

**Exhibit E to  
Settlement Stipulation**

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

**SETTLEMENT TERMS FOR TIME OF USE (TOU)**

**A. Executing Parties**

1. The following parties have participated in the Time-of-use collaborative in Docket Nos. UE-011570 and UG-011571, and have reached consensus on the terms of settlement with respect to Time-of-use 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; Intervenor Microsoft Corporation; Joint Intervenors the NW Energy Coalition and Natural Resources Defense Council ("NWEC/NRDC"), and Joint Intervenors the Multi-Service Center, Opportunity Council, and Energy Project ("Multi-Service Center") (hereinafter referred to collectively as "Executing Parties").

**B. Pilot Program Duration**

2. Subject to the customer notice and rate design elements discussed below, the current pilot time of use (TOU) program for small consumers (residential and Schedule 24) shall be extended to September 30, 2003, to permit creation of a collaborative and to conduct a thorough evaluation of the program.

**C. New Customers**

3. As to new and additional customers, including customers relocating to premises previously served under the TOU program, TOU shall operate as an opt-in rather than an opt-out program.

**D. TOU Meter Reading Charge**

4. For small customers served on the TOU rate, a direct charge shall be made to TOU rate participants who remain on or opt in to the TOU rate. This charge relates to the current incremental meter reading and data handling costs, which are

currently approximately \$1.26 per month (the Company may seek Commission approval to reduce TOU rates to reflect reduced meter reading and data handling costs). This incremental TOU meter reading and data handling costs for these customers have been removed from the general rate case revenue requirement, and recovered through the charges discussed below. This reduces the general rate case revenue requirement by approximately \$12 million.

5. Customers that continue to take service under TOU rates (i.e., current customers not opting off the program and new customers opting on) will pay \$1.00 per month directly for TOU meter reading. An additional \$.16/customer/month will be recovered through higher kwh charges in the TOU rate schedules. Finally, \$.10/customer/month will be recovered through the conservation tariff rider (Schedule 120). All of these revenue sources are variable and would change if the number of customers served on TOU rates changes. Because of the above mentioned recovery of costs and the reduction of the general rate case revenue requirement, Schedules 105 and 106 will be canceled effective July 1, 2002.

6. Inclusion of the \$.10 in the tariff rider is for the term of the pilot only and does not constitute a conclusion as to existence of or the magnitude of any conservation benefits or that there are environmental benefits. These funds are not a reduction to the conservation budget amount and do not reduce funds available for other projects. Kilowatt-hour savings that may be associated with the TOU program will not be counted toward meeting the annual conservation savings target identified by PSE and its Conservation Advisory Committee in accordance with the conservation stipulation in the proceeding. During the pilot program, PSE will not make any claims in promotional materials regarding the environmental or conservation benefits of the program unless such claims have been reviewed and approved by the TOU collaborative. Additionally, in any public statements PSE makes regarding its pilot program, PSE will acknowledge that the scope and extent of environmental or conservation benefits (if any) resulting from its pilot program have yet to be determined and are still being evaluated.

7. All customers will contribute to this systemwide cost recovery element (i.e., \$.10/customer/month through the conservation tariff rider) in accordance with the conservation stipulation on electric rate spread. Charging all customers through the conservation tariff rider is for settlement purposes only and does not represent any precedent. With respect to any proposal for TOU to take effect after September 2003, the parties may take any future position on whether non-TOU customers should contribute toward recovery of costs associated with the TOU program.

## **E. TOU Rate Differential**

8. Through September 30, 2003 the TOU rate differential shall be based upon the market power cost differential plus a portion of the estimated long-run marginal capacity costs expected to be realized in the immediate short-run. This is designed to ensure that the Company does not suffer revenue attrition in the short run due to load shifting, and that both customers and the Company share the benefits of any load shift. Given a market price differential of about 6 mills/kwh, a price differential of 10 mills/kwh is justified. In addition, recovery of the \$.16/customer/month shall be apportioned over the non-economy period energy usage of program participants, resulting in a rate differential of slightly more than 10 mills/kWh.

## **F. Existing Small Customer TOU Participants**

9. Schedule 307 residential and Schedules 324 TOU participants that do not realize a net savings in TOU bills over non-TOU bills in any one month in a given quarter will be notified by the Company that their participation in the program was not cost effective for one or more months in that quarter. Such notice will be provided to such customers by the Company on a quarterly basis. Such notice will provide a comparison of the customer's bill under TOU to what the customer's bill would have been under the applicable flat rate for all months during the quarter. The first quarterly information will measure the third quarter of 2002 and will be sent to such customers beginning no later than thirty days after October 1, 2002.

10. Such quarterly notice shall provide customers with, at a minimum, the telephone number and web address to opt off of the program. The notice shall be provided in a separate mailing, or, if included in a monthly billing shall be clear and conspicuous, and in either case will provide customers with a post card they can mail to the Company to opt off the program. Reasonable costs necessary to achieve such notification shall be considered by the TOU Collaborative for subsequent recovery.

11. Existing participants shall be provided with a clear and conspicuous initial notice by July 1, 2002 (or as soon thereafter as is reasonably practical), advising them of the new charge to participate in the program, providing them with opt-out information discussed above, and informing them of the quarterly bill comparison analysis discussed above.

12. All customers will be given the option to opt on to or off of the TOU rate schedule without charge, up to once per year. A Billing Initiation Charge as specified in Schedule 80, General Rules and Regulations, will be imposed on customers changing onto or off of the TOU rate schedule more than once in a calendar year.

## **G. August 2003 Billing**

13. Customer notice included with the TOU billing provided for usage that includes August 1, 2003 shall show the amount of money that the customer is expected to save, based upon the most recent twelve (12) months of usage information, on a monthly average and annual basis as a result of the rate schedule to which they are to be defaulted, as compared with the alternative TOU or non-TOU rate schedule, and provide the information needed for the customer to opt in or out of TOU rates as desired. Unless the customer requests to remain on the TOU rate schedule regardless of the personal economic consequences, the customer shall thereafter receive service under the lowest cost rate schedule available to them as of the first billing cycle after notice is provided, and not later than September 30, 2003.

## **H. Large User TOU Rates**

14. In the general rate case proceeding, no new TOU rate for large customers (Schedules 25, 26, 31) are established. Those customers taking service under the current pilot can continue to opt off. Current Time-of-Day rate schedules (325, 326, and 331) will be updated on July 1, 2002 to reflect the increase, on class percentage basis, in rates resulting from the General Rate Case (the current pilot for large customers ends on October 1, 2002).

## **I. TOU Collaborative**

15. The parties agree to collaborate on an evaluation of the existing TOU pilot program during calendar year 2003, and to explore alternative approaches such as Critical Peak Pricing. The parties will begin the TOU collaborative process as soon as possible. Upon consultation with the TOU Collaborative, the Company may file with the Commission for approval of supplemental opt-on approaches. The collaborative shall explore issues including the cost-effectiveness of TOU programs for all classes, environmental impacts and conservation effects of customer responses to TOU programs, customer notice and customer acceptance issues. The conservation impact of the TOU program shall also be evaluated by the Conservation Advisory Committee established by the Conservation stipulation in this proceeding.

## **J. Miscellaneous Provisions**

16. **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.

17. **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.

18. **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.

19. **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 5th day of June, 2002.

**PUGET SOUND ENERGY, INC.**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION  
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