Attachment A

A. Determination of Revenue Requirement

The costs included in the rate adjustment will be based on actual and forecasted incremental: (1) return on incremental plant, net of accumulated depreciation and applicable deferred federal income tax; and (2) depreciation expense on the associated incremental plant. Additionally, the rate adjustment will include a true-up of estimates used in any previous filing to actual costs and loads. After the initial period, the rate adjustment will be updated each year with a November 1 effective date. Further detailed discussion of the determination of revenue requirement can be found below.

The initial scope of the Pipeline Integrity Program ("PIP") includes the following programs: (1) Wrapped Steel Service Assessment; (2) Wrapped Steel Main Assessment; and (3) Older Polyethylene Pipe Replacement.

For ratebase and depreciation expense, the rate adjustment will be based on projected changes through the end of the PIP rate period. PSE will track the assets used for replacement by Work Breakdown Structure (PSE's accounting system job tracking structure) and in separate FERC subaccounts to facilitate program reporting. The formula for the revenue requirement is summarized as follows:

Ratebase Calculation (based on AMA):

Rate Period Incremental Plant associated with PIP
Less: Rate Period Accumulated Depreciation
<u>Less: Rate Period Accumulated Deferred Tax</u>
Rate Period Ratebase

Revenue Requirement Calculation:

Rate Period Ratebase
<u>x Authorized Rate of Return (After-Tax)</u>
Required Return on Plant
<u>÷ FIT Conversion Factor (65%)</u>
Plant Revenue Requirement
<u>+ Rate Period Depreciation Expense</u>
Rate Period Revenue Requirement Before Other Taxes
<u>÷ Revenue Taxes Conversion Factor</u>
Rate Period Revenue Requirement

<u>"Rate Period"</u> - Projected Balances

<u>Incremental Plant Additions after the Last Rate Period</u>

Forecasted target year capital costs and depreciation associated with pipeline integrity replacements not currently included in general rate tariffs will be used to set the pipeline integrity program rate. Actual capital expenditures made during a target year will be used to true-up the recoverable costs. Such costs include accumulated depreciation, deferred taxes, depreciation and return on ratebase. The return on ratebase will be calculated using the capital structure, return on equity and cost of debt approved by the Commission in PSE's most recently concluded rate case.

The deferred tax calculation for new plant follows the tax rules that are in effect for 2010, 2011 and 2012. The AMA calculation for projected deferred tax balances follows the IRS guidelines for the calculation.

Adjustment of PIP Rate

The rate periods for the PIP rate will coincide with the PGA. Therefore, due to the timing of the initial filing, the initial rate period will only be three months, from August 1, 2011 through October 31, 2011 and be based on a three month revenue requirement of $107,440 spread over the estimated therms for August 2011 through October 2011. The next adjustment to the rate will be based on an annual revenue requirement and will occur on November 1, 2011. The revenue requirement for that filing is anticipated to be $1.95 million based on incremental plant additions from November 1, 2011 through October 31, 2012. This estimate does not consider any necessary true-ups from the prior rate period.

Estimates used in the previous filing will be trued up to actual costs and loads as they become known. The true up will be included in the next rate period calculation.

To compensate for changes that occur in general rates due to approval of a natural gas general tariff, the impact on the PIP rate will be changed as soon as practicable, but filed no later than 2 months after the effective date of new rates from the effective date of new general tariffs. Items within the PIP that will be recalculated include the plant balances and depreciation expense approved in general rates, as well as recalculation of the remaining PIP revenue requirement using the approved rate of return and depreciation rates resulting from the most recent general rate case proceeding.

B. Cost Tracking

Costs for replacement plant additions will be tracked by designated program at the FERC subaccount level on a per-job basis using WBS elements.

C. Annual Timeline

Prior to August 1 of each year: Meeting with interested parties to discuss forecast of programs and budgets for following year
October 1 of each year: Tariff Update Filing
November 1 of each year: Effective Date

D. Cost Allocation and Rate Design

Costs included in PIP will be allocated to rate schedules based on the natural gas cost of service study filed by PSE in its most recently completed gas rate case. Mains in FERC Account 376 will be allocated based on the allocation of Account 376 in the cost of service study, and Services in FERC Account 380 will be allocated based on the allocation of Account 380 in the cost of service study.

Rates will be designed to recover eligible program costs on a per-therm basis for each applicable sales and transportation schedule. The special contracts rate will be equal to the rate for Schedules 87/87T.

For this first three-month time period the estimated customer impacts are displayed in the table below:

Table 1: Estimated Customer Impacts August – October 2011

Schedule	Proposed PIP Revenue	Estimated Percent Increase
Residential (16, 23)	$70,863	0.07%
Commercial & Industrial (31, 31T)	$26,312	0.08%
Large Volume (41, 41T)	$4,599	0.03%
Interruptible (85, 85T)	$2,322	0.06%
Limited Interruptible (86, 86T)	$455	0.02%
Non-Exclusive Interruptible (87, 87T)	$2,240	0.04%
Contracts	$649	0.17%
Total	$107,440	0.07%

E. Annual Budget and Program Forecast Report

In order to help assess the composition and cost impact of the PIP recovery, prior to August 1 in a given year, PSE will schedule a meeting for all interested parties to discuss the proposed programs and budgets for the upcoming program year. At this meeting, the Company will provide: the scope of the programs for the upcoming Program Year; a forecast of expenses for the upcoming Program Year; and report on the program results and actual (and forecasted) expenses for the current Program Year.

F. CAP

Total capital expenditures included in the PIP during a given target year will not exceed $25 million without prior Commission approval

For target years commencing after October 2011 the Company, Commission Staff and other interested parties ("review group") will prepare a recommendation of work, and its associated capital costs, to be accomplished in the next target year that will be presented to the Commission for approval prior to the start of the next target year.

Capital expenditures which exceed the total approved target year pipeline integrity amount by greater than 10% will not be allowed recovery under the pipeline integrity program without separate Commission approval.

G. Duration

The program will remain in effect through October 31, 2016, or until such other time as the Commission may approve.