EXHIBIT NO. ___(JHS-3)
DOCKET NO. UG-110723
WITNESS: JOHN H. STORY

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY, INC.,** **Respondent.**	**Docket No. UG-110723**

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

SEPTEMBER 2, 2011

PSE PUGET SOUND ENERGY
The Energy To Do Great Things

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

July 14, 2011

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

Re: Docket No. UG-110723 (Advice No. 2011-12) – **Do Not Redocket**
Substitute Natural Gas Tariff Sheets – Filed Electronically

Dear Mr. Danner:

Puget Sound Energy, Inc. (the "Company" or "PSE") hereby submits, in connection with Docket No. UG-110723, the following substitute tariff sheets to replace the tariff sheets filed on April 26, 2011 and June 29, 2011, under the Company's Advice No. 2011-12. This substitute filing is pursuant to RCW 80.28.060 and Chapter 480-80 WAC and includes the following portion of the Company's WN U-2 tariff for natural gas service.

Original Sheet No. 1134 – Schedule 134 Pipeline Integrity Program
Original Sheet No. 1134-A – Schedule 134 Pipeline Integrity Program (Continued)

Over the past six months, the Company has discussed the proposed Pipeline Integrity Program with the Commission, Commission Staff (both Pipeline Safety and Energy Staff), Public Counsel and Northwest Industrial Gas Users ("NWIGU") and responded to informal data requests from Commission Staff, which responses were shared with both Public Counsel and NWIGU. The Commission and interested parties also had an opportunity to discuss the proposal at the Commission's June 30, 2010 Open Meeting. Following the Open Meeting, PSE and the interested parties had further discussions in an attempt to reach an agreed upon resolution of the proposal.

The purpose of this filing is to modify the proposal to address some of the concerns raised both by the Commission and other parties over the course of these discussions. Admittedly, the filing does not address all issues raised over the course of review.

Changes to the program from the original filing include: the removal of bare steel replacement from eligible investments; includes only incremental program additions; setting a program year capital expenditure cap of $25 million; and sets a termination date if the Pipeline Integrity Program is not extended by the Commission. Further detail can be found in Attachment A included in this filing. Substitution to address Commission concerns with the filing is provided for in WAC 480-80-111(1)(a).

The tariff sheets described herein reflect issue dates of April 26, 2011, and effective dates of August 1, 2011. As required by law and the Commission's rules and regulations, posting will be completed immediately prior to or coincident with the date of this transmittal letter. Posting is being accomplished through web, telephone and mail access in accordance with WAC 480-90-193(1).

Please contact Julie Waltari at (425) 456-2945 for additional information about this filing. If you have any other questions please contact me at (425) 462-3495.

Very truly yours,

Tom DeBoer

Tom DeBoer
Director, Federal & State Regulatory Affairs

Enclosures
cc: Simon J. ffitch
Paula Pyron
Sheree Strom Carson

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PUGET SOUND ENERGY
NATURAL GAS SCHEDULE NO. 134
Pipeline Integrity Program

(N)

Section 1: Applicability and Purpose

1. This Pipeline Integrity Program ("PIP") is applicable to all firm and interruptible gas sales and transportation Customers as well as Special Contract Customers.
2. The purpose of this schedule is to provide for the recovery of eligible program costs incurred by the Company through an adjustment of certain natural gas rates.

Section 2: Method of Calculation and Eligible Investments

1. The rate adjustment will be based on forecasted expense and investment activity through October 31 of the upcoming program period, adjusted to reflect the difference between the previous program period's actual versus forecasted costs and loads. The costs included in the rate adjustment will be based on actual and forecasted incremental: 1) return on incremental plant, net of accumulated depreciation and applicable deferred federal income tax and 2) depreciation expense on the associated incremental plant. Additionally, the rate adjustment will include a true-up of estimates used in any previous filing to actual costs and loads. The rate adjustment will be updated each year with a November 1 effective date. The first program period will be August 1, 2011 to October 31, 2011. All subsequent program periods will be November 1 through October 31.

2. An investment included in the PIP must be expected to be completed during the upcoming program period and is not currently included in the Company's rate base in its most recently completed general tariffs' update. Eligible investments will be determined on an annual basis in consultation with interested stakeholders and shall initially consist of the following programs:
   a. Wrapped Steel Service Assessment
   b. Wrapped Steel Main Assessment
   c. Older Polyethylene Pipe Replacement

(N)

Issued: April 26, 2011 **Effective**: August 1, 2011
Advice No.: 2011-12

Issued By Puget Sound Energy

By: Tom DeBoer Tom DeBoer **Title**: Director, Federal & State Regulatory Affairs

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PUGET SOUND ENERGY
NATURAL GAS SCHEDULE NO. 134
Pipeline Integrity Program
(Continued)

(N)

Section 3: Program Cap

Total capital expenditures during a program year will not exceed $25 million without prior Commission approval. Capital expenditures which exceed the total approved program year amount by greater than 10% will not be allowed recovery under the program without separate Commission approval.

Section 4: Adjustment Rates

MONTHLY RATE:

Schedule 16	$ 0.02 per mantle
Schedules 23	0.097 ¢ per therm
Schedules 31 and 31T	0.087 ¢ per therm
Schedules 41 and 41T	0.036 ¢ per therm
Schedules 85 and 85T	0.012 ¢ per therm
Schedules 86 and 86T	0.019 ¢ per therm
Schedules 87 and 87T	0.008 ¢ per therm
Special Contracts	0.008 ¢ per therm

Section 5: Termination

The program will remain in effect through October 31, 2016, or until such other time as the Commission may approve.

Section 6: Adjustments

Rates in this schedule are subject to conditions and adjustment as set forth in Schedule No. 1 and to adjustment by other adjusting or supplemental schedules, when applicable.

Section 7: General Rules and Regulations

Service under this schedule is subject to the rules and regulations contained in Company's tariff.

(N)

Attachment A

A. Determination of Revenue Requirement

The costs included in the rate adjustment will be based on actual and forecasted incremental: (1) return on incremental plant, net of accumulated depreciation and applicable deferred federal income tax; and (2) depreciation expense on the associated incremental plant. Additionally, the rate adjustment will include a true-up of estimates used in any previous filing to actual costs and loads. After the initial period, the rate adjustment will be updated each year with a November 1 effective date. Further detailed discussion of the determination of revenue requirement can be found below.

The initial scope of the Pipeline Integrity Program ("PIP") includes the following programs: (1) Wrapped Steel Service Assessment; (2) Wrapped Steel Main Assessment; and (3) Older Polyethylene Pipe Replacement.

For ratebase and depreciation expense, the rate adjustment will be based on projected changes through the end of the PIP rate period. PSE will track the assets used for replacement by Work Breakdown Structure (PSE's accounting system job tracking structure) and in separate FERC subaccounts to facilitate program reporting. The formula for the revenue requirement is summarized as follows:

Ratebase Calculation (based on AMA)**:**

Rate Period Incremental Plant associated with PIP
Less: Rate Period Accumulated Depreciation
<u>Less: Rate Period Accumulated Deferred Tax</u>
Rate Period Ratebase

Revenue Requirement Calculation:

Rate Period Ratebase
<u>x Authorized Rate of Return (After-Tax)</u>
Required Return on Plant
<u>÷ FIT Conversion Factor (65%)</u>
Plant Revenue Requirement
<u>+ Rate Period Depreciation Expense</u>
Rate Period Revenue Requirement Before Other Taxes
<u>÷ Revenue Taxes Conversion Factor</u>
Rate Period Revenue Requirement

<u>"Rate Period"</u> - Projected Balances

<u>Incremental Plant Additions after the Last Rate Period</u>

Forecasted target year capital costs and depreciation associated with pipeline integrity replacements not currently included in general rate tariffs will be used to set the pipeline integrity program rate. Actual capital expenditures made during a target year will be used to true-up the recoverable costs. Such costs include accumulated depreciation, deferred taxes, depreciation and return on ratebase. The return on ratebase will be calculated using the capital structure, return on equity and cost of debt approved by the Commission in PSE's most recently concluded rate case.

The deferred tax calculation for new plant follows the tax rules that are in effect for 2010, 2011 and 2012. The AMA calculation for projected deferred tax balances follows the IRS guidelines for the calculation.

Adjustment of PIP Rate

The rate periods for the PIP rate will coincide with the PGA. Therefore, due to the timing of the initial filing, the initial rate period will only be three months, from August 1, 2011 through October 31, 2011 and be based on a three month revenue requirement of $107,440 spread over the estimated therms for August 2011 through October 2011. The next adjustment to the rate will be based on an annual revenue requirement and will occur on November 1, 2011. The revenue requirement for that filing is anticipated to be $1.95 million based on incremental plant additions from November 1, 2011 through October 31, 2012. This estimate does not consider any necessary true-ups from the prior rate period.

Estimates used in the previous filing will be trued up to actual costs and loads as they become known. The true up will be included in the next rate period calculation.

To compensate for changes that occur in general rates due to approval of a natural gas general tariff, the impact on the PIP rate will be changed as soon as practicable, but filed no later than 2 months after the effective date of new rates from the effective date of new general tariffs. Items within the PIP that will be recalculated include the plant balances and depreciation expense approved in general rates, as well as recalculation of the remaining PIP revenue requirement using the approved rate of return and depreciation rates resulting from the most recent general rate case proceeding.

B. Cost Tracking

Costs for replacement plant additions will be tracked by designated program at the FERC subaccount level on a per-job basis using WBS elements.

C. Annual Timeline

Prior to August 1 of each year: Meeting with interested parties to discuss forecast of programs and budgets for following year
October 1 of each year: Tariff Update Filing
November 1 of each year: Effective Date

D. Cost Allocation and Rate Design

Costs included in PIP will be allocated to rate schedules based on the natural gas cost of service study filed by PSE in its most recently completed gas rate case. Mains in FERC Account 376 will be allocated based on the allocation of Account 376 in the cost of service study, and Services in FERC Account 380 will be allocated based on the allocation of Account 380 in the cost of service study.

Rates will be designed to recover eligible program costs on a per-therm basis for each applicable sales and transportation schedule. The special contracts rate will be equal to the rate for Schedules 87/87T.

For this first three-month time period the estimated customer impacts are displayed in the table below:

Table 1: Estimated Customer Impacts August – October 2011

Schedule	Proposed PIP Revenue	Estimated Percent Increase
Residential (16, 23)	$70,863	0.07%
Commercial & Industrial (31, 31T)	$26,312	0.08%
Large Volume (41, 41T)	$4,599	0.03%
Interruptible (85, 85T)	$2,322	0.06%
Limited Interruptible (86, 86T)	$455	0.02%
Non-Exclusive Interruptible (87, 87T)	$2,240	0.04%
Contracts	$649	0.17%
Total	$107,440	0.07%

E. Annual Budget and Program Forecast Report

In order to help assess the composition and cost impact of the PIP recovery, prior to August 1 in a given year, PSE will schedule a meeting for all interested parties to discuss the proposed programs and budgets for the upcoming program year. At this meeting, the Company will provide: the scope of the programs for the upcoming Program Year; a forecast of expenses for the upcoming Program Year; and report on the program results and actual (and forecasted) expenses for the current Program Year.

F. CAP

Total capital expenditures included in the PIP during a given target year will not exceed $25 million without prior Commission approval

For target years commencing after October 2011 the Company, Commission Staff and other interested parties ("review group") will prepare a recommendation of work, and its associated capital costs, to be accomplished in the next target year that will be presented to the Commission for approval prior to the start of the next target year.

Capital expenditures which exceed the total approved target year pipeline integrity amount by greater than 10% will not be allowed recovery under the pipeline integrity program without separate Commission approval.

G. Duration

The program will remain in effect through October 31, 2016, or until such other time as the Commission may approve.