

**Exhibit B to  
Gas Settlement Stipulation**

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

**SETTLEMENT TERMS FOR NATURAL GAS  
RATE SPREAD AND RATE DESIGN**

**A. Executing Parties**

1. The following parties have participated in the Natural Gas Rate Design 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 Northwest Industrial Gas Users; Intervenor Cost Management Services, Inc.; and Intervenor Seattle Steam Company (hereinafter referred to collectively as "Executing Parties").

**B. Cost of Service**

2. For the purposes of settlement, the Executing Parties agreed to base rate class cost recovery upon the cost of service ("COS") methods approved by the Commission in Docket No. UG-940814. This methodology is demonstrated in the attached Cost Study Appendix ("Appendix 1"). The COS study is only one factor considered in determining rate spread.

**C. Rate Spread**

3. Based on the cost of service study described above and in consideration of customer impacts and equity rate making standards, the Executing Parties have stipulated to the rate spread described below.

4. The revenue increase<sup>1</sup> resulting from this proceeding shall be divided as follows:

Step 1: Allocate \$2,561,554.15 to rate schedules 85, 86, 87, 57 and Transport Contracts as follows:<sup>2</sup>

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<sup>1</sup> A residual amount of \$1,314,030 will be collected automatically through the Company's municipal tax Schedule such that the total increase shall equal \$35,584,003.

<i>Interruptible Sales and Transportation Service Schedules</i>	<i>Increase</i>
Schedule 85	\$232,241.36
Schedule 86	\$899,282.26
Schedule 87	\$821,983.14
Schedule 57	\$530,039.49
Transport Contracts	\$78,007.90
Subtotal (85, 86, 87, 57 and Transport Contracts)	\$2,561,554.15

Step 2: Allocate the residual increase of \$31,708,418.85 to the remaining customer classes in the following proportions:

<i>Firm Sales Service and Rental Schedules</i>	<i>Spread</i>	<i>Increase</i>
Residential (Schedules 11, 16, 23, 24, and 53)	73.716%	\$23,374,292.46
C&I Heating (Schedules 11, 31, 36, and 51)	17.382%	\$ 5,511,472.10
Schedule 41	4.408%	\$ 1,397,708.66
CNG (Schedule 50)	0.020%	\$ 6,229.23
Rentals (Schedules 71, 72 and 74)	4.474%	\$ 1,418,716.40
Subtotal Allocation of Residual Increase:	100.000%	\$31,708,418.85

5. Specific details relating to rate spread are presented in the attached Rate Spread Appendix ("Appendix 2").

#### **D. Rate Design**

6. Specific details relating to rate design are presented in the attached Rate Design Appendix ("Appendix 3"). In addition, following are certain specific mechanics agreed to by the Executing Parties regarding particular rate design derivations.

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<sup>2</sup> Schedule 57 customers will receive an additional allocation of gas costs of approximately \$15,000 as shown on the attached Rate Design Appendix 3.

**Firm Sales Service and Rental Schedules:**

7. Residential (Schedules 11, 16, 23, 24, and 53): The residential rate design shall consist of a \$5.50 customer charge, with the balance of the increase recovered in the single block volumetric charge. Residential customers served on rates 11, 23, and 24 shall be consolidated into Schedule 23. Schedule 53 Propane shall equal the final Schedule 23 margin components, including the \$5.50 customer charge. Schedule 16 shall be increased on a pro rata percent of margin basis.

8. C&I Heating (Schedules 11, 31, 36, and 51): Commercial and industrial customers served on Schedule 11 shall be consolidated into Schedule 31. The rate design for Schedules 31 and 36 shall have customer charges of \$10.00 and \$20.00 respectively with the balance of the increase recovered in the single block volumetric charge. Schedule 51 shall have a customer charge of \$5.50 per dwelling unit with the balance of the increase recovered in the single block volumetric charge.

9. Schedule 41: The rate design for Schedule 41 shall have a customer charge of \$35, a demand charge of \$ 1.54 (including demand related gas costs of \$1.04) per billing demand. The balance of the increase shall be spread on a pro rata basis to each of the two remaining rate blocks (the current first and second blocks have been consolidated). The Company will have the option to file up to two annual revenue neutral rate design filings so as to gradually adjust the rate design towards cost. The first filing, if made, shall have an effective date of no earlier than September 1, 2003. A minimum bill equal to the sum of \$81.50, the customer charge, the demand charge, and the customer's consumption related gas costs replaces the existing minimum bill provision.

10. Schedule 43: Schedule 43 shall be eliminated. There are no customers on this schedule.

11. CNG (Schedule 50): The rate design for Schedule 50 (CNG) shall have a customer charge of \$150.00 with the balance of the increase recovered in the single block volumetric charge.

12. Rentals (Schedules 71, 72 and 74): Rental service rates shall be increased by a uniform percentage, rounded to the nearest 5 cents.

**Interruptible Sales and Transportation Schedules:**

13. The rate design for Schedules 85, 86, 87, and 57 shall be as set forward in the aforementioned Rate Design Appendix.

**E. Other Rate Matters**

14. In the future, PSE will pay for telemetering equipment (but not for the phone line or services necessary to read the meter) that is installed for new Schedule 57 customers, and shall revise the Schedule 57 tariff accordingly.

15. Purchase Gas Adjustment (PGA): The current Purchase Gas Costs recovery method and the existing PGA format shall be retained. The Company will file a PGA to go into effect with LSN with an effective date coincident with that of these settlement rates. The Company will file a PGA true-up on or before year end 2002.

**F. 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 \_\_\_\_ day of August, 2002.

**PUGET SOUND ENERGY, INC.**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION  
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