions regarding this filing can be directed to Janet Phelps at (425) 456-2304. If you have any other questions, or if I can be of any assistance, please contact me at (425) 462-3495.

Sincerely,

Tom DeBoer

Tom DeBoer
Director, Federal & State Regulatory Affairs

Enclosures
cc: Simon J. ffitch
Edward Finklea
Sheree Carson