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BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

DOCKET NOS. UE-011570 and
UG-011571 (Consolidated)

SETTLEMENT STIPULATION FOR
ELECTRIC AND COMMON ISSUES AND
APPLICATION FOR COMMISSION
APPROVAL OF SETTLEMENT

I. INTRODUCTION

1. This Settlement Stipulation is entered into this 3rd day of June, 2002, by and between: 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 the Kroger Co., Intervenor Northwest Industrial Gas Users, Intervenor AT&T Wireless Services, Inc., Intervenor Microsoft Corporation, Intervenor WorldCom, Inc., Intervenor Seattle Steam

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Company, Joint Intervenor NW Energy Coalition and Natural Resources Defense Council, Joint Intervenor the Multi-Service Center, Opportunity Council, and Energy Project, Intervenor Cost Management Services, Inc., Intervenor Federal Executive Agencies, Intervenor Cogeneration Coalition of Washington, Intervenor King County, Intervenor Sound Transit and Intervenor the Cities of Bellevue, Burien, Kent, Auburn, Des Moines, Federal Way, Redmond, Renton, SeaTac, Tukwila, Bremerton, and Maple Valley, as represented by the undersigned (referred to hereinafter jointly as the "Participating Parties" and individually as a "Participating Party").

2. The Participating Parties hereby voluntarily agree to this Settlement Stipulation to resolve all matters in dispute among them regarding PSE's pending electric general rate case. The Participating Parties understand that this Settlement Stipulation is subject to Commission approval, and hereby respectfully request that the Commission issue an order approving this Settlement Stipulation so that new electric rates can go into effect no later than July 1, 2002. Each Participating Party agrees that the Issue Agreement(s) (as defined in paragraph 7, below) that it has executed are in the public interest and will result in electric rates that are just, fair, reasonable and sufficient. Each Participating Party agrees not to oppose any Issue Agreement not entered into by that Party.

3. The Participating Parties that executed the Conservation and Low Income Issue Agreements also agree in this Settlement Stipulation to resolve matters in dispute among them regarding gas rates to fund the energy conservation and low-income programs otherwise resolved in the Settlement Stipulation. The Participating Parties that executed the Conservation and Low Income Issue Agreements present these gas rates for Commission approval. The Participating Parties that executed the Conservation and Low Income Issue Agreements agree that those Issue Agreements will result in gas rates that are just, fair, reasonable and sufficient, and that approval

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thereof is in the public interest. The Participating Parties that did not execute the Conservation and Low Income Issue Agreements agree not to oppose those Issue Agreements.

II. PROCEDURAL BACKGROUND

4. On November 26, 2001, PSE filed tariff revisions designed to effectuate a general rate increase for electric and gas services (the "General Rate Case"). On December 3, 2001, PSE filed a request for an interim electric rate increase of \$170.7 million (the "Interim Rate Case"). These proceedings were consolidated under Docket Nos. UE-011570 and UG-011571.

5. The Interim Rate Case and a number of issues related to the General Rate Case were settled through the Settlement Stipulation and Application for Commission Approval of Settlement dated March 20, 2002 ("March Interim Settlement"), which was filed in the above referenced dockets on that date. On March 28, 2002, the Commission approved the March Interim Settlement in its Ninth Supplemental Order: Rejecting Tariff Filing; Approving and Adopting Settlement Stipulation; Authorizing and Requiring Compliance Filing ("Ninth Supplemental Order").

6. Since late March 2002, the parties that participated in the March Interim Settlement and other parties to the General Rate Case have been engaged in a collaborative process involving extensive meetings, formal and informal data exchange, and negotiations, in a good faith effort to resolve the remaining issues in dispute in the electric General Rate Case and common issues in dispute in the gas General Rate Case. In order to assist the parties in allocating their resources, the collaborative process was divided by topic as follows: Power Cost Adjustment mechanism (PCA); Revenue Requirements; Electric Rate Spread; Electric Rate Design; Time of Use (TOU); Conservation; Low Income; Electric Line Extension; Relocation and Underground Conversions (Cities); Service Quality Index (SQI); and Backup Distribution Service (Schedule 459). Parties

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have all had notice regarding when collaborative meetings were scheduled, and have had the option of choosing which meetings to attend.

7. As agreement was reached among parties participating in a collaborative as to a particular topic, the parties involved in the collaborative memorialized and executed the terms of the agreement as to that topic ("Issue Agreement"). The Issue Agreements are attached to this Settlement Stipulation, as described below, and are incorporated herein by reference.

III. SETTLEMENT AND REQUEST FOR APPROVAL

A. Settlement of Disputed Issues in the General Rate Case and Request for Approval

8. All disputed electric and common issues in the General Rate Case have been settled on the terms set forth in the attached Issue Agreements, as follows:

Exhibit A: Settlement Terms for the Power Cost Adjustment mechanism (PCA);

Exhibit B: Settlement Terms for Electric Revenue Requirements, Common Cost Allocation, and Overall Rate of Return

Exhibit C: Settlement Terms for Electric Rate Spread

Exhibit D: Settlement Terms for Electric Rate Design

Exhibit E: Settlement Terms for Time of Use (TOU)

Exhibit F: Settlement Terms for Conservation

Exhibit G: Settlement Terms for Low Income

Exhibit H: Settlement Terms for Electric Line Extensions

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Exhibit I: Settlement Terms for Relocation and Underground Conversions (Cities)

Exhibit J: Settlement Terms for Service Quality Index (SQI)

Exhibit K: Backup Distribution Service (Schedules 458 and 459)

9. This Settlement Stipulation, including the attached Issue Agreements, are presented to the Commission under WAC 480-09-465 (Alternative Dispute Resolution) for the Commission's approval. If this Settlement Stipulation is approved, it would constitute a full settlement of all electric and common issues raised in the General Rate Case, and would avoid any need to litigate such issues.

B. Miscellaneous Provisions

10. The Participating Parties agree to the following miscellaneous terms with respect to the Settlement Stipulation and Issue Agreements:

11. **Binding on Parties:** Each Participating Party agrees to support the terms and conditions of any and all attached Issue Agreements that that Participating Party executed. The Participating Parties understand that this Settlement Stipulation, and the attached Issue Agreements, are subject to Commission approval.

12. **Integrated Terms of Settlement:** This settlement represents an integrated resolution of issues. Accordingly, the Participating Parties recommend that the Commission adopt this Settlement Stipulation and the attached Issue Agreements in their entirety.

13. **Effect on March Interim Settlement (Ninth Supplemental Order):** Except as specifically provided, the Settlement Stipulation and the attached Issue Agreements do not supersede the provisions of the March Interim Settlement and the provisions of the Ninth Supplemental Order continue to have full force and effect.

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14. **Procedure:** The Participating Parties shall cooperate in submitting this Settlement Stipulation and attached Issue Agreements promptly to the Commission for approval so that they may be implemented with respect to electric service no later than July 1, 2002 and, with respect to gas service, no later than the date all other gas rates otherwise go into effect. The Participating Parties that executed each Issue Agreement shall also cooperate in preparing and filing testimony in support of that Issue Agreement. The Participating Parties shall request that a hearing be set on an expedited basis to present the Settlement Stipulation and Issue Agreements, and shall each make a witness or witnesses available to answer questions in support of this Settlement Stipulation and the Issue Agreements that they executed, or provide such other indication of support as the Commission requests. The Participating Parties agree to cooperate, in good faith, in the development of such other information as may be necessary to support and explain the basis of this Settlement Stipulation and Issue Agreements that they executed and to supplement the record accordingly.

15. If the Commission rejects all or any material portion of any Issue Agreement, or adds additional material conditions, each Participating Party that executed the Issue Agreement that has been so rejected or modified reserves the right, upon written notice to the Commission and all parties to this proceeding within five (5) business days of the date of the Commission's Order, to withdraw from that Issue Agreement and from any other Issue Agreement which that party executed. For purposes of this paragraph, each Participating Party shall determine materiality and shall do so in good faith. If any Participating Party exercises its right of withdrawal, the Issue Agreement or Agreements from which the Participating Party has withdrawn shall be void and of no effect, and the Participating Parties will support a joint motion to establish an expedited procedural schedule to litigate the topic addressed in that Issue Agreement or Agreements. Nothing in this paragraph shall preclude non-

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withdrawing Participating Parties from presenting a partial settlement stipulation to the Commission for approval.

16. **No Precedent:** The Participating Parties enter into this Settlement Stipulation and the attached Issue Agreements to avoid further expense, uncertainty, and delay. By executing this Settlement Stipulation or any Issue Agreement, no Participating Party shall be deemed to have accepted or consented to the facts, principles, methods, or theories employed in arriving at the Settlement Stipulation or an Issue Agreement, and except to the extent expressly set forth in this Settlement Stipulation or an Issue Agreement, no Participating Party shall be deemed to have agreed that such a Settlement Stipulation or Issue Agreement is appropriate for resolving any issues in any other proceeding.

17. **Execution:** This Settlement Stipulation may be executed by the Participating Parties in several counterparts, through original and/or facsimile signature, and as executed shall constitute one agreement.

DATED this 3rd day of June 2002.

PUGET SOUND ENERGY, INC.

**WASHINGTON UTILITIES AND
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SEATTLE STEAM COMPANY

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Elaine Spencer
Counsel for Seattle Steam Company

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