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ATTORNEY GENERAL OF WASHINGTON

Utilities and Transportation Division

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December 11, 1996

Mr. Steve McLellan
Washington Utilities and
Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, Washington 98504

RECEIVED
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STAFF AND PUBLIC COUNSEL
UTIL. AND TRANSP.
COMMISSION

Re: Docket UE-9⁶0195
Merger Application of Puget and WNG

Dear Mr. McLellan:

Enclosed please find the original and nineteen copies of the Stipulation proposed by Joint Applicants, Staff and Public Counsel. We understand that the Stipulation will be presented on December 18, 1996 at 9:30 a.m. Representatives from each party, and their counsel, will be available to respond to questions from the Commission and intervenors concerning our agreement.

Matthew R. Harris
Counsel for Washington Natural
Gas Company

James M. Van Nostrand
Counsel for Puget Sound Power
& Light Company

Robert D. Cedarbaum
Assistant Attorney General
Counsel for Staff

Robert F. Manifold
Assistant Attorney General
Public Counsel Section

cc: Parties



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2
3

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Proposal by

**PUGET SOUND POWER & LIGHT
COMPANY**

to Transfer Revenues from PRAM Rates to
General Rates

Docket No. UE-951270

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UTILITY AND TRANSPORTATION
COMMISSION

In the Matter of the Application of

**PUGET SOUND POWER & LIGHT
COMPANY**
and
WASHINGTON NATURAL GAS COMPANY

Docket No. UE-960195

for an Order Authorizing the Merger of
WASHINGTON ENERGY COMPANY and
WASHINGTON NATURAL GAS COMPANY
with and into **PUGET SOUND POWER &
LIGHT COMPANY**, and Authorizing the
Issuance of Securities, Assumption of
Obligations, Adoption of Tariffs, and
Authorizations in Connection Therewith.

STIPULATION

4 On February 20, 1996, Joint Applicants filed with the Commission an Application for
5 an Order authorizing the merger of Washington Energy Company ("WEC") and Washington
6 Natural Gas Company ("WNG") with and into Puget Sound Power & Light Company
7 ("Puget"), and authorizing the issuance of securities, assumption of obligations, adoption of
8 tariffs, and authorizations in connection therewith. By Commission order entered April 10,
9 1996, the merger application was consolidated with Docket No. UE-951270, the proceeding

1 regarding Puget's proposal to transfer revenues from Periodic Rate Adjustment Mechanism
2 ("PRAM") rates to general rates.

3 Following the conclusion of hearings in these proceedings, Joint Applicants,
4 Commission Staff and Public Counsel (the "Parties") engaged in settlement discussions
5 regarding the contested issues in this proceeding. The Parties have reached agreement on
6 these issues and wish to present their agreement for the Commission's consideration. The
7 Parties therefore adopt the following Stipulation. The Parties enter into this Stipulation
8 voluntarily to resolve matters in dispute among them and to expedite the orderly disposition of
9 this proceeding.

10 I. APPROVALS REQUESTED

11 The Application in this proceeding requested all necessary permission and authority to
12 complete the following transactions:

13 1. Authorizing the merger of Washington Natural Gas Company and its parent,
14 Washington Energy Company, with and into Puget Sound Power & Light Company as the
15 surviving corporation, in accordance with the Merger Agreement, with the surviving
16 corporation to be renamed Puget Sound Energy ("PSE");

17 2. Authorizing PSE to issue a sufficient number of shares of common stock, so as
18 to give effect to the conversion of the then existing and issued common stock of WEC
19 outstanding on the effective date of the merger; and a sufficient number of shares of Series II
20 PSE Preferred Stock and Series III PSE Preferred Stock to effectuate the conversion of all
21 outstanding shares of WNG preferred stock, all in accordance with the terms of the Merger
22 Agreement;

23 3. Authorizing the assumption by PSE of the first mortgage bonds of WNG;

1 recommend approval of the Application, subject to such Terms of Approval. To the extent
2 the Application and this Stipulation conflict, this Stipulation shall govern.

3 III. TERMS OF APPROVAL

4 A. Rate Plan.

5 The rate plan offered in this Stipulation is designed to achieve several objectives for
6 the merged company and its customers. First, Joint Applicants have identified several major
7 areas of potential savings related both directly and indirectly to the merger. The rate plan is
8 designed to provide the management of PSE with a five-year window of opportunity to
9 achieve these savings. Within this five-year window, PSE's financial results will be a function
10 of management's ability to achieve these savings in order to provide shareholders with an
11 opportunity to earn a reasonable return on investment.

12 The second objective of the rate plan in this Stipulation is to provide a period of rate
13 certainty for all customers of PSE for a five-year period.

14 The rate plan recognizes that PSE electric customers are at risk for additional rate
15 pressures due to expected changes in benefits from the residential exchange program
16 administered by the Bonneville Power Administration ("BPA") pursuant to Section 5 of the
17 1980 Pacific Northwest Power Planning and Conservation Act ("Regional Act").

18 The proposed rate plan is designed to meet the challenges of these two primary
19 competing objectives and to balance the interests of shareholders and customers. PSE will be
20 given an opportunity to achieve these savings over the five-year period, and in exchange
21 customers will be provided predictable rates for the five-year period.

22 1. **Rate Plan Period.** Commencing on the date of merger approval and
23 continuing through December 31, 2001 (the "Rate Plan Period"), changes in PSE's electric
24 and natural gas rates shall only be as provided in Section III.A herein.

1 **2. Natural Gas Rates.** Except as otherwise provided herein, general rates for
2 natural gas service shall remain unchanged until January 1, 1999. On January 1, 1999, general
3 rates for natural gas sales and transportation service shall be modified as follows: gas margin
4 (i.e., revenues to cover costs other than commodity costs) shall be reduced one percent (1%).
5 This adjustment in general rates for natural gas service shall be effected by filing revised tariff
6 sheets with the Commission on or before November 1, 1998, and providing notice to
7 customers of such changes prior to the January 1 effective date. Except as otherwise
8 provided herein, PSE will not file any other request for a change in general rates for natural
9 gas service prior to February 1, 2001, with an effective date after the end of the Rate Plan
10 Period. The purchased gas adjustment, now in effect and as hereinafter modified by the
11 Commission, is not affected by this Stipulation.

12 **3. Electric Rates**

13 **a. Immediate Electric Rate Reduction.** Puget shall request an
14 accounting order authorizing the treatment of the anticipated conservation tax refund from the
15 Internal Revenue Service as a regulatory asset (and an offset to PRAM deferrals) for
16 ratemaking purposes. (The amount to be treated as a regulatory asset is subject to the
17 procedures set forth in Appendix A to the Commission's Seventh Supplemental Order in this
18 proceeding and the provisions of Section III.A.4.a below.) Assuming the requested
19 authorization is granted, PRAM deferral rates as set forth in Schedule 100 will immediately be
20 reduced to zero, which will result in an average electric rate reduction of five and six tenths
21 percent (5.6%). Puget shall submit revised tariff sheets, bearing a proposed effective date of
22 February 1, 1997, to reduce to zero the PRAM deferral rate set forth in Schedule 100. In the
23 same filing, Puget shall submit revised tariff sheets providing for a 2.47% general rate increase
24 to residential customers (Schedule 7); a 1.0% general rate increase for General Service

1 customers (Schedules 24, 25 and 26) and outdoor lighting customers (Schedules 51-59), and
2 a 1.5% general rate increase for all other customer classes. Rate effects by customer class, by
3 year, are set forth in Exhibit A, attached hereto and incorporated herein by this reference.
4 Upon receipt of the tax refund, Puget shall submit a subsequent rate filing to refund
5 immediately to customers any over-collection of PRAM deferrals. This filing would also
6 include a proposed resolution of the issue regarding allocation of any interest paid by the IRS
7 on the conservation tax refund. In the event the tax refund is not received, or is different in
8 amount than anticipated, the PRAM deferral balances and rates will be correspondingly
9 adjusted.

10 **b. General Rate Changes.** General rates for electric service for General
11 Service (Schedules 24, 25 and 26) and outdoor lighting customers (Schedules 51-59) shall be
12 increased by one percent (1.0%) effective as of January 1, 1998, January 1, 1999 and
13 January 1, 2000. General rates for electric service for all other customer classes shall be
14 increased by one and one-half percent (1.5%) effective as of January 1, 1998, January 1, 1999,
15 January 1, 2000 and January 1, 2001. Such annual adjustments in general rates for electric
16 service shall be effected by filing revised tariff sheets with the Commission on or before the
17 preceding November 1, and providing notice to customers of such changes prior to the
18 January 1 effective date. Such adjustments shall be collected by equal percentage adjustments
19 of the customer, energy (kWh), demand (kW, if applicable), and reactive power (kVar, if
20 applicable) components of each rate schedule, and to the non-energy portion of Schedule 48.
21 Except as otherwise provided herein, PSE will not file any other request for a change in
22 general rates for electric service prior to February 1, 2001, with an effective date after the end
23 of the Rate Plan Period (exclusive of any rate changes associated with implementation of a
24 pilot open access program).

1 **c. Basis for Electric Rate Increases.** The annual increases in PSE's
2 electric rates recommended in the rate plan in this Stipulation are necessary due to the cost
3 increases during the Rate Plan Period associated with purchased power, production and
4 transmission expenses. The revenue requirement for PSE's electric retail rates is based on the
5 current revenue requirement as allowed in the PRAM 5 proceeding (Docket No. UE-950618),
6 with such revenue requirement increased for purchased power, production and transmission
7 expenses by an average of 1.38% per year over the Rate Plan Period. The rate plan is based
8 upon recovery of the power cost components for 1997-2001 as set forth in Exhibit D attached
9 hereto and Exhibit No. 240.

10 **d. Residential and Small Farm Energy Exchange Benefits.** The rate
11 plan recommended in this Stipulation passes through directly to eligible customers the
12 residential exchange benefits received from BPA during the Rate Plan Period.
13 Notwithstanding any reduction in the actual level of residential exchange benefits received
14 from BPA during the Rate Plan Period, PSE will maintain (drawing first from any residential
15 exchange benefits received from BPA) the credits under Schedule 94 (Residential and Farm
16 Energy Exchange) and Schedule 97 (Irrigation Credit) at their current levels during the Rate
17 Plan Period. Commission Staff and Public Counsel will support PSE's efforts during the Rate
18 Plan Period to obtain the residential exchange benefits to which PSE's customers are entitled
19 under the Regional Act. At the expiration of the current Residential Exchange contract on
20 June 30, 2001, the current credit under Schedule 94 shall be transferred to general rates.

21 **4. Treatment of Regulatory Assets.**

22 **a. Conservation.** The balance of electric conservation investment as of
23 December 31, 1996 shall be amortized during the Rate Plan Period, and any Federal income
24 tax deductions associated with conservation for 1991 through April 1992 and conservation

1 that would have been amortized after 2001 shall be retained by PSE. PSE may, at its option,
2 finance such balance in a conservation bond financing; provided, however, that the term of
3 such financing shall not exceed five (5) years. Regardless of the term of the financing, such
4 balance shall be amortized for ratemaking purposes over the Rate Plan Period. Rates, as
5 adjusted by this Stipulation over the Rate Plan Period, recover the payments required as a
6 result of such financing and shall not be affected by such financing (except that the allocation
7 of rates as set forth in Section 32 of Schedule 80 shall be adjusted to reflect the issuance of
8 additional conservation trust bonds).

9 Staff and Public Counsel will support PSE's efforts to obtain approval to
10 finance the current balance of electric conservation investment. Electric conservation
11 expenditures after December 31, 1996 (including those expenditures resulting from PSE's
12 commitment to conservation or public purposes funding under the Comprehensive Regional
13 Review) will be subject to recovery through an alternative recovery mechanism to be
14 proposed by PSE in a separate filing subsequent to merger approval. Such recovery shall not
15 include PSE's separate commitment to spend \$1 million annually on low income programs
16 during the Rate Plan Period. PSE will commit to the funding levels set in the Comprehensive
17 Regional Review so long as: (1) the program is implemented in a competitively neutral
18 manner, and (2) expenditures under such program remain subject to a cost effectiveness
19 standard. Accounting for, and recovery of, natural gas conservation expenditures will not be
20 affected by the merger.

21 **b. Storm Damage.** Amortization of extraordinary property losses from
22 storms during the Rate Plan Period shall be increased from the level set in Docket No. UE-
23 921262 to \$3.5 million annually. Current policy authorizing deferral of extraordinary property
24 losses related to storms will continue.

1 **c. Environmental.** As unrecovered remediation/investigation costs
2 become known (as “known” is defined by the respective Commission accounting orders
3 authorizing deferral of these expenditures for Puget (Docket No. UE-911476, issued April 1,
4 1992) and WNG (Docket No. UG-920781, issued November 25, 1992)), those amounts will
5 be amortized during the next succeeding five year time period commencing on the date the
6 costs become known.

7 **d. Gains from Transfers of Real Property.** Current amortization levels
8 (as set in Docket No. UE-921262) and current policy authorizing deferral of gains shall
9 continue through the Rate Plan Period, subject to the exception set forth below for property
10 disposed of as a direct result of the merger. For property transactions during the Rate Plan
11 Period that are not a direct result of the merger, the provisions of the Stipulation and Order of
12 Dismissal dated May 26, 1992 by and among Puget, Commission Staff and Public Counsel in
13 Washington Court of Appeals No. 29404-1, shall apply. For property transactions during the
14 Rate Plan Period that are as a direct result of the merger, associated gains or losses shall be
15 included in PSE’s current earnings (rather than deferred). Such transactions shall be reported
16 to the Commission and Public Counsel before they are formally recorded in PSE’s books.
17 Commission Staff and Public Counsel shall have the right to object to any such transaction so
18 classified, whereupon the ratemaking treatment of the transaction’s classification as being
19 directly related to the merger will be subject to examination in a subsequent PSE general rate
20 proceeding. PSE will file an application with the Commission to obtain any necessary
21 regulatory approvals for the transfers of two properties, the GO parking lot and the OBC
22 land.

23 **e. Other Regulatory Assets.** Current accounting treatment of other
24 regulatory assets shall continue unaffected by the merger.

1 **5. Regulatory Initiatives During Rate Plan Period.** PSE may pursue, or
2 continue pursuing, the following regulatory initiatives during the Rate Plan Period:
3 Issues related to the termination of Puget’s PRAM.
4 Develop and propose new programs for natural gas service, such as unbundled
5 commodity sales of natural gas.
6 Develop and propose a recovery mechanism for demand-side management, or DSM,
7 expenditures for electric (see Section III.A.4.a above).
8 Propose cost of electric service changes and redesign of electric rates as necessary to
9 accommodate the changing market and restructuring in the electric industry.
10 Propose modifications to electric facilities extension and relocation policies.
11 File a retail wheeling pilot pursuant to the Commission’s Order in Docket
12 No. UE-960696.

13 Ongoing regulatory activities, such as: Participation in Commission notices of inquiry,
14 or NOIs, on gas and electric regulation, including the opportunity to seek related rule
15 and tariff changes; performance of routine review and updating of the tariff rules,
16 miscellaneous fees and charges, including revisions necessary to ensure consistency of
17 credit and customer service policies and miscellaneous charges for both gas and
18 electric services (i.e., charges for returned or NSF checks, disconnect charges, and
19 interest on late payments); performance of routine updating of elements of gas line
20 extension policy, including standard costs and end use consumption data; pursuing
21 special contracts tailored to meet individual customer needs; tariff changes associated
22 with pass-through of credits or surcharges, such as municipal utility taxes; and
23 Purchased Gas Adjustments (PGA) and deferred gas cost recovery.

24 Nothing in this stipulation shall be construed to predetermine: (1) any issue to be resolved as
25 a result of such initiatives; (2) the regulatory treatment of cost savings or revenues generated
26 by such initiatives; or (3) the information required to be filed in support of such initiatives.

27 **6. Interim Rate Relief.** During the Rate Plan Period, PSE may seek, under
28 appropriate circumstances, interim rate relief. The Commission adopted a six-part standard
29 for interim rate relief in *WUTC v. Pacific Northwest Bell Telephone Company*, Cause No. U-
30 72-30, Second Supplemental Order (October 1972). The *Pacific Northwest Bell* standard has

1 been consistently reaffirmed in several Commission decisions since 1972. If PSE requests
2 interim rate relief, it will apply under the *Pacific Northwest Bell* standard or whatever
3 Commission standard exists for such relief at the time of PSE's request. The process for
4 seeking interim relief is as follows (subject to modification by Commission order or
5 rulemaking): PSE would file a general rate case under WAC 480-09-330, but with tariffs
6 supportive only of the amount requested as interim rate relief; PSE would file testimony and
7 other evidence that supports the amount of the requested interim rate relief; and PSE would
8 propose to spread the requested interim rate relief among customer classes based on an equal
9 percentage of margin (gas) and on equal percentage of revenues (electric).

10 **B. Quality of Customer Service**

11 The parties recognize that during a multi-year rate plan, such as proposed in this
12 Stipulation, it is critical to provide a specific mechanism to assure customers that they will not
13 experience a deterioration in quality of service. The Parties have therefore agreed upon the
14 following service quality program including a Customer Service Guarantee ("Guarantee") and
15 a Service Quality Index ("SQI").

16 **1. Guarantee.** PSE will provide specific compensation to individual customers.
17 The general terms of the Guarantee are set forth in Exhibit B to this Stipulation, attached
18 hereto and incorporated herein by reference. Compensation will be provided to customers
19 automatically with a credit to customers' bills. PSE will file the necessary tariff revisions with
20 the Commission to implement the Guarantee.

21 **2. Service Quality Index.** During the Rate Plan Period, the quality of service
22 which PSE provides to its customers will be measured by a Service Quality Index composed
23 of the following ten individual indices:

- 1 (1) Overall Customer Satisfaction¹
- 2 (2) WUTC Complaint Ratio
- 3 (3) SAIDI (System Average Interruption Duration Index)
- 4 (4) SAIFI (System Average Interruption Frequency Index)
- 5 (5) Telephone Center Answering Performance
- 6 (6) Telephone Center Transactions Customer Satisfaction
- 7 (7) Gas Safety Response Time
- 8 (8) Field Service Operations Transactions Customer Satisfaction
- 9 (9) Disconnection Ratio
- 10 (10) Missed Appointments

11 **3. Methodology.** The specific terms of the Service Quality Index, benchmarks,
12 and calculation methodology are set forth in Exhibit C to this Stipulation. PSE will continue
13 to collect data necessary to calculate these indices as each Joint Applicant has in the past.

14 **4. Financial Penalties.** PSE shall be assessed a financial penalty if any service
15 quality index, other than index No. 1, Overall Customer Satisfaction, falls below its
16 benchmark. For each full point below a benchmark for index numbers 2, 3, 4, 7, 9 and 10 a
17 penalty of \$200,000 shall be applied, not to exceed \$833,000 per index. For each full point
18 below a benchmark for index number 5 a penalty of \$30,000 shall be applied, not to exceed
19 \$833,000. For each full point below a benchmark for index number 6 a penalty of \$50,000
20 shall be applied, not to exceed \$833,000. For each full point below a benchmark for index

¹ This index is optional, and as explained in Section III.B.4 below, is not subject to financial penalties.

1 number 8 a penalty of \$30,000 to \$50,000 (the exact amount to be set as part of the
2 compliance filing) shall be applied, not to exceed \$833,000. The maximum annual aggregate
3 penalty for all nine indices is \$7.5 million. For the initial reporting period, ending September
4 30, 1997 (which report shall be filed October 15, 1997), the penalties (maximum and per
5 point) set forth herein shall be reduced by fifty percent, to reflect the limited period during
6 which data are collected. Any amounts paid by PSE under the Guarantee shall reduce any
7 financial penalties imposed and otherwise payable under this section for index No. 10, Missed
8 Appointments. In its report to the Commission filed October 15 of each year, PSE shall
9 include the calculation of a penalty, if any, as provided herein. The report may include a
10 mitigation petition for relief from such penalty. The standard to be applied for such petition is
11 that the penalty is due to unusual or exceptional circumstances for which PSE's level of
12 preparedness and response was reasonable. PSE will not file a mitigation petition unless it
13 believes, in good faith, that it meets this standard. The Parties contemplate that, following a
14 procedure to be established by the Commission, a Commission order will issue assessing any
15 penalties and resolving any mitigation petition. Any penalties imposed by such Commission
16 order will be allocated between gas and electric operations as set forth in Section III.C.3
17 below, and implemented in rates by offsetting the electric rate increases provide for in
18 Section III.A.3 above, and by applying a uniform percentage of margin adjustment to gas sales
19 and transportation rates.

20 **5. Service Quality Report.** PSE will report its results to the Commission and
21 the Parties twice each year, on or about April 15 and October 15. The report card will include
22 a discussion of changes in service quality that have occurred since the preceding report. At
23 least once per year when rates are changed, PSE will report the annual results for all items in
24 the Service Quality Index and Service Guarantee to all of its customers. The report will be

1 distributed to customers only after adequate consultation with Staff and Public Counsel. If
2 there is any penalty imposed as a result of its performance, PSE shall identify the specific
3 indice(s) for which performance was below the baseline, the dollar amount of any penalty and
4 the effect on the customer's bill as a result of the penalty. The score card or other notice to
5 customers shall include the following statement, if applicable: "This month's bill includes a
6 rebate to customers of \$_____ for failure to achieve acceptable service quality standards in the
7 area of _____."

8 **C. Other Matters**

9 **1. Amortization of Transaction and Transition Costs.** The merger-related
10 transaction costs and costs to achieve shall be deferred and amortized, for regulatory
11 purposes, over the Rate Plan Period.

12 **2. Transfer Pricing.** Intra-company transfers of natural gas shall be priced at the
13 higher of market or the cost of incremental supplies with flexible take provisions, as agreed to
14 by Joint Applicants and Staff and illustrated in Exhibit No. 199.

15 **3. Cost Allocation Methodology.** During the Rate Plan Period, costs shall be
16 allocated between gas and electric operations in accordance with the four-factor allocation
17 method set forth in Exhibit No. T-21. PSE will continue to assess the reasonableness of the
18 allocation factors used for reporting PSE's financial results during the Rate Plan Period, and it
19 will provide all relevant information to Commission Staff regarding the allocation factors in
20 order to determine whether future adjustments may be necessary to ensure a fair allocation of
21 common costs to each service.

22 **4. Reporting Requirements.** During calendar year 1997, Joint Applicants shall
23 work with Staff to develop the following reports proposed by Staff in its testimony in this
24 proceeding: annual market concentration studies; reporting on joint utility services, such as

1 unity design and trenching service with overlapping utilities; annual reporting on merger costs
2 and synergy savings; annual reporting on allocation of merger savings between gas and
3 electric operations; and annual reporting on identification of best practice savings and power
4 cost stretch reductions. PSE's marketing plans will be made available at PSE for review by
5 Staff and Public Counsel.

6 **5. Gas Availability.** A reporting mechanism will be developed cooperatively by
7 PSE, Commission Staff and Public Counsel for the purpose of monitoring the levels of gas
8 conversions and line extensions to ensure that PSE is not acting to reduce or restrict gas
9 availability. The reporting mechanism will be based upon the historical experience of WNG
10 and a benchmark will be established by reference to the ongoing experience of other non-
11 affiliated gas and electric utilities in the Pacific Northwest.

12 **6. Low Income - Carbon Monoxide.** PSE will develop a comprehensive
13 program to educate consumers about carbon monoxide (CO), its potential dangers, and to
14 promote CO detector features that will provide customers with the information they need to
15 take effective actions concerning exposure to carbon monoxide in their homes. As part of the
16 program, PSE will make available CO detectors that meet the company's criteria for CO
17 detector performance. Low income customers will be able to purchase these CO detectors
18 from PSE at a discounted price. PSE will coordinate its efforts with community action
19 agencies throughout its service area.

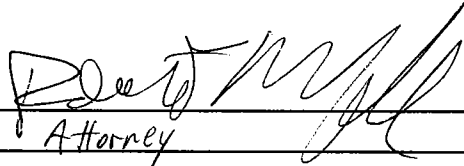
20 **7. Vegetation Management.** PSE commits to maintain an effective vegetation
21 management program. PSE shall not reduce its vegetation management commitment in a
22 manner that would substantively reduce the level of reliability achieved without prior
23 consultation with Staff and Public Counsel, which reserve their right to seek appropriate
24 regulatory action.

1 **6. Necessary Actions.** Each Party shall take all actions necessary and
2 appropriate to enable it to carry out this Stipulation.


3 DATED this 11th day of December, 1996.

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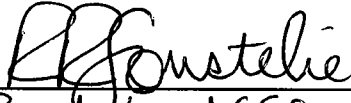
PUBLIC COUNSEL SECTION, OFFICE
OF THE ATTORNEY GENERAL

By: 
Its: Attorney

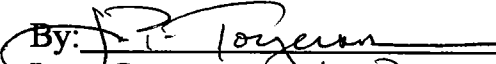
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
STAFF

By: 
Its: Counsel

PUGET SOUND POWER & LIGHT
COMPANY

By: 
Its: President and CEO

WASHINGTON NATURAL GAS
COMPANY

By: 
Its: Executive Vice President

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Exhibit A

**Summary of Annual Electric Rate Changes
(for typical customers, for Rate Plan Period)**

<i>Year</i>	<i>Schedule 7</i>	<i>Schedule 24</i>	<i>Schedule 25</i>	<i>Schedule 26</i>	<i>Schedule 31</i>	<i>Lighting</i>	<i>Schedule 49</i>
1997	-3.24%	-4.19%	-4.53%	-4.97%	-4.51%	-1.90%	-6.35%
1998	1.50%	1.00%	1.00%	1.00%	1.50%	1.00%	1.50%
1999	1.50%	1.00%	1.00%	1.00%	1.50%	1.00%	1.50%
2000	1.50%	1.00%	1.00%	1.00%	1.50%	1.00%	1.50%
2001	1.50%	0.00%	0.00%	0.00%	1.50%	0.00%	1.50%

Exhibit B

Customer Service Guarantee

Our Company:

Puget Sound Energy is committed to providing convenient, reliable service at a fair price. Our vision is to be today's choice for tomorrow's energy solutions. We are committed to providing our customers with prompt response, courteous customer support and accurate information. Some events, such as storm conditions, earthquakes, and other circumstances beyond our control can cause significant system disruptions. In these instances, we are dedicated to restoring your energy service as quickly as possible. In addition, Puget Sound Energy makes the following specific guarantees to you.

Our Guarantee:

1. We will keep our appointments as promised.

We will keep all mutually agreed to appointments with our customers. If we fail to meet an appointment, we will give you a credit for \$50. This applies to customer appointments such as turn-on of existing gas and electric service to new customers, and equipment inspection services.

2. We will provide new energy service on the date promised.

We will install new gas and electric services on the date mutually agreed to with the customer. If we fail to meet our commitment we will give you a credit for \$50.

EXHIBIT C

SERVICE QUALITY INDEX

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The Service Quality Index shall be composed of ten measurements of performance, as follows:

- (1) **Overall Customer Satisfaction:** Percentage of customers rating overall satisfaction with the company very satisfied to completely satisfied on a seven-point scale, based on a survey of customers. Benchmark: To be developed.
- (2) **WUTC Complaint Ratio** (Complaints per 1,000 customers): This includes all complaints filed with the WUTC, including high bill complaints. Benchmark: 0.50 complaints per 1,000 customers.
- (3) **SAIDI** (System Average Interruption Duration Index): Number of minutes the average customer is without power per year. Benchmark: To be developed.
- (4) **SAIFI** (System Average Interruption Frequency Index): Number of times the average customer is without power per year. Benchmark: To be developed.
- (5) **Telephone Center Answering Performance:** Percentage of calls answered by a live company representative within 30 seconds. Benchmark: 75%.
- (6) **Telephone Center Transactions Customer Satisfaction:** Percentage of customers rating transaction with the telephone center very satisfied to completely satisfied on a seven-point scale, based on a survey of customers who have had a recent transaction with the telephone center. Benchmark: 90%.

- 1 (7) **Gas Safety Response Time:** Minutes from customer call to arrival of gas field
2 technician. Benchmark: 55 minutes.
- 3 (8) **Field Service Operations Customer Satisfaction:** Percentage of customers rating
4 transaction with field service personnel very satisfied to completely satisfied on a
5 seven-point scale, based on a survey of customers who have had a recent transaction
6 (including customers who have had outage restoration) with field service personnel.
7 Benchmark: To be developed (likely to be in the range of 75% to 90%).
- 8 (9) **Disconnection Ratio:** Percentage of customers disconnected for non-payment of
9 amounts due when WUTC disconnection policy would permit service curtailment.
10 Benchmark: .038%.
- 11 (10) **Missed Appointments:** Percentage of appointments for installation of new service,
12 additional service, or restoration of service not kept as promised. Benchmark: To be
13 determined.

14 **Calculation of Service Quality Index**

15 1. Each individual index shall be calculated as an annual average based on the 12
16 month reporting period from October 1 through September 30. The initial reporting period
17 shall be the six month period ending September 30, 1997. For the initial reporting period, the
18 penalties (maximum and per point) shall be reduced by fifty percent (50%) to reflect the
19 limited period during which data are collected.

20 2. Separate point calculations shall be prepared for each index listed. The method
21 of calculation shall be as follows:

1 For index numbers 2, 3, 4, 7, 9 and 10, the following formula applies:

2
$$\frac{(\text{Actual Performance} - \text{Benchmark})}{\text{Benchmark}} = \text{Percent Deviation}$$

3
$$\text{Percent Deviation} \times 10 = \text{Demerit Points.}$$

4 For index numbers 5, 6 and 8, the following formula applies:

5
$$(\text{Actual Performance} - \text{Benchmark}) * 100 = \text{Demerit Points.}$$

6 3. Any penalty regarding index numbers 3 and 4 will be provided to electric
7 customers only; any penalty regarding index number 7 will be provided to gas customers only.

8 Other penalties will be provided to all customers.

9 **Establishing Remaining Benchmarks**

10 1. Certain benchmarks remain to be determined by negotiations among the
11 Parties. It is agreed that the intent of those negotiations is to set these benchmarks at levels
12 consistent with current and historical actual performance, regulatory precedents in other
13 jurisdictions with service quality indices, and industry experience and standards.

14 2. The Parties shall consult on the details of the service guarantee program and
15 the Overall Customer Satisfaction, the Field Service Operations Customer Satisfaction, SAIDI
16 and SAIFI baselines and the Joint Applicants will make a filing with the WUTC reflecting this
17 consultation within 90 days of a final Commission order in this matter ("Compliance Filing").
18 The Compliance Filing shall include a preliminary proposal regarding the Missed
19 Appointments baseline. (If the Missed Appointments baseline has not been resolved prior to
20 the October 15, 1997, service quality report filing, the baseline will be resolved as part of that
21 filing and shall be effective for the annual reporting period ending September 30, 1998, and
22 thereafter.) The Compliance Filing may also include proposed recalibration of the survey
23 instrument to be used for index number 6, Telephone Center Transactions Customer
24 Satisfaction.

1 3. The baseline for SAIDI and SAIFI shall be developed by the Parties to
2 eliminate extreme weather events causing severe and widespread impact throughout the
3 service territory using a methodology similar to that used by the Maine PUC for Central
4 Maine Power Company, (see Exhibit No. 152).

5 4. Company performance in index numbers 1, Overall Customer Satisfaction, 6,
6 Telephone Center Transactions Customer Satisfaction, and 8, Field Service Operational
7 Customer Satisfaction Transactions, will be measured by the results of a customer satisfaction
8 survey instrument to be mutually agreed upon by PSE, Staff and Public Counsel. The survey
9 will be developed in consultation with the Parties and an independent survey company. The
10 survey will be conducted by an independent survey company mutually agreed upon by PSE,
11 Staff and Public Counsel. The Company will make a filing reflecting the consultation of the
12 Parties. If the Parties are unable to reach agreement on the survey instrument or the identity
13 of the independent survey company, those issues will be resolved by the Commission as part
14 of the filing.

15

Exhibit D

Table 1. Power Cost Forecast

(a) Year	(b) Delivered Load MWh (000)	(c) Cost (\$000)	(d) Unit Cost (\$/ MWh)	(e) Unit Cost Delta	(f) Increase Over PRAM 5	(g) Cumulative Increase
PRAM 5	19,837	547,835	27.62			
1996	19,857	582,861	29.35	1.74	34,475	34,475
1997	20,290	593,387	29.24	1.63	33,024	67,499
1998	20,899	630,421	30.16	2.55	53,247	120,746
1999	21,526	652,522	30.31	2.70	58,033	178,779
2000	22,172	676,520	30.51	2.90	64,196	242,975
2001	22,837	710,647	31.12	3.50	<u>79,953</u>	322,928
					<u>322,928</u>	

Table 2. Net Power Cost Forecast

(a) Component	(b) 1996 (a)	(c) 1997 (a)	(d) 1998 (c)	(e) 1999 (c)	(f) 2000 (c)	(g) 2001 (c)
Fuel	104,368	111,616	114,964	118,413	121,966	125,625
Purchase & Interchange	421,751	427,976	445,095	462,899	481,415	500,671
Secondary Sales (b)	-27,709	-35,861	-21,089	-22,069	-22,005	-12,697
Wheeling	32,862	37,671	38,425	39,193	39,977	40,777
O & M	51,590	51,987	53,027	54,087	55,169	56,272
Total	582,863	593,389	630,422	652,523	676,521	710,648

(a) Source Power Forecast #95-04

(b) Secondary sales for 1996 adjusted down from 20 to 18 mills for Oct - Dec

Secondary sales for 1997 adjusted downward from 20 to 18 mills

(c) Costs for 1998 - 2001 Based On the Following Escalation Factors

- c.1 Fuel Costs 3%
- c.2 Purchase & Interchange 4%
- c.3 Wheeling 2%
- c.4 O&M 2%