

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For a Determination of Emissions Compliance and Proposed Accounting Treatment For the Mint Farm Energy Center; or, Alternatively For an Accounting Order

Docket No. UE-082128

SETTLEMENT STIPULATION

1. This Settlement Stipulation is entered into for the purpose of resolving all issues in this proceeding by all parties in this proceeding, as set forth below. This Settlement Stipulation is subject to approval by the Washington Utilities and Transportation Commission ("Commission") and it is not effective for any purpose until such approval, except for paragraphs 13, 14, 16 and 17 below, which cover the agreement by the Parties regarding how they will support the Settlement Stipulation before the Commission.

I. PARTIES

2. The parties to this Settlement Stipulation are Puget Sound Energy, ("PSE" or "the Company"), the Staff of the Washington Utilities and Transportation Commission ("Commission Staff"),¹ the Industrial Customers of Northwest Utilities ("ICNU"), and the Public Counsel Section of the Washington Office of Attorney General ("Public Counsel"); and hereafter they are collectively referred to as "the Parties."

¹ In formal proceedings such as this, Commission Staff functions as an independent party with the same rights, privileges, and responsibilities as other parties to the proceeding. There is an "ex parte wall" separating the Commissioners, the presiding Administrative Law Judge, and the Commissioners' policy and accounting advisors from all parties, including Commission Staff. See RCW 34.05.455. The three-member panel of Commissioners is not a party to this Stipulation. The Commissioners must review, consider, and decide whether this Stipulation should be adopted by the Commission.

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II. RECITALS

3. On November 25, 2008, PSE filed with the Commission a petition for an emissions performance determination and order approving accounting treatment (“Petition”). Specifically, PSE requested an order: (i) determining that the Mint Farm Energy Center (“Mint Farm”) complies with the greenhouse gases emissions performance standard in Chapter 80.80 RCW, Greenhouse Gases Emissions, including a determination that the resource is baseload electric generation; and (ii) approving the proposed deferred accounting methodology detailed in the Petition, pursuant to RCW 80.80.060(6) and WAC 480-100-435.² In the alternative, in the event the Commission determined that Mint Farm is not eligible for deferred accounting under RCW 80.80.060(6), PSE petitioned the Commission for an accounting order that would authorize that same deferred accounting methodology.

4. Mint Farm is a natural gas-fired combined cycle combustion turbine plant, situated on approximately 11.42 acres of land located within the Mint Farm Industrial Park in Longview, Washington. PSE purchased Mint Farm on December 5, 2008, and after the purchase, PSE upgraded Mint Farm to bring it up to the Company's operating standards and to meet property insurance requirements.

5. The Commission convened a prehearing conference in this proceeding at Olympia, Washington on February 2, 2009, before Administrative Law Judge Dennis J.

² The Company's proposed deferred accounting methodology includes: (a) temporary suspension of Schedule G to the Power Cost Adjustment (“PCA”) mechanism as it relates to Mint Farm; (b) crediting the variable cost deferral and charging power costs with the forgone market purchases calculated using Mint Farm generation priced using the equivalent market purchase costs included in current rates; and (c) applying over-recovered power costs under the PCA true-up to any net Mint Farm deferred variable costs.

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Moss. At the prehearing conference, the Commission granted ICNU's petition to intervene. Commission Staff and Public Counsel also entered their appearances in this docket.

6. In accordance with the procedural schedule adopted at the prehearing conference (Order 01), PSE filed direct testimony on February 13, 2009. The Company's direct testimony addressed its deferred accounting proposal, whether Mint Farm complies with the greenhouse gases emissions performance standard set forth in Chapter 80.80 RCW, whether the Company has a need to acquire new electric generation resources, and whether Mint Farm is appropriate to meet that need.

7. The Parties engaged in discovery and mutually agreed to conduct a settlement conference on March 19, 2009. Based on the settlement discussion and related correspondence, the Parties have reached an agreement regarding all matters in dispute in this proceeding.

8. The Parties wish to present their agreement for the Commission's consideration and approval. The Parties therefore adopt the following Settlement Stipulation, which is entered into by the Parties voluntarily to resolve matters in dispute among them in the interests of expediting the orderly disposition of this proceeding. The Parties file this Settlement Stipulation with the Commission as a "full settlement" pursuant to WAC 480-07-730(1).

III. TERMS OF THE SETTLEMENT STIPULATION

9. This section sets forth the terms of the Settlement Stipulation.

10. The Parties agree that the Commission should enter an order authorizing deferred accounting treatment for the fixed (including return of and on³ the plant investment) and variable cost components associated with Mint Farm, as such fixed and variable costs are defined by PSE's PCA mechanism,⁴ plus the accrual of interest on such deferral at PSE's authorized net of tax rate of return for the period, 7.00% per the Partial Settlement Re: Electric and Natural Gas Revenue Requirements and Order 12 in the Company's most recent general rate case, Docket UE-072300 *et al.* This deferral will commence when the fixed and variable costs associated with Mint Farm begin to be reflected in the Company's income statement, but no earlier than November 25, 2008 when the Petition was filed, and will end on the day immediately preceding the effective date of new rates that result from the Commission's final order in the Company's next rate proceeding. The amount recorded on PSE's books for the purchase of Mint Farm and the upgrades to Mint Farm will be used to determine depreciation plus the return on the plant investment. A proposed form of order agreed upon by the Parties is attached hereto as Exhibit A.

11. By agreeing to this deferred accounting order, the Parties do not waive, and expressly reserve, the right to challenge in the Company's next rate proceeding, the prudence and the recovery of costs associated with Mint Farm, including costs that the Company has deferred. Further, the Parties do not waive, and expressly reserve, the right to challenge in

³ This is the fixed cost associated with the net of tax return for the fixed asset recovery on Mint Farm that would be included in Transmission or Production Rate Base on Exhibit A-1 of the PCA Mechanism.

⁴ The PCA's definition of fixed and variable costs is set forth on page 4 of the Settlement Terms for PCA, which were approved and adopted by the Commission's 12th Supplemental Order in Docket UE-011570.

the Company's next rate proceeding, the Company's deferral methodology (including whether the deferred costs are appropriate for deferral, and whether temporary suspension of PCA Schedule G as it relates to Mint Farm is appropriate), interest rate, and amortization period. PSE agrees that nothing in this Settlement Stipulation alters its burden to prove in its next rate proceeding the appropriateness of the Mint Farm deferral and the prudence of all costs associated with Mint Farm.

12. The Parties agree that the Commission's determinations regarding whether Mint Farm is baseload electric generation that complies with the greenhouse gases emissions performance standard in Chapter 80.80 RCW, and all other issues raised in the Petition and the Company's direct testimony, other than the authorization for deferred accounting as set forth above in paragraph 10, will be decided in the Company's next rate proceeding.

13. The Parties agree to support this Settlement Stipulation as a full settlement pursuant to WAC 480-07-730(1) and to recommend Commission approval of the terms of this Settlement Stipulation in their entirety. In that regard, the Parties waive their right to an initial order of the Administrative Law Judge, should the Commission wish to enter its order directly.

14. The Parties agree that this Settlement Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Settlement Stipulation shall not be admissible as evidence in this or any other proceeding.

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**IV. THE SETTLEMENT STIPULATION IS IN THE PUBLIC INTEREST AND
THE INTERESTS OF THE PARTIES**

15. The Parties agree that the Settlement Stipulation is in their interest and the public interest, and should be adopted by the Commission, because it sets forth a practical and efficient procedure to address all aspects of the Mint Farm acquisition in a rate proceeding rather than on a piecemeal basis through two separate proceedings, while allowing the Company to defer costs associated with Mint Farm. While it is not necessary for all aspects of the Mint Farm acquisition to be considered in a single proceeding, the procedure set forth in the Settlement Stipulation may save the Commission and the Parties time, effort, and resources, and produce a full and timely resolution of the issues in this docket.

V. MISCELLANEOUS PROVISIONS

16. The Parties have recommended, and agree to recommend, that the Commission suspend all existing due dates for filing written evidence and hearing dates in Docket UE-082128. The Parties shall cooperate in submitting this Settlement Stipulation promptly to the Commission for acceptance so that it may be approved and implemented as early as possible. The Parties agree that the Settlement Stipulation is self-explanatory, but shall cooperate in developing supporting documentation pursuant to WAC 480-07-740(2)(a), if required by the Commission or Administrative Law Judge. The Parties shall each make a witness or witnesses available to answer questions in support of this Settlement Stipulation or provide such other indication of support as the Commission or Administrative Law Judge may require. Each Party will also provide a legal representative

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or representatives to support the Settlement Stipulation at a hearing if the Commission or Administrative Law Judge requires, and recommend that the Commission issue an order adopting the Settlement Stipulation in its entirety. In the event the Commission rejects this Settlement Stipulation or accepts this Settlement Stipulation upon conditions not contained herein, the provisions of WAC 480-07-750(2) shall apply.

17. The Parties enter into this Settlement Stipulation to avoid further expense, uncertainty, and delay. By executing this Settlement Stipulation, no Party shall be deemed to have approved, accepted, admitted, or consented to the facts, principles, methods, or theories employed in arriving at the terms of the Settlement Stipulation, and except to the extent expressly set forth in this Settlement Stipulation, no Party shall be deemed to have agreed that any provision of this Settlement Stipulation is appropriate for resolving issues in any other proceeding, except those proceedings involving the enforcement or implementation of the terms of this Settlement Stipulation.

18. This Settlement Stipulation may be executed by the Parties in several counterparts, through original and/or facsimile signature, and as executed shall constitute one agreement.

19. This Settlement Stipulation is entered into by each Party as of the date entered below.

DATED this ____ day of April, 2009.

PERKINS COIE LLP

By _____
Sheree Strom Carson
Attorneys for Puget Sound Energy, Inc.

**ROBERT M. MCKENNA
Attorney General**

By _____
Robert D. Cedarbaum
Senior Counsel
Counsel for Washington Utilities and
Transportation Commission

**ROBERT M. MCKENNA
Attorney General**

By _____
Simon ffitch
Senior Assistant Attorney General
Public Counsel Section

DAVISON VAN CLEVE

By _____
S. Bradley Van Cleve
Counsel for ICNU

EXHIBIT A

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY, INC.

For a Determination of Emissions Compliance and Proposed Accounting Treatment For the Mint Farm Energy Center; or, Alternatively For an Accounting Order

Docket No. UE-082128

**ORDER AUTHORIZING DEFERRED
ACCOUNTING TREATMENT**

(PROPOSED)

MEMORANDUM AND FINDINGS

7. On November 25, 2008, Puget Sound Energy, Inc. ("PSE" or "the Company") filed with the Washington Utilities and Transportation Commission ("Commission" or "WUTC") a petition for an emissions performance determination and order approving accounting treatment ("Petition"). Specifically, PSE requested an order: (i) determining that the Mint Farm Energy Center ("Mint Farm") complies with the greenhouse gases emissions performance standard in Chapter 80.80 RCW, Greenhouse Gases Emissions, including a determination that the resource is baseload electric generation; and (ii) approving the proposed deferred accounting methodology detailed in the Petition, pursuant to RCW 80.80.060(6) and WAC 480-100-435.⁵ In the alternative, in the event the Commission determined that Mint Farm was not eligible for deferred accounting under RCW 80.80.060(6), PSE petitioned the Commission for an accounting order that would authorize

⁵ The Company's proposed deferred accounting methodology included: (a) temporary suspension of Schedule G to the Power Cost Adjustment ("PCA") mechanism as it relates to Mint Farm; (b) crediting the variable cost deferral and charging power costs with the forgone market purchases calculated using Mint Farm generation priced using the equivalent market purchase costs included in current rates; and (c) applying over-recovered power costs under the PCA true-up to any net Mint Farm deferred variable costs.

that same deferred accounting methodology.

8. Mint Farm is a natural gas-fired combined cycle combustion turbine plant, situated on approximately 11.42 acres of land located within the Mint Farm Industrial Park in Longview, Washington. PSE purchased Mint Farm on December 5, 2008, and after the purchase, PSE upgraded Mint Farm to bring it up to the Company's operating standards and to meet property insurance requirements.

9. The Commission convened a prehearing conference in this proceeding at Olympia, Washington on February 2, 2009, before Administrative Law Judge Dennis J. Moss. At the prehearing conference, the Commission granted the Industrial Customers of Northwest Utilities' ("ICNU") petition to intervene. The Public Counsel Section of the Washington Office of Attorney General ("Public Counsel") and the Staff of the Washington Utilities and Transportation Commission ("Commission Staff") also made their appearances in this docket.⁶ The parties to this docket, therefore, are PSE, Commission Staff, Public Counsel, and ICNU (collectively, "the Parties").

10. In accordance with the procedural schedule adopted at the prehearing conference (Order 01), PSE filed direct testimony on February 13, 2009. The Company's direct testimony addressed deferred accounting, whether Mint Farm complies with the greenhouse gases emissions performance standard set forth in Chapter 80.80 RCW, whether the Company has a need to acquire new electric generation resources, and whether Mint

⁶ In formal proceedings such as this, Commission Staff functions as an independent party with the same rights, privileges, and responsibilities as other parties to the proceeding. There is an "ex parte wall" separating the Commissioners, the presiding Administrative Law Judge, and the Commissioners' policy and accounting advisors from all parties, including Commission Staff. See RCW 34.05.455. The three-member panel of Commissioners is not a party to this Stipulation.

Farm is appropriate to meet that need.

5. The Parties engaged in discovery and mutually agreed to conduct a settlement conference on March 19, 2009. Based on the settlement discussion and related correspondence, the Parties reached an agreement regarding matters in dispute in this proceeding and filed a Settlement Stipulation on April 2, 2009. The Parties presented the Settlement Stipulation as a full settlement pursuant to WAC 480-07-730(1).

6. As provided in the terms of the Settlement Stipulation, the Parties agreed that the Commission should enter an order authorizing deferred accounting treatment for the fixed (including the return of and on⁷ the plant investment) and variable cost components associated with Mint Farm, as such fixed and variable costs are defined by PSE's PCA mechanism,⁸ plus the accrual of interest on such deferral at PSE's authorized net of tax rate of return for the period, 7.00% per the Partial Settlement Re: Electric and Natural Gas Revenue Requirements and Order 12 in the Company's most recent general rate case, Docket UE-072300 *et al.* This deferral would commence when the fixed and variable costs associated with Mint Farm begin to be reflected in the Company's income statement, but no earlier than November 25, 2008 when the Petition was filed, and end on the day immediately preceding the effective date of new rates that result from the Commission's final order in the Company's next rate proceeding. The amount recorded on PSE's books for the purchase of

⁷ This is the fixed cost associated with the net of tax return for the fixed asset recovery on Mint Farm that would be included in Transmission or Production Rate Base on Exhibit A-1 of the PCA Mechanism.

⁸ The PCA's definition of fixed and variable costs is set forth on page 4 of the Settlement Terms for PCA, which were approved and adopted by the Commission's 12th Supplemental Order in Docket UE-011570.

Mint Farm and the upgrades to Mint Farm would be used to determine depreciation plus the return on the plant investment.

7. By agreeing to this deferred accounting order, the Parties did not waive, and expressly reserved, the right to challenge in the Company's next rate proceeding, the prudence and the recovery of costs associated with Mint Farm, including costs that the Company has deferred. Further, the Parties did not waive, and expressly reserved, the right to challenge in the Company's next rate proceeding, the Company's deferral methodology (including whether the deferred costs are appropriate for deferral and whether temporary suspension of PCA Schedule G as it relates to Mint Farm is appropriate), interest rate, and the amortization period. PSE agreed that nothing in the Settlement Stipulation alters its burden to prove in its next rate proceeding the appropriateness of the Mint Farm deferral and the prudence of all costs associated with Mint Farm.

8. The Parties agreed that the Commission's determination regarding whether Mint Farm is baseload electric generation that complies with the greenhouse gases emissions performance standard in Chapter 80.80 RCW, and all other issues raised in the Petition and the Company's direct testimony, other than the authorization for deferred accounting as set forth above, should be decided in the Company's next rate proceeding.

9. The Parties agreed to support the Settlement Stipulation as a full settlement of all issues in this proceeding and to recommend Commission approval of the terms of the Settlement Stipulation in their entirety.

10. The Parties agreed that the Settlement Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the

negotiation of the Settlement Stipulation would not be admissible as evidence in this or any other proceeding. By executing the Settlement Stipulation, no Party would be deemed to have approved, accepted, admitted, or consented to the facts, principles, methods, or theories employed in arriving at the terms of this Settlement Stipulation, and except to the extent expressly set forth in the Settlement Stipulation, no Party should be deemed to have agreed that any provision of the Settlement Stipulation is appropriate for resolving issues in any other proceeding, except those proceedings involving the enforcement or implementation of the terms of this Settlement Stipulation.

ORDER

WHEREFORE, THE COMMISSION HEREBY FINDS AND ORDERS THAT:

1. The Settlement Stipulation filed by the Parties on April 2, 2009 in this docket is in the public interest and is adopted and approved by the Commission, as attached.
2. Authorization is given to PSE to defer the fixed (including the return of and on the plant investment) and variable cost components associated with Mint Farm, as such fixed and variable costs are defined by PSE's PCA mechanism, plus the accrual of interest on such deferral at PSE's authorized net of tax rate of return for the period, 7.00% per the Partial Settlement Re: Electric and Natural Gas Revenue Requirements and Order 12 in the Company's most recent general rate case, Docket UE-072300 *et al.* This deferral will commence when the fixed and variable costs associated with Mint Farm begin to be reflected in the Company's income statement, but no earlier than November 25, 2008 when the Petition was filed, and will end on the day immediately preceding the effective date of new rates that result from the Commission's final order in the Company's next rate

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proceeding. The amount recorded on PSE's books for the purchase of Mint Farm and the upgrades to Mint Farm will be used to determine depreciation plus the return on the plant investment.

3. The rights of Parties to challenge, in the Company's next rate proceeding, the prudence and the recovery of costs associated with Mint Farm, including costs that the Company has deferred, are hereby reserved.

4. The rights of Parties to challenge, in the Company's next rate proceeding, the Company's deferral methodology (including whether the deferred costs are appropriate for deferral and whether temporary suspension of PCA Schedule G as it relates to Mint Farm is appropriate), interest rate, and amortization period, are hereby reserved.

5. Neither the Settlement Stipulation nor this Order alters the Company's burden to prove in its next rate proceeding the appropriateness of the Mint Farm deferral and the prudence of costs associated with Mint Farm.

6. The Commission's determination regarding whether Mint Farm is baseload electric generation that complies with the greenhouse gases emissions performance standard in Chapter 80.80 RCW, and all other issues raised in the Petition and the Company's direct testimony, other than the authorization for deferred accounting as set forth above, will be decided in the Company's next rate proceeding.

7. The Commission's authorization herein is for accounting purposes only and does not alter or amend the present rates of the Company.

8. This Order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of cost or any matters

whatsoever that may come before it, nor shall anything herein be construed as an acquiescence in any estimate or determination of costs claimed or asserted.

9. The Commission retains jurisdiction over the subject matter and PSE to effect the provisions of this order.

DATED at Olympia, Washington, and effective this ____ day of ____ April, ____.

JEFFREY D. GOLTZ, Chairman

PATRICK J. OSHIE, Commissioner

PHILIP B. JONES, Commissioner

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