

**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:
	)	ELECTRIC AND NATURAL GAS
Respondent.	)	REVENUE REQUIREMENTS
	)	
	)	
	)	

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**I. INTRODUCTION**

1 This Partial Settlement is entered into pursuant to WAC 480-07-730(2) in order to compromise and settle all issues related to electric and natural gas revenue requirements that have been raised in this consolidated proceeding between the settling parties. This Partial Settlement recommends an increase in electric and natural gas revenue requirements of \$130.2 million and \$49.2 million, respectively, that the parties agree will result in rates that are just, fair, reasonable and sufficient and otherwise in the public interest, and that should be accepted by the Commission as a resolution of all revenue requirement issues in this docket. The parties understand this Partial Settlement is subject to Commission approval.

**II. PARTIES**

2 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"); the Industrial Customers of Northwest Utilities ("ICNU"); Northwest Industrial Gas Users ("NWIGU");

Seattle Steam Company; The Energy Project; The Kroger Co. ("Kroger"); Federal Executive Agencies ("FEA"); and Nucor Steel Seattle, Inc. ("Nucor") (collectively referred to hereinafter as the "Parties" and each individually as a "Party").

### III. BACKGROUND

3 On December 3, 2007, PSE filed with the Washington Utilities and Transportation Commission ("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.

4 A prehearing conference in the General Rate Case was held on January 14, 2008. The Commission granted petitions to intervene in these dockets of ICNU, Kroger, The Energy Project, NWIGU, Seattle Steam Company, FEA and Nucor.

5 The Parties have reached a Partial Settlement pursuant to WAC 480-07-730(3) and now wish to present their agreement for Commission approval. In the interests of 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 electric and natural gas revenue requirements.

6           The Parties understand that only Section IV of this Partial Settlement is subject to Commission approval and hereby respectfully request that the Commission issue an order approving Section IV of this Partial Settlement. The Parties request that the Commission hear evidence concerning their settlement of electric and natural gas revenue requirements as part of the hearings scheduled to commence before the Commission on September 3, 2008. The Parties to this Partial Settlement are also filing Joint Testimony in support of their agreement, pursuant to WAC 480-07-740(2).

#### IV. AGREEMENT

7           This section describes how the agreed electric and natural gas revenue requirements have been determined. The revenue models used to determine the electric and natural gas rate requirements are the revenue models supporting the Company's rebuttal testimony and exhibits filed July 3, 2008 and are adjusted for the following issues. Except as specifically set forth below, the Parties are in agreement that the accounting amortizations and methodologies included in the Company's July 3<sup>rd</sup> filing should be accepted by the Commission for the purpose of setting rates in these dockets. No Party shall be deemed to have agreed that such accounting amortizations and methodologies are appropriate or establish any precedent in any future proceeding.

8           **Cost of Capital:** The Parties agree to an 8.25% overall cost of capital, and a net of tax cost of capital of 7.00%, calculated as follows:

	Capital %	Cost %	Rate of Return
DEBT	53.97%	6.64%	3.58%
PREFERRED STOCK	0.03%	8.61%	0.00%
EQUITY	46.00%	10.15%	4.67%
TOTAL	100.00%		8.25%
AFTER TAX DEBT (LINE 1 * 65%)	53.97%	4.32%	2.33%
PREFERRED	0.03%	8.61%	0.00%
EQUITY	46.00%	10.15%	4.67%

TOTAL AFTER TAX COST OF  
CAPITAL

100.00%

7.00%

9           **Depreciation:** The Parties agree to the depreciation rates for electric, natural gas and common plant shown in Attachment 1 to this Partial Settlement. The electric depreciation rates have been adjusted from the Company's rebuttal filing to reflect Commission Staff's and Public Counsel's proposed Colstrip depreciable life of 60 years.<sup>1</sup> The Parties request that the Commission approve these depreciation rates effective November 1, 2008.

10           **Storm Damage:** The Parties agree with FEA's recommendation to amortize the December 13, 2006 "Hanukkah Eve" wind storm over 10 years.<sup>2</sup> The Parties further agree to continuation of the Catastrophic Storm Loss Deferral Mechanism, as set forth in the direct testimony of John H. Story, Exhibit JHS-1CT at 45-47. The new \$8 million threshold level established therein for Institute of Electrical and Electronics Engineers related storm deferrals shall commence with the calendar year 2009.

11           **Future Rate Period:** The Company agrees to withdraw its request for a technical conference on this subject.<sup>3</sup>

12           **Next General Rate Case Filing:** The Company agrees that it will not file a general rate case prior to April 1, 2009.

13           **New Resources:** The Parties agree that the following new resources and purchased power agreements ("PPAs"), as set forth in the Company's direct and rebuttal testimony,<sup>4</sup>

<sup>1</sup> Exhibit WHW-1T at 7-10 (Testimony of William H. Weinman) and Exhibit CWK-1T at 8-12 (Testimony of Charles W. King).

<sup>2</sup> Exhibit RCS-1T at 3-11 (Testimony of Ralph C. Smith).

<sup>3</sup> That request was made at Exhibit EMM-1CT at 30 (Testimony of Eric M. Markell).

<sup>4</sup> Exhibit KJH-1HCT at 23-24 and Exhibit KJH-9CT at 23-24 (Testimony of Kimberly J. Harris); *See also* Exhibit RG-1HCT at 31-97 and Exhibit RG-55CT at 2-6 (Testimony of Roger Garratt) for full descriptions of the new resources and PPAs.

were prudently acquired, and that the costs associated with these resources and PPAs are reasonable and should be approved by the Commission for rate recovery:

- Whitehorn Units 2 and 3, a pair of simple cycle combustion turbines with a total capacity of 150 MW.
- Sumas natural gas fired combined cycle combustion turbine and an interest in the natural gas pipeline that serves the facility. This unit has a total capacity of approximately 125 MW.
- Addition of 7.2 MW of wind capacity at the PSE-owned Hopkins Ridge Wind Facility (“the Hopkins Ridge Infill”).
- A two-year extension to the full requirements PPA with Powerex to PSE’s Point Roberts load.
- A 20-year power purchase with PPM Energy for 50 MW of the 221-MW Klondike III wind project.
- An approximate four-year PPA with Lehman Commodity Services Group for 50 MW of replacement energy due to the Sumas PPA default.
- An approximate four-year PPA with Sempra Energy Trading Company for the balance of the energy replacement necessitated by the Sumas PPA default.
- A four-year winter on-peak power purchase for 150 MW.
- A three and one-half year Locational Exchange Agreement with TransAlta Energy Marketing (US), Inc.

14

**Electric Revenue Deficiency:** Attachment 2 shows PSE’s adjusted results of electric operations and rate of return on electric rate base, for ratemaking purposes, as agreed upon by the Parties for these dockets. Net operating income shown on line 34,

including agreed upon adjustments that reduce net operating income by \$60,554,404, is \$191,595,727. This results in an overall adjusted return of 5.80% on adjusted rate base of \$3,303,573,534. The resulting revenue requirement necessary to achieve an overall return of 8.25% is \$130,179,688 shown on line 2. The final column shows the adjusted results of operations with a total revenue requirement of \$2,019,745,029 and net operating income of \$272,544,813, including the \$130,179,688 (7.09%) retail revenue increase, which achieves the overall return of 8.25%. This revenue requirement includes the adjustment to electric revenues recommended in the Partial Settlement Re: Service Quality, Meter and Billing Performance, and Low Income Bill Assistance, filed August 20, 2008.

15           **Natural Gas Revenue Deficiency:** Attachment 3 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 Parties for these dockets. Net operating income, shown on line 33, including agreed upon adjustments that reduce net operating income by \$23,421,700, is \$80,542,732. This results in an overall adjusted return of 5.98% on adjusted rate base of \$1,347,267,694. The resulting revenue requirement necessary to achieve an overall return of 8.25% is \$49,212,697 shown on line 5. The final column shows the adjusted results of operations with a total revenue requirement of \$1,118,673,169 and net operating income of \$111,149,585, including the \$49,212,697 (4.60%) retail revenue increase, which achieves the overall return of 8.25%. This revenue deficiency includes the adjustment to natural gas revenues recommended in the Partial Settlement Re: Service Quality, Meter and Billing Performance, and Low Income Bill Assistance, filed August 20, 2008.

16           **Power Cost Adjustment ("PCA") Mechanism:** The Parties agree to the Power Cost Rate shown in confidential Attachment 4. Such agreement does not preclude any Party

from contesting any element on which that Power Cost Rate is calculated in any future proceeding.

17 PSE agrees to study the efficacy of the PCA sharing bands and, if warranted, propose modifications to the bands in its next general rate case. This review is to be completed by December 31, 2008 and will be shared with all interested parties including Staff, Public Counsel and ICNU.

18 **Power Cost Only Rate Case ("PCORC"):** The Parties agree that the only issues remaining among them to be litigated before the Commission are whether the PCORC should continue and, if it does continue, in what form.

19 **Effective Date of New Rates:** The Parties agree to recommend an effective date of November 1, 2008 for new rates in these dockets.

20 **Gas Cost Update:** For purposes of this Partial Settlement, the Parties agree that no further update in natural gas costs or related power cost items should be ordered by the Commission as part of a compliance filing, or otherwise, in these dockets.

21 **Prefiled Testimony Added to the Record:** It is stipulated by the Parties that all testimony submitted in this docket should be admitted into the evidentiary record.

22 **Electric Rate Spread and Rate Design:** As stated in the separate Partial Settlement Re: Electric Rate Spread and Electric Rate Design between PSE, Staff, Public Counsel, The Energy Project, ICNU and Kroger, submitted in this docket on August 12, 2008 and which no other party opposes.

23 **Gas Rate Spread and Rate Design, and Gas Cost of Service Collaborative:** As stated in the separate Partial Settlement Re: Natural Gas Rate Spread and Rate Design

between PSE, Staff, Public Counsel, The Energy Project, NWIGU, Nucor and Seattle Steam, submitted in these dockets on August 18, 2008 and which no other party opposes.

24           **Service Quality Index, Back Billing and Low Income:** As stated in the separate Partial Settlement Re: Service Quality, Meter and Billing Performance, and Low Income Bill Assistance between PSE, Staff, Public Counsel and The Energy Project, submitted in these dockets August 20, 2008 and which no other party opposes.

25           **Emergency Response and Storm Preparedness:** As stated in the separate Multiparty Settlement between PSE and Staff, submitted in these dockets on August 19, 2008 which no other party opposes.

#### V. MISCELLANEOUS PROVISIONS

26           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 electric revenue requirement and natural gas revenue requirement, and further agree that this Partial Settlement, along with the other settlements in this docket, resolve all contested issues between the Parties with the exception of the issue of the continuation and form of the PCORC, as set forth in Section IV, paragraph 17 above.

27           This Partial Settlement represents an integrated resolution of electric and natural gas revenue requirements and related matters. Accordingly, the Parties recommend that the Commission adopt and approve Section IV of this Partial Settlement in its entirety, including the Attachments.

28           The Parties shall cooperate in submitting this Partial Settlement promptly to the Commission for approval 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 the Partial Settlement in its entirety.

29

In the event the Commission rejects Section IV of the Partial Settlement, the provisions of WAC 480-07-750(2)(b) shall apply. In the event the Commission accepts Section IV 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 electric and natural gas revenue requirements and related 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.

30

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, accounting adjustments, 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.

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

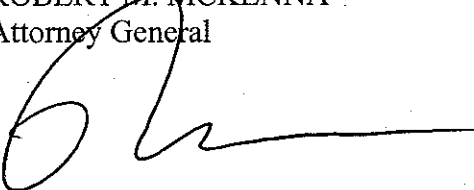
32 All Parties agree:

- i. to provide all other Parties the right to review in advance of publication any and all announcements or news releases that any other 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
- ii. 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 otherwise makes no reference to Staff.

DATED this <sup>22nd</sup> day of August, 2008.

Respectfully submitted,

ROBERT M. MCKENNA  
Attorney General

  
ROBERT D. CEDARBAUM  
Senior Counsel  
Counsel for Washington Utilities and  
Transportation Commission

PUGET SOUND ENERGY, INC

ERIC MARKELL  
Executive Vice President and Chief  
Financial Officer

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DATED this 22<sup>nd</sup> day of August, 2008.


Respectfully submitted,

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Attorney General

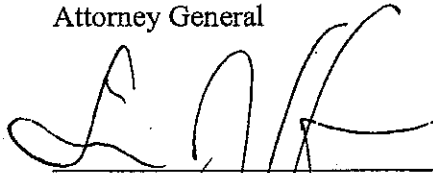
PUGET SOUND ENERGY, INC

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Senior Counsel  
Counsel for Washington Utilities and  
Transportation Commission

  
ERIC MARKELL  
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Attorney General

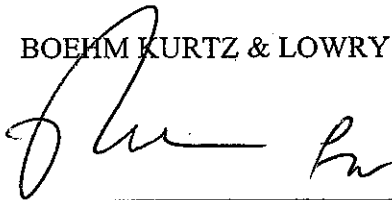


SIMON FRITCH  
Senior Assistant Attorney General  
Public Counsel Section

DAVISON VAN CLEVE

S BRADLEY VAN CLEVE  
Counsel for ICNU

BOEHM KURTZ & LOWRY



KURT BOEHM  
Counsel for The Kroger Co. *per e-mail  
a.R. 8/72*

RONALD ROSEMAN  
Counsel for The Energy Project

CABLE HUSTON BENEDICT  
HAAGENSEN & LLOYD

CHAD STOKES  
Counsel for NWIGU

GRAHAM & DUNN

ELAINE SPENCER  
Counsel for Seattle Steam

BRICKFIELD BURCHETTE RITTS &  
STONE

DAMON XENOPOULOS  
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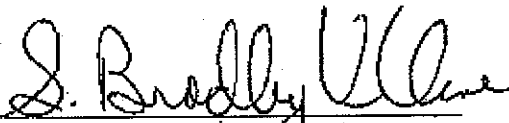
SIMON FITCH  
Senior Assistant Attorney General  
Public Counsel Section

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CHAD STOKES  
Counsel for NWIGU

DAVISON VAN CLEVE

GRAHAM & DUNN

  
S BRADLEY VAN CLEVE  
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Counsel for Seattle Steam

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BOEHM KURTZ & LOWRY

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DAMON XENOPOULOS  
Counsel for Nucor

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Counsel for The Kroger Co.

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