

**EXHIBIT NO. \_\_\_(CES-12)  
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**

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

**AUGUST 23, 2006**

COMPARISON OF PROPOSED ELECTRIC EFFICIENCY INCENTIVE MECHANISMS

PSE Modified Proposal August 2006

Incentive Range	\$/MWH Incentive	Shared Net TRC incentive	aMW Saved Example	Total Incentive Example
>=150.0%	\$ 20	50%	24.8	\$ 6,287,490
140.0 - <150.0%	\$ 20	35%	23.1	\$ 5,321,963
130.0 - <140.0%	\$ 20	25%	21.5	\$ 4,603,599
120.0 - <130.0%	\$ 20	15%	19.8	\$ 3,937,270
115.0 - <120.0%	\$ 20	10%	19.0	\$ 3,623,618
110.0 - <115.0%	\$ 10	5%	18.2	\$ 1,733,035
105.0 - <110.0%	\$ 5	0%	17.3	\$ 758,835

Dead Band	\$/MWH	Shared Net TRC incentive	aMW Saved Example	Total Incentive Example
95.0 - <105.0%	\$0	0%	16.5	\$0

Penalty Range	\$/MWH fee	aMW Saved Example	Total Penalty Example
90.0 - <95.0%	\$ 100	15.7	\$ 737,154
80.0 - <90.0%	\$ 110	14.8	\$ 1,605,839
70.0 - <80.0%	\$ 110	13.2	\$ 3,195,779
60.0 - <70.0%	\$ 110	11.5	\$ 4,785,719
50.0 - <60.0%	\$ 110	9.9	\$ 6,375,659
<50.0%	\$ 110	8.2	\$ 7,965,599

Baseline Target	16.5 aMW
Incentive Min. Svgs.	17.3 aMW
Penalty Min. Svgs.	15.7 aMW
Ratio Max Penalty to Max Incentive	1.27

WUTC Staff Proposal 7-19-2006 (rev. 8-9-06)

Incentive Range	\$/MWH Incentive	Shared Net TRC incentive	aMW Saved Example	Total Incentive Example
>=150%	\$ 20	100%	27.5	\$ 4,078,107
140.0 - <150.0%	\$ 20	100%	25.6	\$ 3,468,937
130.0 - <140.0%	\$ 20	80%	23.8	\$ 2,916,163
120.0 - <130.0%	\$ 20	40%	22.0	\$ 2,477,496
110.0 - <120.0%	\$ 20	20%	20.1	\$ 2,097,855
>100.0 - <110.0%	\$ 20	10%	18.3	\$ 1,779,130
100% Baseline Target	\$ 10	5%	18.3	\$ 1,747,357

Calculations based on the increment difference from the prior range.

Dead Band	\$/MWH	Shared Net TRC incentive	aMW Saved Example	Total Incentive Example
90.0 - <100.0%	\$0	0%	18.3	\$0

Penalty Range	\$/MWH fee	aMW Saved Example	Total Penalty Example
80.0 - <90.0%	\$ 75	16.5	\$ 1,214,333
70.0 - <80.0%	\$ 80	14.6	\$ 2,417,445
60.0 - <70.0%	\$ 85	12.8	\$ 3,700,710
50.0 - <60.0%	\$ 90	11.0	\$ 5,064,130
<50.0%	\$ 95	9.1	\$ 6,507,703

Baseline Target	18.3 aMW
Incentive Min	18.3 aMW
Penalty Min	16.5 aMW
Ratio Max Penalty to Max Incentive	1.60

Public Counsel Proposal 7-19-2006

Incentive Range	\$/MWH Incentive	Shared Net TRC incentive	aMW Saved Example	Total Incentive Example
>=150%	\$ 16	16%	30.0	\$ 4,961,664
120.0% - <150%	\$ 16	16%	24.0	\$ 3,969,331
110.0 - <120.0%	\$ 16	14%	22.0	\$ 3,569,174
105.0 - <110.0%	\$ 16	12%	21.0	\$ 3,340,714
100.0 - <105.0%	\$ 14	10%	20.0	\$ 2,768,160
95.0 - <100.0%	\$ 12	0%	19.0	\$ 1,997,280
90.0 - <95.0%	\$ 10	0%	18.0	\$ 1,576,800

Dead Band	\$/MWH	Shared Net TRC incentive	aMW Saved Example	Total Incentive Example
80.0 - <90.0% dead band	\$0	0%	17.0	\$0

Penalty Range	\$/MWH fee	aMW Saved Example	Total Penalty Example
70.0 - <80.0%	\$ 40	16.0	\$ 1,408,608
60.0 - <70.0%	\$ 60	14.0	\$ 3,164,112
50.0 - <60.0%	\$ 80	12.0	\$ 5,620,416
<50.0%	\$ 115	10.0	\$ 10,094,148

Baseline Target	20.0 aMW
Incentive Min	18.0 aMW
Penalty Min	16.0 aMW
Ratio Max Penalty to Max Incentive	2.03

NWEC Proposal 7-19-2006

Incentive Range	\$/MWH Incentive	Shared Net TRC incentive	aMW Saved Example	Total Incentive Example
>=150.0%	\$ 20	40%	24.75	\$ 5,897,232
140.0 - <150.0%	\$ 20	33%	23.10	\$ 5,249,115
130.0 - <140.0%	\$ 20	25%	21.45	\$ 4,603,599
120.0 - <130.0%	\$ 20	15%	19.80	\$ 3,937,270
115.0 - <120.0%	\$ 15	5%	18.98	\$ 2,642,914
110.0 - <115.0%	\$ 10	0%	18.15	\$ 1,589,940
105.0 - <110.0%	\$ 5	0%	17.33	\$ 758,835

Dead Band	\$/MWH	Shared Net TRC incentive	aMW Saved Example	Total Incentive Example
95.0 - <105.0% dead band	\$0	0%	16.50	\$0

Penalty Range	\$/aMW fee	aMW Saved Example	Total Penalty Example
90.0 - <95.0%	\$ 1,500,000	15.66	\$ 1,262,250
80.0 - <90.0%	\$ 1,500,000	14.83	\$ 2,499,750
70.0 - <80.0%	\$ 1,500,000	13.18	\$ 4,974,750
60.0 - <70.0%	\$ 1,500,000	11.53	\$ 7,449,750
50.0 - <60.0%	\$ 1,500,000	9.88	\$ 9,924,750
<50.0%	\$ 1,500,000	8.23	\$ 12,399,750

Baseline Target	16.5 aMW
Incentive Min	17.3 aMW
Penalty Min	15.7 aMW
Ratio Max Penalty to Max Incentive	2.10

**PSE Electric Efficiency Incentive-Penalty Mechanism -- Revised Proposal August 2006**

Baseline Target

16.5 aMW

From PSE Exhibit __ (CES-5)		
Avoided Cost/kWh	\$	0.059
TRC Conservation/kWh	\$	0.041
Net Savings/kWh	\$	0.018

	A	B = A x 8760	C	D	E	F = B x D	G = B x E	H = F + G	
Incentive Range	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
>=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
<b>95.0 - &lt;105.0% dead band</b>	<b>16.5</b>		<b>100.0%</b>	<b>\$0</b>	<b>0%</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

	A	B = A x 8760	C	D	E = base target - A	F = E x 8760	G	H = D x F	
Penalty Range	aMW Saved	MWh Saved	Percent of Base Target at Start of Range	\$/MWh fee	aMW Shortfall	MWh Shortfall		Total Penalty	\$/MWh
90.0 - <95.0%	15.66	137,168	94.9%	\$ 100	0.84	7,372		\$ 737,154	\$100.00
80.0 - <90.0%	14.83	129,941	89.9%	\$ 110	1.67	14,599		\$ 1,605,839	\$110.00
70.0 - <80.0%	13.18	115,487	79.9%	\$ 110	3.32	29,053		\$ 3,195,779	\$110.00
60.0 - <70.0%	11.53	101,033	69.9%	\$ 110	4.97	43,507		\$ 4,785,719	\$110.00
50.0 - <60.0%	9.88	86,579	59.9%	\$ 110	6.62	57,961		\$ 6,375,659	\$110.00
<50.0%	8.23	72,125	49.9%	\$ 110	8.27	72,415		\$ 7,965,599	\$110.00

**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 Savings (yrs) 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%

Puget Sound Energy General Rate Case

Commission Staff Proposed Electric Efficiency Incentive Mechanism

1.092896175

	A	B	C	D	E	F	G	H
Incentive Range	aMW Saved	MWH Saved	Percent of Base Target at Start of Range	\$/MWh Incentive	Shared Savings Incentive	Per MWH Incentive	Shared Savings Incentive*	Total Incentive
	= A x 8760					= B x D	= B x 0.18 x E	= F + G
≥/150%	27.45	240,462	150.0%	\$ 20	100%	\$ 3,206,160	\$ 871,947	\$ 4,078,107
140.0 - <150.0%	25.62	224,431	140.0%	\$ 20	100%	\$ 2,885,544	\$ 583,393	\$ 3,468,937
130.0 - <140.0%	23.79	208,400	130.0%	\$ 20	80%	\$ 2,564,928	\$ 351,235	\$ 2,916,163
120.0 - <130.0%	21.96	192,370	120.0%	\$ 20	40%	\$ 2,244,312	\$ 233,184	\$ 2,477,496
110.0 - <120.0%	20.13	176,339	110.0%	\$ 20	20%	\$ 1,923,696	\$ 174,159	\$ 2,097,855
>100.0 - <110.0%	18.32	160,468	100.1%	\$ 20	10%	\$ 1,606,286	\$ 172,844	\$ 1,779,130
<b>100% Baseline Target</b>	<b>18.3</b>	<b>160,308</b>	<b>100.0%</b>	<b>\$ 10</b>	<b>5%</b>	<b>\$1,603,080</b>	<b>\$144,277</b>	<b>\$1,747,357</b>

Penalty Range	aMW Saved	MWH Saved	Percent of Base Target at Start of Range	\$/MWh Penalty	aMW Shortfall	MWH Shortfall	Total Penalty
	= A x 8760				= base target - A	= E x 8760	= D x F
90.0 - <100.0% Deadband	18.28	160,148	99.9%	\$ -	0.02	160	\$ -
80.0 - <90.0%	16.45	144,117	89.9%	\$ 75	1.85	16,191	\$ 1,214,333
70.0 - <80.0%	14.62	128,086	79.9%	\$ 80	3.68	32,222	\$ 2,417,445
60.0 - <70.0%	12.79	112,055	69.9%	\$ 85	5.51	48,253	\$ 3,700,710
50.0 - <60.0%	10.96	96,024	59.9%	\$ 90	7.34	64,284	\$ 5,064,130
<50.0%	9.13	79,994	49.9%	\$ 95	9.17	80,314	\$ 6,507,703

Note: The calculations in Columns F and G are performed for the increment difference from the prior rang

*Shared Savings Calculation (From PSE Exhibit (CES-5))	
Avoided Cost	\$ 0.059
TRC Conservation	\$ 0.041
Net Shared Incentive	\$ 0.018

Average

Threshold of Savings for Range	aMW	Check	Shared Savings Incentive for Range	Incremental Savings for Range	Incremental Savings for Range	Incremental Savings for Range	\$/MWh Incentive for Range
\$/MWh							
\$16.96	240,462	27.5	149.9%	\$871,947	\$16,959	\$38.0	21%
\$15.46	240,302	27.4	149.8%	\$865,375	\$15,457	\$34.5	17%
\$13.99	224,271	25.6	139.8%	\$576,820	\$13,993	\$27.4	12%
\$12.88	208,240	23.8	129.8%	\$345,977	\$12,879	\$23.7	9%
\$11.90	192,209	21.9	119.8%	\$230,555	\$11,897	\$20.1	8%
\$11.09	176,178	20.1	109.8%	\$172,844	\$11,087	\$198.2	10%
\$10.90	160,308	18.3	99.9%	\$144,277	\$10,900	\$10.9	8%

Total Shortfall MWh

144,277	16.5	89.9%	16,031	\$ -
128,246	14.6	79.9%	32,062	#####
112,216	12.8	69.9%	48,092	#####
96,185	11.0	59.9%	64,123	#####
80,154	9.2	50.0%	80,154	#####

**Electric Efficiency Incentive-Penalty Mechanism -- Public Counsel Proposal**

**Target**

Target as filed Nov/Dec 2005	20	aMW
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**Shared Net Incentive**

From PSE Exhibit ____ (CES-5)	
Avoided Cost	\$ 0.059
TRC Conservation	\$ 0.041
<b>Shared net incentive</b>	<b>\$ 0.018</b>

per kWh

	A	B	C	D	E	F	G	H	Average
	= A x 8760					(= B x D) = B x D	(=B x .018 x E) = B x E	(= F + G) = F + G	
Incentive Range (Based on program target - 20 MWa for 2007)	aMW Saved	MWH Saved	Percent of Base Target at Start of Range	\$/MWH Incentive	shared Net TRC incentive	Per MWH Incentive	Shared Net TRC Incentive	Total Incentive	\$/MWh
>/=150%	30.0	262,800	150.0%	\$ 16	16%	\$ 4,204,800	\$ 756,864	\$ 4,961,664	\$18.88
140.0 - <150%	28.0	245,280	140.0%	\$ 16	16%	\$ 3,924,480	\$ 706,406	\$ 4,630,886	\$18.88
130.0 - <140.0%	26.0	227,760	130.0%	\$ 16	16%	\$ 3,644,160	\$ 655,949	\$ 4,300,109	\$18.88
120.0 - <130.0%	24.0	210,240	120.0%	\$ 16	16%	\$ 3,363,840	\$ 605,491	\$ 3,969,331	\$18.88
110.0 - <120.0%	22.0	192,720	110.0%	\$ 16	14%	\$ 3,083,520	\$ 485,654	\$ 3,569,174	\$18.52
105.0 - <110.0%	21.0	183,960	105.0%	\$ 16	12%	\$ 2,943,360	\$ 397,354	\$ 3,340,714	\$18.16
100.0 - <105.0%	20.0	175,200	100.0%	\$ 14	10%	\$ 2,452,800	\$ 315,360	\$ 2,768,160	\$15.80
95.0 - <100.0%	19.0	166,440	95.0%	\$ 12	0%	\$ 1,997,280	\$ -	\$ 1,997,280	\$12.00
90.0 - <95.0%	18.0	157,680	90.0%	\$ 10	0%	\$ 1,576,800	\$ -	\$ 1,576,800	\$10.00

80.0 - <90.0% dead band	18.0		89.9%	\$ 0	0%	\$ 0	\$ 0	\$ 0	\$ 0
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	A	B	C	D	E	F	G	H
	= A x 8760				(= Target - A)	(= E x 8760)		(= D x F)
Penalty Range	aMW Saved	MWH Saved	Percent of Base Target at Start of Range	\$/MWH fee	MWa Shortfall	MWH Shortfall	Total Penalty	
70.0 - <80.0%	16.0	139,985	79.9%	\$ 40	4.0	35,215	\$ 1,408,608	
60.0 - <70.0%	14.0	122,465	69.9%	\$ 60	6.0	52,735	\$ 3,164,112	
50.0 - <60.0%	12.0	104,945	59.9%	\$ 80	8.0	70,255	\$ 5,620,416	
<50.0%	10.0	87,425	49.9%	\$ 115	10.0	87,775	\$ 10,094,148	

**Electric Efficiency Incentive-Penalty Mechanism -- NWECC Proposal**

Baseline Target	16.5
Stretch Target (121% of base)	20

From PSE Exhibit __ (CES-5)		
Avoided Cost	\$	0.059
TRC Conservation	\$	0.041
Differ. Avoided Cost-TRC	\$	0.018

	A	B	C	D	E	F	G	H	Average
	= A x 8760					= B x D	= B x E	= F + G	
Incentive Range (% of base target)	aMW Saved	MWH Saved	Percent of Base Target at Start of Range	\$/MWH Incentive	shared Net TRC incentive	Per MWH Incentive	Shared Net TRC Incentive	Total Incentive	\$/MWh
>=150.0%	24.75	216,810	150.0%	\$ 20	40%	\$ 4,336,200	\$ 1,561,032	\$ 5,897,232	\$27.20
140.0 - <150.0%	23.10	202,356	140.0%	\$ 20	33%	\$ 4,047,120	\$ 1,201,995	\$ 5,249,115	\$25.94
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%	\$ 15	5%	\$ 2,493,315	\$ 149,599	\$ 2,642,914	\$15.90
110.0 - <115.0%	18.15	158,994	110.0%	\$ 10	0%	\$ 1,589,940	\$ -	\$ 1,589,940	\$10.00
105.0 - <110.0%	17.33	151,767	105.0%	\$ 5	0%	\$ 758,835	\$ -	\$ 758,835	\$5.00
<b>95.0 - &lt;105.0% dead band</b>	<b>16.5</b>		<b>100.0%</b>		<b>0%</b>		<b>\$0</b>		<b>\$0</b>

	A	B	C	D	E	F	G	H	
					= base target - A			= D x F	
Penalty Range	aMW Saved	MWH Saved	Percent of Base Target at Start of Range	\$/aMW fee	aMW Shortfall	MWH Shortfall	Total Penalty	\$/MWh	
90.0 - <95.0%	15.66	137,168	94.9%	\$ 1,500,000	0.84	7,372	\$ 1,262,250	\$171.23	
80.0 - <90.0%	14.83	129,941	89.9%	\$ 1,500,000	1.67	14,599	\$ 2,499,750	\$171.23	
70.0 - <80.0%	13.18	115,487	79.9%	\$ 1,500,000	3.32	29,053	\$ 4,974,750	\$171.23	
60.0 - <70.0%	11.53	101,033	69.9%	\$ 1,500,000	4.97	43,507	\$ 7,449,750	\$171.23	
50.0 - <60.0%	9.88	86,579	59.9%	\$ 1,500,000	6.62	57,961	\$ 9,924,750	\$171.23	
<50.0%	8.23	72,125	49.9%	\$ 1,500,000	8.27	72,415	\$ 12,399,750	\$171.23	