Exhibit B to
Settlement Stipulation

PSE GENERAL RATE CASE
DOCKET NOS. UE-011570 and UG-011571

SETTLEMENT TERMS FOR
ELECTRIC REVENUE REQUIREMENTS, COMMON COST ALLOCATION, AND OVERALL RATE OF RETURN

A. Executing Parties

1. The following parties have participated in the Electric Revenue Requirement and Common Cost Allocation collaborative in Docket Nos. UE-011570 and UG-011571, and have reached consensus on the terms of settlement with respect to such issues, as set forth in this Agreement: Puget Sound Energy, Inc. ("PSE" or the "Company"); the Staff of the Washington Utilities and Transportation Commission; the Public Counsel Section of the Attorney General's Office; Intervenor Industrial Customers of Northwest Utilities; and Intervenor Northwest Industrial Gas Users (hereinafter referred to collectively as "Executing Parties").

B. Cost of Capital

2. The Executing Parties have agreed to an 8.76% overall cost of capital, calculated as follows:

	Capital %	Cost %	ROR
Short Term Debt	5.83%	4.63%	0.27%
Long Term Debt	51.74%	7.54%	3.90%
Preferred	2.43%	7.78%	0.19%
Equity	40.00%	11.00%	4.40%
Total	100.00%		8.76%

C. Common Cost Allocation, Agreed Electric Adjustments and Electric Revenue Requirement

3. Costs common to PSE's electric and gas operations were allocated by agreement of the Executing Parties. Moreover, during the Revenue Requirements collaborative, the Executing Parties agreed that the revenue requirement caps established in the March Interim Settlement change as a result of the four-factor common cost allocator and a correction to the allocation of PEM costs. The Executing Parties, therefore, agree to revised electric and gas revenue requirement caps, as follows:

Electric:	$99,441,756 7.31%
Gas:	$46,529,746 7.22%

As discussed in the next paragraph, the Executing Parties have agreed to an increase in annual retail electric revenues of $58.8 million.

4. The spreadsheet attached as Appendix 1 shows PSE's adjusted results of electric operations and rate of return on electric rate base, for ratemaking purposes, as agreed upon by the Executing Parties. Net operating income shown on line No. 32, including agreed upon adjustments that reduce net operating income by $105,694,415, is $193,911,110. This results in an overall adjusted return of 7.37% on adjusted rate base of $2,631,502,866. The resulting revenue requirement deficiency necessary to achieve an overall return of 8.76% is $58,832,832 as shown on line No. 6. The final column shows the adjusted results of operations with a total revenue requirement of $1,420,212,893 and net operating income of $230,443,916, including the $58.8 million (4.6%) retail revenue increase, achieving an overall return of 8.76%.

5. As a part of the revenue requirements collaborative, certain important accounting adjustments were agreed to, as described below.

6. **Depreciation:** Depreciation rates incorporated for both electric and common plant in service are adjusted and accepted in accordance with the depreciation study provided by the Company in its original filing in this proceeding as Exhibit No. __ (JB-1T) (Julius Breitling).

7. **Amortization:**

- Storm Damage - The amortization rate established for catastrophic storms has been increased to $6,000,000 from $3,500,000 annually. In the event that all deferred catastrophic storm damage expense should be amortized prior to the establishment of new electric retail rates, PSE will continue to recognize $6,000,000 of storm damage amortization and shall accrue such collections of catastrophic storm damage expense in a deferred credit account for return to electric retail customers in the next general rate proceeding.

- Rate Case Expense - Amortization of deferred electric rate case expense has been adjusted to $767,264 annually.

- Encogen – Amortization of the Encogen acquisition adjustment has been reduced to a level of $2,652,900 from $8,505,109 annually. This treatment matches the amortization of the acquisition adjustment with the remaining life of the associated plant in service.

- Property Sales – Amortization of net gains from property sales will be increased from $695,148 to a level of $4,734,298 per year.

- Other – The Executing Parties accept remaining amortization rates presented with the Company's filed depreciation study incorporated in the adjusted test year.

8. **Personal Energy Management:** There were $6,702,687 of test year electric Personal Energy Management ("PEM") expenses and $4,765,550 of pro forma electric PEM expenses that were excluded from the determination of the revenue requirement deficiency. Instead of providing for recovery of these PEM costs in general rates, they will instead be recovered from customers through: 1) a monthly charge of $0.10 per Time of Use ("TOU") customer collected through the conservation tariff rider; 2) additional energy charges of $0.16 per month added to TOU rate schedules; and 3) an additional $1.00 per month flat charge for TOU meter reading costs added to TOU rate schedules.

D. Miscellaneous Provisions

9. **Binding on Parties:** The Executing Parties agree to support the terms and conditions of this Agreement, as described above. The Executing Parties understand that this Agreement is subject to Commission approval.

10. **Integrated Terms of Settlement:** The Executing Parties have negotiated this Agreement as an integrated document. Accordingly, the Executing Parties agree to recommend that the Commission adopt this Agreement in its entirety.

11. **Negotiated Agreement:** This Agreement represents a fully negotiated agreement. Each Executing Party has been afforded the opportunity, which it has exercised, to review the terms of the Agreement. Each Party has been afforded the opportunity, which it has exercised, to consult with legal counsel of its choice concerning such terms and their implications. The Agreement shall

not be construed for or against any Executing Party based on the principle that ambiguities are construed against the drafter.

12. **Execution:** This Agreement may be executed by the Executing Parties in several counterparts, through original and/or facsimile signature, and as executed shall constitute one agreement.

DATED this 4th day of June, 2002.

PUGET SOUND ENERGY, INC.

By ______________________________

Kimberly Harris
Vice President of Regulatory Affairs

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF

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