

**Exhibit A to
Gas Settlement Stipulation**

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

**SETTLEMENT TERMS FOR
NATURAL GAS REVENUE REQUIREMENTS, INCLUDING
COMMON COST ALLOCATION, AND LINE EXTENSIONS**

A. Executing Parties

1. The following parties have participated in the Natural Gas Revenue Requirement Including Common Cost Allocation 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 and Intervenor Northwest Industrial Gas Users (hereinafter referred to collectively as "Executing Parties").

B. Agreed Natural Gas Revenue Requirement including Common Cost Allocation

2. The Executing Parties have agreed on the proper treatment of costs common to PSE's electric and gas operations for purposes of the natural gas revenue requirement, pursuant to the Settlement Stipulation for Electric and Common Issues in Docket Nos. UE-011570 and UG-011571, as set forth in Appendix 1, page 1. For purposes of settling all remaining contested natural gas issues, the Executing Parties have also agreed to an additional adjustment of \$4 million, which is also shown on Appendix 1 as a "Miscellaneous A&G Reduction." In sum, the Executing Parties have agreed to an increase in annual retail natural gas revenues of \$35,584,003.

3. The schedule attached as Appendix 1, Page 1 of 2, shows the reconciliation of the Company's original request to the final settlement amount. The spreadsheet attached as Appendix 1, Page 2 of 2, shows PSE's adjusted results of natural gas operations and rate of return on natural gas rate base, for ratemaking purposes, as agreed upon by the Executing Parties. Net operating income shown on line No. 31, including agreed upon adjustments that reduce net operating income by \$6,622,815, is \$64,008,513. This results in an overall adjusted return of 6.57% on adjusted rate base of \$974,041,859. The resulting revenue requirement deficiency necessary to achieve an overall return of 8.76% is \$35,584,003 as shown on line No. 5. The final column shows the adjusted results of operations with a total revenue requirement of \$652,480,437 and net operating income of \$85,298,033, including the \$35.6 million (5.77%) retail revenue increase, achieving an overall return of 8.76%.

4. The \$4 million modification agreed to in this settlement does not reflect any adjustment for gas service in Kittitas County. However, this is without prejudice to any Executing Party or the Commission for potential review of issues regarding Kittitas County service in the future.

5. The Executing Parties agree that the Company shall not request an increase in the revenue requirement associated with the Gas Water Heater and Conversion Burner Rental Program until at least September 1, 2005. In the event that the Company requests general rate relief prior to this date, it shall compute the request for rate relief without inclusion of the revenues, operating expenses, or rate base related to rentals.

6. **Depreciation:** Depreciation rates incorporated for natural gas plant in service are adjusted and accepted in accordance with the depreciation study provided by the Company in its original filing in this proceeding, Exhibit No. __ (JB-1T) (Julius Breitling), which was entered into the record as Exhibit No. 527 during the hearing on the Electric and Common Settlement. Depreciation expense for rentals shall continue at an annual rate of not less than \$8,284,422 until September 1, 2005.

7. **Amortization:**

- Rate Case Expense – Amortization of deferred gas rate case expense has been adjusted to \$600,922.
- Conservation – Regulatory asset balances included in rate base related to conservation will be netted and amortized in the amount of \$701,347 annually.
- Other – The Executing Parties accept remaining natural gas amortization rates presented with the Company's filed depreciation study incorporated in the adjusted test year.

C. Gas Line Extensions

8. The revisions to gas line extension tariff sheets that PSE filed with its original filing, for Rule No. 7 and Schedule No. 7, are hereby withdrawn. The Executing Parties anticipate that PSE will file proposed revisions to its line extension tariff sheets in the near future, for consideration by the Commission and other interested persons. In the meantime, gas line extensions shall be subject to a surcharge on existing rates of 15%, as shown in the attached First Revision of Sheet No. 107g of Schedule No. 7, Section 7: Surcharge. The surcharge shall expire on September 1, 2003, or when new gas line extension rates go into effect, whichever occurs first.

D. Miscellaneous Provisions

9. **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.

10. **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.

11. **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.

12. **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
STAFF**

By _____
Kimberly Harris
Vice President of Regulatory Affairs

By _____
Robert Cedarbaum
Shannon Smith
Assistant Attorneys General

**PUBLIC COUNSEL SECTION, OFFICE
OF THE ATTORNEY GENERAL OF THE
STATE OF WASHINGTON**

**NORTHWEST INDUSTRIAL GAS
USERS**

By _____
Simon ffitch
Assistant Attorney General
Public Counsel Section Chief

By _____
Edward A. Finklea
Attorney for NWIGU

SETTLEMENT TERMS FOR NATURAL GAS
REVENUE REQUIREMENTS, INCLUDING COMMON
COST ALLOCATION, AND LINE EXTENSIONS -- 4

[\[/Exhibit A.DOC\]](#)

8/16/02