

**EXHIBIT NO. ___(CES-11)
DOCKET NO. UE-060266/UG-060267
2006 PSE GENERAL RATE CASE
WITNESS: CALVIN E. SHIRLEY**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-060266
Docket No. UG-060267**

**SECOND EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
CALVIN E. SHIRLEY
ON BEHALF OF PUGET SOUND ENERGY, INC.**

AUGUST 23, 2006

Modified PSE Incentive Mechanism (August 2006)

Original PSE Incentive Mechanism (February 2006)

Incentive Range	\$/MWH Incentive	Shared Net Savings Incentive
>150.0%	\$ 20	50%
140.0 - <150.0%	\$ 20	35%
130.0 - <140.0%	\$ 20	25%
120.0 - <130.0%	\$ 20	15%
115.0 - <120.0%	\$ 20	10%
110.0 - <115.0%	\$ 10	5%
105.0 - <110.0%	\$ 5	0%

Incentive Range	% Annual Prgm Cost Incentive
>130.0%	20%
>115.0 - 130.0%	15%
>100.0 - 115.0%	10%

Dead Band	\$/MWH	%
95.0 - <105.0%	\$0	0%

Dead Band	%
>80.0 - 100.0%	0%

Penalty Range	\$/MWH fee
90.0 - <95.0%	\$ 100
80.0 - <90.0%	\$ 110
70.0 - <80.0%	\$ 110
60.0 - <70.0%	\$ 110
50.0 - <60.0%	\$ 110
<50.0%	\$ 110

Penalty Range	\$/MWH fee
>65.0 - 80.0%	\$ 40
>50.0 - 65.0%	\$ 50
<=50.0%	\$ 60

Example Calculation of Incentives and Penalties for Modified Proposal
Based on energy savings at the starting point of each incentive or penalty range

Baseline Target	16.5
Incentive Start	17.3
Penalty Start	15.7

From PSE Exhibit ___(CES-5):	
Avoided Cost of Generation	\$ 0.059
Total Resource Cost (TRC)	\$ 0.041
Shared Net Savings	\$ 0.018

	A	B	C	D	E	F	G	H	
	aMW Saved	MWH Saved	Percent of Base Target at Start of Range	\$/MWH Incentive	Shared Net Savings Incentive	Per MWH Incentive	Shared Net Savings Incentive	Total Incentive	Average \$/MWh
Incentive Range									
>=150.0%	24.75	216,810	150.0%	\$ 20	50%	\$ 4,336,200	\$ 1,951,290	\$ 6,287,490	\$29.00
140.0 - <150.0%	23.10	202,356	140.0%	\$ 20	35%	\$ 4,047,120	\$ 1,274,843	\$ 5,321,963	\$26.30
130.0 - <140.0%	21.45	187,902	130.0%	\$ 20	25%	\$ 3,758,040	\$ 845,559	\$ 4,603,599	\$24.50
120.0 - <130.0%	19.80	173,448	120.0%	\$ 20	15%	\$ 3,468,960	\$ 468,310	\$ 3,937,270	\$22.70
115.0 - <120.0%	18.98	166,221	115.0%	\$ 20	10%	\$ 3,324,420	\$ 299,198	\$ 3,623,618	\$21.80
110.0 - <115.0%	18.15	158,994	110.0%	\$ 10	5%	\$ 1,589,940	\$ 143,095	\$ 1,733,035	\$10.90
105.0 - <110.0%	17.33	151,767	105.0%	\$ 5	0%	\$ 758,835	\$ -	\$ 758,835	\$5.00

95.0 - <105.0%	16.5		100.0%	\$0	0%	\$0	\$0	\$0	
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	A	B	C	D	E	F	G	H
	aMW Saved	MWH Saved	Percent of Base Target at Start of Range	\$/MWH Penalty	aMW Shortfall	MWH Shortfall		Total Penalty
Penalty Range								
90.0 - <95.0%	15.66	137,168	94.9%	\$ 100	0.84	7,372		\$ 737,154
80.0 - <90.0%	14.83	129,941	89.9%	\$ 110	1.67	14,599		\$ 1,605,839
70.0 - <80.0%	13.18	115,487	79.9%	\$ 110	3.32	29,053		\$ 3,195,779
60.0 - <70.0%	11.53	101,033	69.9%	\$ 110	4.97	43,507		\$ 4,785,719
50.0 - <60.0%	9.88	86,579	59.9%	\$ 110	6.62	57,961		\$ 6,375,659
<50.0%	8.23	72,125	49.9%	\$ 110	8.27	72,415		\$ 7,965,599

NPV & Levelized Cost of Incentive (75% of incentive paid one year after the program year and 25% paid the second year)

Assumptions

Discount Rate 7.01% (see Exhibit No. ___(CES-10))
Average Life of Se 10.00% (see Exhibit No. ___(CES-10))

Incentive Range	Year			NPV/MWh	Levelized \$/MWh	% Net Savings
	1-Prgm Yr	2	3			
>=150.0%	\$ -	\$21.75	\$7.25	\$24.91	\$3.55	20%
140.0 - <150.0%	\$ -	\$19.73	\$6.58	\$22.59	\$3.22	18%
130.0 - <140.0%	\$ -	\$18.38	\$6.13	\$21.04	\$3.00	17%
120.0 - <130.0%	\$ -	\$17.03	\$5.68	\$19.50	\$2.78	15%
115.0 - <120.0%	\$ -	\$16.35	\$5.45	\$18.73	\$2.67	15%
110.0 - <115.0%	\$ -	\$8.18	\$2.73	\$9.36	\$1.33	7%
105.0 - <110.0%	\$ -	\$3.75	\$1.25	\$4.29	\$0.61	3%