

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	DOCKET UE-072300
TRANSPORTATION COMMISSION,)	DOCKET UG-072301
)	<i>(consolidated)</i>
Complainant,)	
v.)	
PUGET SOUND ENERGY, INC.,)	PARTIAL SETTLEMENT RE:
)	NATURAL GAS RATE SPREAD AND
Respondent.)	RATE DESIGN
)	

I. INTRODUCTION

1 This Partial Settlement is entered into pursuant to WAC 480-07-730(2) in order to compromise and settle all issues concerning natural gas rate spread and rate design that have been raised in this consolidated proceeding between the settling parties. This Partial Settlement sets forth the rate spread and rate design that the parties agree should be applied to any natural gas revenue requirement the Washington Utilities and Transportation Commission ("Commission") determines at the conclusion of litigation on contested revenue requirement issues in order to produce the total revenue requirement.

2 This agreement is filed as a Partial Settlement because it is entered by all parties that have been actively engaged in natural gas rate spread and rate design issues. This Partial Settlement replaces and supersedes the Multiparty Settlement Re: Natural Gas Rate Spread and Industrial Rate Design filed with the Commission on May 30, 2008.

II. PARTIES

3 This Partial Settlement is entered into by: Puget Sound Energy, Inc. ("PSE"), the Staff of the Washington Utilities and Transportation Commission ("Staff"), the

Public Counsel Section of the Attorney General's Office ("Public Counsel"), Northwest Industrial Gas Users ("NWIGU"), Seattle Steam Company ("Seattle Steam"), Nucor Steel Seattle, Inc. ("Nucor"), and The Energy Project (collectively referred to hereinafter as the "Parties" and individually as a "Party").

III. BACKGROUND

4 On December 3, 2007, PSE filed with the Commission revisions to its currently effective Tariff WA U-60, Tariff G, Electric Service, Advice No. 2007-34 and Tariff WN U-2, Gas Service, Advice No. 2007-35. The proposed revisions would implement a general rate increase of \$174.5 million, or 9.50 percent, for electric service and \$56.8 million, or 5.31 percent, for natural gas service. On December 12, 2007, the Commission suspended and consolidated the filings (collectively referred to hereinafter as the "General Rate Case"). PSE subsequently amended its General Rate Case filing on April 14, 2008, revising its electric revenue requirement to \$179.7 million and its natural gas revenue requirement to \$58.1 million. In rebuttal testimony filed July 3, 2008, PSE further revised its electric revenue requirement to \$165.1 million and its natural gas revenue requirement to \$55.5 million.

5 A prehearing conference in the General Rate Case was held on January 14, 2008. The Commission granted petitions to intervene in the gas rate docket of NWIGU, Seattle Steam, Nucor, and The Energy Project.¹

6 The Parties have reached a Partial Settlement pursuant to WAC 480-07-730(2) and now wish to present their agreement for Commission approval. In the interest of

¹ Intervenor in the electric rate docket who are not parties to this Partial Settlement are the Industrial Customers of Northwest Utilities, The Kroger Co., and the Federal Executive Agencies.

expediting the orderly disposition of the General Rate Case, the Parties therefore adopt the following Partial Settlement which is entered into by the Parties voluntarily to resolve matters in dispute among them regarding natural gas rate spread and rate design.

7 The Parties understand that only subsections 1-7 of Section IV of this Partial Settlement are subject to Commission approval and hereby respectfully request that the Commission issue an order approving those subsections of this Partial Settlement. The Parties request that the Commission hear evidence concerning their settlement of natural gas rate spread and rate design as part of the hearings scheduled to commence before the Commission on September 2, 2008. The Parties are also filing joint testimony in support of the Partial Settlement, pursuant to WAC 480-07-740(2).

IV. AGREEMENT

1. Natural Gas Rate Spread

8 This section describes how the total natural gas revenue requirement increase determined by the Commission will be applied to each class of natural gas customers at the conclusion of the General Rate Case:

9 a. Residential Schedule (Schedule 23): 98.46% of system average margin increase.²

10 b. Commercial and Industrial Sales (Schedules 31, 36, 51, 61): 142.35% of system average margin increase.

11 c. Large Volume Sales (Schedule 41): 12.50% of system average margin increase.

² As used herein, "system average margin increase" means the percentage increase in revenue from all classes, not including the cost of gas, that is ultimately awarded by the Commission.

- 12 d. Interruptible (Schedule 85): 12.50% of system average margin increase.
- 13 e. Limited Interruptible (Schedule 86): 0.00% of system average margin increase.
- 14 f. Non-Exclusive Interruptible (Schedule 87): 50.00% of system average margin increase.
- 15 g. Special Contracts: 50.00% of system average margin increase. The increase to special contracts is an imputation and represents the assignment of an actual revenue responsibility to this class. The actual changes in any special contracts are determined by their terms.
- 16 h. Compressed Natural Gas: 0% of system average margin increase.
- 17 i. Rentals: 100.00% of system average margin increase.
- 18 j. Residual: Any residual increase needed to meet the full revenue requirement increase ordered by the Commission will be allocated to all schedules except Rentals based on the initial increase.

19 For illustrative purposes, pages 1-2 of the Attachment to this Partial Settlement shows the Parties' agreed rate spread associated with a hypothetical final revenue requirement increase of \$50 million.

2. Natural Gas Rate Design for Schedules 85 and 87

- 20 a. Demand charge: The percentage of margin increase resulting to Schedule 87 shall be applied to increase the demand charge by the same percentage for Schedules 87 and 85 (e.g., if the resulting increase is 5%, then the current demand charge of \$1.02 is increased by the same 5% for Schedules 87 and 85).

- 21 b. Basic charge: The same percentage of margin increase resulting to
Schedule 87 shall be applied to increase the basic charge for Schedules 87 and 85
(currently \$800 for transportation and \$500 for sales).
- 22 c. Procurement charge: The procurement charge for Schedules 85 and 87
sales service shall remain the same as current (*i.e.*, \$0.00650 for Schedule 85 and
\$0.00500 for Schedule 87).
- 23 d. Gas balancing service: The gas balancing service charge for
transportation service shall be set at \$0.00070 as proposed by PSE in Exhibit
No. ___(JKP-13) at pages 35 and 43.
- 24 e. Volumetric charge: The remaining revenue requirements for
Schedules 85 and 87 will be recovered by increasing the volumetric charges for the
respective rate schedules. Within each rate schedule, the same percentage increase will
be applied to each volumetric rate block.

3. Operating Terms of Schedules 85T, 86T and 87T

25 The operating terms of Schedule 57 are incorporated into Schedules 87T, 86T
and 85T. Expressly, Schedules 87T, 86T, and 85T shall have no exclusive fuel
requirement, no back up fuel requirement, and no monthly minimum charge, but will
have an annual minimum charge. Minimum annual charges for Schedules 85T and 87T
shall be calculated consistent with tariff volume requirements and annual contract
volumes as applicable.

26 Sales Schedules 87, 86, and 85 will have no exclusive fuel requirement and no
back up fuel requirement. Sales Schedules 87, 86, and 85 will have no monthly

minimum charges, but they will have annual minimum charges consistent with tariff volume requirements and annual contract volumes as applicable.

4. Schedule 57

27 Schedule 57 will be eliminated once the General Rate Case is completed. With the elimination of the schedule, all Schedule 57 customers will be placed on the particular transportation schedule that is most economically advantageous to their historic usage with the same service characteristics unless the customer makes a different election.

5. Other Rate Design Issues

28 Basic charges for Schedules 23, 31, 41, and 86 and related transportation schedules will be as presented below in Table 1:

Table 1: Monthly Basic Charges for Schedules 23, 31, 41 and 86

Schedule	Basic Charge
23 Residential	\$10.00
31 Commercial & Industrial	\$30.00
31T Commercial & Industrial Transportation	\$330.00
41 Large Volume	\$105.00
41T Large Volume Transportation	\$405.00
86 Limited Interruptible	\$137.50
86T Limited Interruptible Transportation	\$437.50

29 Demand charges for Schedules 41 and 86 and their related transportation schedules will be equal to the demand charges for Schedules 85 and 87.

30 The procurement charge for Schedule 86 sales will remain at its current level of \$0.00650 per therm. The balancing charge for Schedule 86T will be \$0.00070 per

therm, as proposed by PSE in Exhibit No. __ (JKP-10) at page 10, line 10, consistent with Schedules 85T and 87T.

31 The rate design agreement is summarized on page 3 of the Attachment and is detailed in the Attachment.

6. Elimination of Schedules 36 and 51

32 Schedules 36 and 51 shall be eliminated at the conclusion of the General Rate Case, as proposed by PSE in Exhibit No. __ (JKP-1T) at page 5, lines 4-8.

7. Natural Gas Collaborative

33 PSE will conduct a collaborative on natural gas cost of service, rate spread and rate design in advance of PSE's next general rate case. PSE will hire an independent outside expert on natural gas cost of service for that collaborative and will provide that expert with all filings made in this case on the topic of natural gas cost of service, rate design and rate spread. PSE will seek input from the collaborative participants with respect to selection of the outside expert.

34 It is the Parties' intent that the natural gas collaborative will be completed prior to the filing of PSE's next general rate case. Any agreements reached by the participants in the collaborative will be presented to the Commission for approval in PSE's next general rate case, and any issues on which agreement has not been reached may be presented to the Commission for its consideration by any of the participants in PSE's next general rate case. PSE's timing for filing a general rate case is not contingent on reaching an agreement in the collaborative.

35 Use of the independent consultant will not limit any party's right to select an expert witness in the next general rate case.

8. Miscellaneous Provisions.

36 a. The Parties agree to support the terms and conditions of this Partial Settlement as a settlement of all contested issues between them in the above-captioned consolidated proceedings regarding natural gas rate spread and rate design.

37 b. This Partial Settlement represents an integrated resolution of natural gas rate spread and rate design issues. Accordingly, the Parties recommend that the Commission adopt and approve subsections 1-7 of Section IV of this Partial Settlement in their entirety.

38 c. The Parties shall cooperate in submitting this Partial Settlement promptly to the Commission for approval of subsections 1-7 of Section IV above, and shall cooperate in developing supporting testimony as required in WAC 480-07-740(2)(b). The Parties agree to support the Partial Settlement throughout this proceeding, provide witnesses to sponsor such Partial Settlement at a Commission hearing, and recommend that the Commission issue an order adopting subsections 1-7 of Section IV of the Partial Settlement.

39 d. In the event the Commission rejects subsections 1-7 of Section IV of the Partial Settlement, the provisions of WAC 480-07-750(2)(b) shall apply. In the event the Commission accepts those subsections of the Partial Settlement upon conditions not proposed herein, each Party reserves the right, upon written notice to the Commission and all other parties to this proceeding within five (5) days of the Commission order, to state its rejection of the conditions. In such event, the Parties immediately will request that hearings be held on the appropriateness of the conditions or upon other natural gas rate spread or rate design proposals of the Parties. In any further proceedings triggered

by this paragraph, the Parties agree to cooperate in development of a hearing schedule that concludes such proceeding at the earliest possible date. Any further proceedings triggered by this paragraph shall not delay any compliance filing of PSE ordered by the Commission and such compliance filing shall remain in effect pending any further proceeding.

40 e. The Parties enter into this Partial Settlement to avoid further expense, uncertainty, and delay. By executing this Partial Settlement, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed in arriving at the terms of this Partial Settlement and except to the extent expressly set forth in this Partial Settlement, no Party shall be deemed to have agreed that this Partial Settlement is appropriate for resolving any issues in any other proceeding. No Party shall represent that any of the facts, principles, methods, or theories employed by any Party in arriving at the terms of this Partial Settlement are precedents in any other proceeding.

41 f. This Partial Settlement may be executed in counterparts, through original and/or facsimile signature, and each signed counterpart shall constitute an original document.

42 g. Each Party agrees:

43 1. to provide all other Parties the right to review in advance of publication any and all announcements or news releases the Party intends to make about the Partial Settlement. This right of advance review includes a reasonable opportunity for a Party to request changes to the text of such

announcements. However, no Party is required to make any change requested by another Party; and

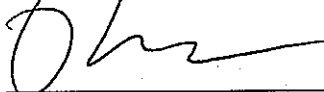
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2. to include in any news release or announcement a statement that Staff's recommendation to approve the settlement is not binding on the Commission itself. This subsection does not apply to any news release or announcement that makes no reference to Staff.

DATED this 15th day of August, 2008.

Respectfully submitted,

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Attorney General



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DATED this 5th day of August, 2008.

Respectfully submitted,

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DATED this 18th day of August, 2008.

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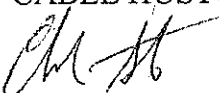
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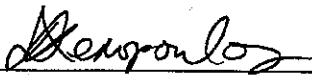
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