III. INTRODUCTION AND NATURE OF PLAN

A. Regulatory Compliance

PSE develops a Least Cost Plan as part of its long-term resource strategy development. This document provides a current perspective of this process and its outcomes. PSE has prepared and is submitting this Least Cost Plan pursuant to state regulations regarding least cost planning as contained in WAC 480-100-238 and WAC 480-90-238. Exhibits III-3 and III-4 at the end of this chapter delineate the regulatory requirements for electric and natural gas least cost plans respectively and reference the chapters of this plan that address each requirement.

PSE has developed this plan through a robust analysis that considered a wide range of future risks and uncertainties. PSE believes this Least Cost Plan meets applicable statutory requirements, and seeks a letter from the WUTC accepting this Least Cost Plan filing.

B. Overview of Resource Planning Process

Exhibit III-1 shows a simplified map of resource planning. Every two years a Least Cost Plan is produced. If the plan identifies a resource need, PSE conducts a competitive solicitation for new energy resources and evaluates self-build options. If all proceeds well, PSE acquires the resources identified as top options. Those resources are either built or acquired and PSE seeks regulatory recovery for the resource costs. Finally, the new resources are included in the next Least Cost Plan, and the cycle continues.

While Exhibit III-1 suggests a linear path for least cost planning, energy supply planning is actually far more complex, dynamic and continuous. PSE's resource strategy must constantly evolve to reflect dynamic market forces and a continually changing regulatory environment. Using the Least Cost Plan as a guideline, PSE must remain agile and prepared to adapt to change quickly.

Exhibit III - 1

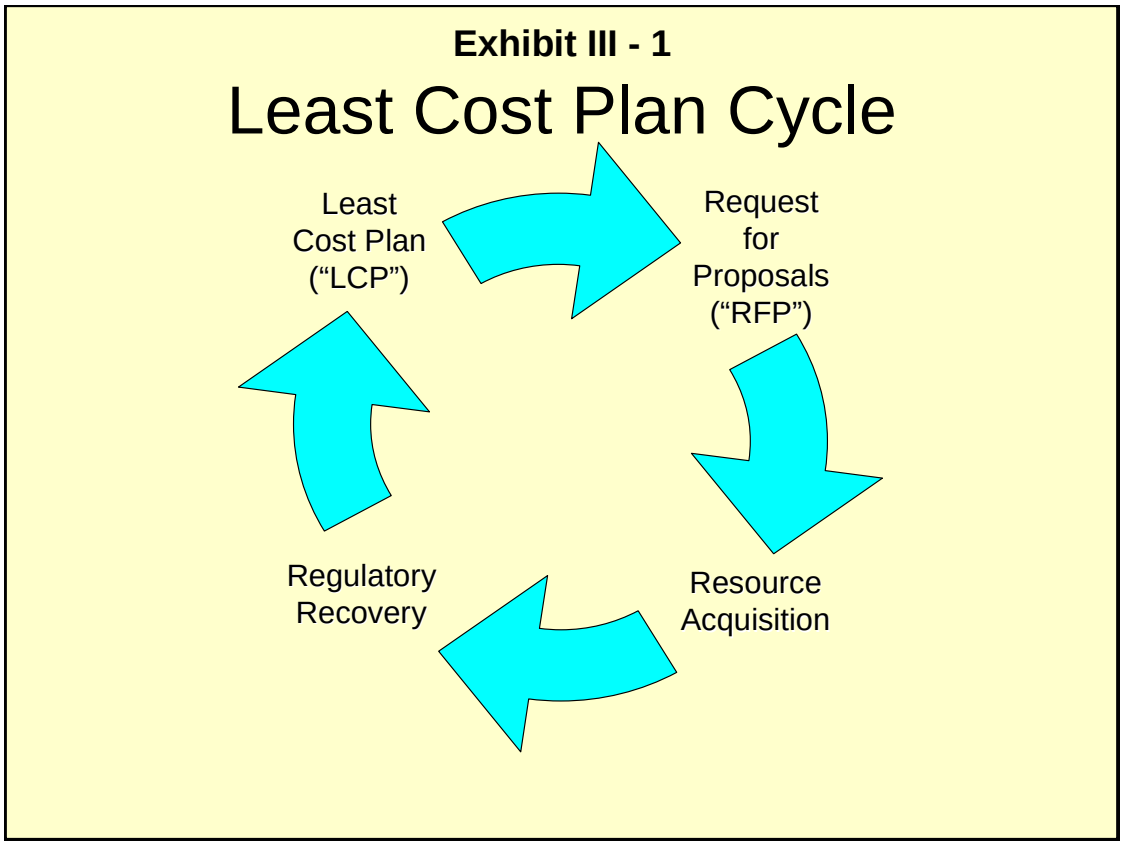

Exhibit III-2 illustrates the relationship between the continuous nature of energy planning and the more specific purpose of the Least Cost Plan.

Exhibit III-2: Energy Resource Planning Process

CONTINUOUS ACTIVITIES	DISCRETE PRODUCTS
Evaluation of resource opportunities Management of resource portfolio Implementation and modification of risk and resource strategy Analysis of energy markets Identification and evaluation of resource issues, risks, and uncertainties Participation in regional planning and initiatives Tracking and participation in state and federal energy policy initiatives.	**Least Cost Plan Document** RFP Process Specific Resource Acquisitions Regulatory Proceedings

C. Use and Relevance of PSE's Least Cost Plan

PSE's Least Cost Plan is a snapshot taken every two years as part of a perpetual energy resource planning process. Accordingly, the Least Cost Plan is an important milestone for the identification and acquisition of long-range resources, as well as more specific short-term resource actions. Least cost planning is not appropriate for making decisions related to particular energy resources. Nor does it provide cost information associated with specific resources and transmission.

Instead, PSE's Least Cost Plan provides the most value when it is used to investigate demand and supply side opportunities, to examine demand forecasts, and to explore complex energy issues involving PSE, the region and the industry. It provides the means and method to evaluate costs and risks associated with potential new resources. In addition, the Least Cost Plan provides an opportunity for significant public involvement that is less costly and less formal than other proceedings involving rates and permitting.

D. Stakeholder Interaction

PSE maintains a continuing commitment to actively encouraging public involvement in its Least Cost Plan process. While the Least Cost Plan Advisory Group (LCPAG) and Conservation Resource Advisory Group (CRAG) meet separately, they share many common members. The LCPAG's scope includes all elements of the Least Cost Plan, while the CRAG is more narrowly focused on energy efficiency and demand-side resources. As of April 30, 2005, ten formal LCPAG meetings, four CRAG meetings, as well as numerous informal meetings and communications have taken place. Stakeholders that have actively participated in one or more meetings include: WUTC Staff; the Public Counsel; individual customers from industrial and commercial classes; Northwest Pipeline; conservation and renewable resource advocates; the Northwest Power Planning Council; project developers; other utilities; and the Washington State Department of Community, Trade and Economic Development.

Appendix A provides more detail on the meetings over the last year, as well as written responses to the letter of October 3, 2003 from the Commission regarding specific issues of interest.

E. Disclaimer – Important Notice

Puget Sound Energy (PSE) makes the following cautionary statements in its Least Cost Plan and Appendices (filed with the Washington Utilities and Transportation Commission pursuant to state regulations regarding least cost planning as contained in WAC 480-100-238 and WAC 480-90-238) to make applicable and to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by or on behalf of PSE. This Least Cost Plan, its Appendices, and any amendments or supplements to it, include forward-looking statements, which are statements of expectations, beliefs, plans, objectives, assumptions of future events or performance. Words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "will likely result," "will continue" or similar expressions identify forward-looking statements.

Forward-looking statements involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed. PSE's expectations, beliefs and projections are expressed in good faith and are believed by PSE to have a reasonable basis, including without limitation management's examination of historical operating trends and data contained in records and other data available from third parties, but there can be no assurance that PSE's expectations, beliefs or projections will be achieved or accomplished.

Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, PSE undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. These materials and any forward-looking statements within them should not be construed as either projections or predictions or as business, legal, tax, financial or accounting advice and should not be relied upon for any such purpose.

Exhibit III-3
Electric Least Cost Plan Regulatory Requirements

STATUTORY/REGULATORY REQUIREMENT	CHAPTER
WAC 480-100-238 (3) (a) –A range of forecasts of future demand using methods that examine the impact of economic forces on the consumption of electricity and that address changes in the number, type and efficiency of electrical end-uses.	• Chapter VI, Demand Forecast • Chapter X, Electric Analysis and Results
WAC 480-100-238 (3) (b) An assessment of technically feasible improvements in the efficient use of electricity, including load management, as well as currently employed and new policies and programs needed to obtain the efficiency improvements.	• Chapter VII, Demand Side Resources • Chapter VIII, Electric Planning Environment • Chapter X, Electric Analysis and Results
WAC 480-100-238 (3) (c) An assessment of technically feasible generating technologies including renewable resources, cogeneration, power purchases from other utilities, and thermal resources (including the use of combustion turbines to utilize better the hydroelectric system).	• Chapter VIII, Electric Planning Environment • Chapter X, Electric Analysis and Results • Chapter XI, Electric Resource Strategy and Action Plan
WAC 480-100-238 (3) (d) A comparative evaluation of generating resources and improvements in the efficient use of electricity based on a consistent method, developed in consultation with commission staff, for calculating cost-effectiveness.	• Chapter X, Electric Analysis and Results • Chapter XI, Electric Resource Strategy and Action Plan
WAC 480-100-238 (3) (e) The integration of demand-side forecasts and resource evaluations into a long-range (e.g., twenty years) least cost plan describing the mix of resources that will meet current and future needs at the lowest costs to the utility and its ratepayers.	• Chapter X, Electric Analysis and Results • Chapter XI, Electric Resource Strategy and Action Plan
WAC 480-100-238 (3) (f) A short-term (e.g., two-year) plan outlining the specific actions to be taken by the utility in implementing the long-range least cost plan.	• Chapter XI, Electric Resource Strategy and Action Plan • Chapter XVII, Action Plan
WAC 480-100-238 (4) Progress report that relates the new plan to the previously filed plan.	• Chapter XVII, Action Plan

Exhibit III-4
Gas Least Cost Plan Regulatory Requirements

STATUTORY/REGULATORY REQUIREMENT	CHAPTER
WAC 480-90-238 (3) (a) –A range of forecasts of future gas demand in firm and interruptible markets for each customer class for one, five, and twenty years using methods that examine the impact of economic forces on the consumption of gas and that address changes in the number, type, and efficiency of gas end-uses	• Chapter VI, Load Forecasting
WAC 480-90-238 (3) (b) An assessment for each customer class of the technically feasible improvements in the efficient use of gas, including load management, as well as the policies and programs needed to obtain the efficiency improvements.	• Chapter VII, Demand-Side Resources • Chapter XIV, Natural Gas Analysis and Results
WAC 480-90-238 (3) (c) An analysis for each customer class of gas supply options, including: (i) A projection of spot market versus long-term purchases for both firm and interruptible markets; (ii) An evaluation of the opportunities for using company-owned or contracted storage or production; (iii) An analysis of prospects for company participation in a gas futures market; and (iv) An assessment of opportunities for access to multiple pipeline suppliers or direct purchases from producers.	• Chapter XIII, New Gas Supply Side Opportunities • Chapter XVI, Natural Gas Analysis and Results • Chapter XV, Energy Risk Management
WAC 480-90-238 (3) (d) A comparative evaluation of gas purchasing options and improvements in the efficient use of gas based on a consistent method, developed in consultation with commission staff, for calculating cost-effectiveness	• Chapter XVI, Natural Gas Analysis and Results
WAC 480-90-238 (3) (e) The integration of the demand forecasts and resource evaluations into a long-range (e.g., twenty-year) least cost plan describing the strategies designed to meet current and future needs at the lowest cost to the utility and its ratepayers.	• Chapter XVI, Natural Gas Analysis and Results
WAC 480-90-238 (3) (f) A short-term (e.g., two-year) plan outlining the specific actions to be taken by the utility in implementing the long-range least cost plan	• Chapter XVII, 2005 Action Plan
WAC 480-90-238 (4) Progress report that relates the new plan to the previously filed plan.	• Chapter XVIII, Report on April 2003 Two-Year Action Plan