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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
REMAINING NATURAL GAS ISSUES
AND APPLICATION FOR COMMISSION
APPROVAL OF SETTLEMENT

I. INTRODUCTION

1. This Settlement Stipulation is entered into this 15th day of August, 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 Northwest Industrial Gas Users, Intervenor Cost Management Services, Inc., and Intervenor Seattle Steam Company (referred to hereinafter jointly as the "Participating Parties" and individually as a "Participating Party").

SETTLEMENT STIPULATION FOR
REMAINING NATURAL GAS ISSUES - 1

[/Settlement Stipulation.DOC]

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2. The Participating Parties hereby voluntarily agree to this Settlement Stipulation to resolve all remaining matters in dispute among them regarding PSE's pending natural gas 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 gas rates can go into effect on September 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 gas rates that are just, fair, reasonable and sufficient. Each Participating Party agrees not to oppose any Issue Agreement not entered into by that Party.

II. PROCEDURAL BACKGROUND

3. 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.

4. 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 in this proceeding.

5. On April 19, 2002, PSE filed on behalf of itself and Intervenor King County a proposed Stipulation of Settlement for King County to resolve issues in dispute related to King County. PSE filed a revised Stipulation on May 6, 2002, which the Commission approved in its Eleventh Supplemental Order in this proceeding.

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6. All remaining electric issues with respect to the General Rate Case and issues common to electric and natural gas rates were settled through the collaborative process described in the March Interim Settlement. On June 6, 2002, PSE filed on behalf of itself and other parties a Settlement Stipulation for Electric and Common Issues and Application for Commission Approval of Settlement ("Electric and Common Settlement"). On June 20, 2002, the Commission approved the Electric and Common Settlement in its Twelve Supplemental Order in this proceeding.

7. After approval of the Electric and Common Settlement, parties interested in the remaining issues in dispute in the General Rate Case continued to participate in the collaborative process described in the March Interim Settlement and Electric and Common Settlement. The Participating Parties have reached agreement on the remaining disputed issues, and have memorialized and executed the terms of the agreement in the "Issue Agreements" that are attached to this Settlement Stipulation, described below, and incorporated herein by reference.

III. SETTLEMENT AND REQUEST FOR APPROVAL

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

8. All remaining disputed natural gas 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 Natural Gas Revenue Requirement, Including Common Cost Allocations, and Line Extensions;

Exhibit B: Settlement Terms for Gas Rate Spread and Rate Design

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

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constitute a full settlement of all remaining issues raised in the General Rate Case, and would avoid any need for further litigation of the case.

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

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 gas service no later than September 1, 2002. 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

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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-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

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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 ___ day of August 2002.

PUGET SOUND ENERGY, INC.

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
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By _____
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