



WE 011411  
(F)

Christine O. Gregoire

# ATTORNEY GENERAL OF WASHINGTON

900 Fourth Avenue #2000 • Seattle WA 98164-1012

October 17, 2001

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PUBLIC COUNSEL SECTION

## FEDERAL EXPRESS OVERNIGHT

Carole Washburn  
Executive Secretary  
Washington Utilities & Transportation Commission  
1300 S. Evergreen Pk. Dr. S.W.  
PO Box 47250  
Olympia, WA 98504-7250

Re: Complaint (Violation of Commission Order Approving Merger of Puget Sound Power & Light and Washington Natural Gas)  
The Public Counsel Section of the Office of the Washington Attorney General,  
Complainant v. Puget Sound Energy, Inc., Respondent

Dear Ms. Washburn:

Enclosed please find the original and nineteen copies of Public Counsel's Complaint and a copy of the certificate of service for filing in the above-entitled case. For confirmation of receipt, I have enclosed a copy to be date-stamped and sent back to us in the enclosed self-addressed, stamped envelope. Also enclosed is a diskette containing the document.

Sincerely,

Simon J. Ffitch  
Assistant Attorney General  
Public Counsel Section  
(206) 389-2055

SJF:CJW  
Enclosures

CC: PSE (First Class Mail & Fax)  
Sally Johnston



**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

The PUBLIC COUNSEL Section of the  
Office of the Washington Attorney  
General

Complainant

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKET NO. UE - 011411

COMPLAINT

(Violation of Commission Order  
Approving Merger of Puget Sound  
Power & Light and Washington  
Natural Gas)

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Complainant, the Public Counsel Section of the Office of the Washington Attorney General (Public Counsel), for its Complaint, alleges as follows:

**I. INTRODUCTION**

1. As more fully set forth below, this is a complaint by Public Counsel seeking relief for a violation by Puget Sound Energy of the terms under which the Washington Utilities and Transportation Commission approved the merger of Puget Sound Power & Light with Washington Natural Gas. Under the Commission's merger order, and the Rate Plan in the underlying merger settlement, Puget Sound Energy agreed to adjust its general rates on July 1, 2001, in order to provide to its customers a share of the benefits from the merger. The company failed to make the required adjustment and thus failed to fulfill that obligation. This complaint seeks a finding from the Commission that the company has violated the merger order, and further asks the Commission to establish the correct and lawful rate to be charged to customers, a rate reflecting the transfer of benefits agreed to by the company and ordered by the Commission in the merger.

## II. THE PARTIES

2. Complainant Public Counsel is a section of the office of the Washington Attorney General which represents the people of the state of Washington, including customers of Puget Sound Energy, in Commission proceedings pursuant to RCW 80.01.100 and 80.04.510. Public Counsel is authorized by the provisions of RCW 80.04.110 to file complaints with the Commission. Public Counsel's address is 900 Fourth Avenue, Suite 2000, Seattle, Washington 98164.

3. Respondent Puget Sound Energy (PSE) is a Washington corporation with its principal place of business in Bellevue, Washington. PSE's address is P.O. Box 97034, Bellevue, Washington 98009-9734. PSE is an electrical company authorized to do business in the state of Washington and regulated by the Washington Utilities and Transportation Commission pursuant to RCW Title 80. PSE is the surviving company resulting from the merger of Puget Sound Power & Light (Puget) and Washington Natural Gas.

## III. JURISDICTION

4. The Washington Utilities and Transportation Commission (WUTC or Commission) has jurisdiction over this complaint and the parties pursuant to RCW 80.01.040 (general powers and duties of the Commission), RCW 80.04.110 (complaints), RCW 80.04.220, RCW 80.04.230, RCW 80.28.010, RCW 80.28.020, and WAC 480-09-420(5).

5. Under the terms of its order approving the merger of Puget and Washington Natural Gas, the Commission expressly retained jurisdiction over the subject matter and the parties to the merger docket in order to effectuate the provisions of the merger order. *In the Matter of the Application of PUGET SOUND POWER & LIGHT COMPANY and WASHINGTON NATURAL*

*GAS COMPANY For An Order Authorizing Merger*, Docket Nos. UE-951270, UE-960195, Fourteenth Supplemental Order Accepting Stipulation; Approving Merger (Merger Order), p. 49.

#### IV. STATEMENT OF FACTS

6. On February 20, 1996, Puget and Washington Natural Gas (Joint Applicants) jointly applied for an order of the Commission under the provisions of Chapters 80.08 and 80.12 RCW authorizing the merger of Washington Natural Gas and its parent company with and into Puget.

7. As part of its merger request, Puget requested that it be allowed to increase rates for residential customers by one percent (1 %) per year for each of the five years of its proposed rate predictability period.

8. The Commission held extensive proceedings to review the merger. Between August and November of 1996, fifteen days of hearing were held for resolution of preliminary matters and for the testimony of witnesses. Intervenors included Industrial Customers of Northwest Utilities, Northwest Industrial Gas Users, Seattle Steam, Air Liquide, Washington PUD Association, Snohomish PUD, Public Power Council, Bonneville Power Administration, Natural Resources Defense Council, Northwest Conservation Act Coalition, King County, City of Seattle, City of Tacoma Dept. of Public Utilities, Washington Water Power, International Brotherhood of Electrical Workers Local 77, United Association of Pipefitters, Local 32, 82, and 265, and Teamsters Local 117.

9. On December 11, 1996, the Joint Applicants, Commission Staff, and Public Counsel entered into a Stipulation resolving contested issues in the merger. A hearing was held on December 18, 1996, for the presentation of the Stipulation and for cross-examination of the proponents by the non-settling parties. All parties were given an opportunity to file briefs subsequent to the Stipulation hearing to address the Stipulation and issues raised in direct testimony.

10. On February 5, 1997, the Commission issued its Merger Order, authorizing and approving the merger of Washington Natural Gas and its parent company with and into Puget Sound Energy, in accordance with their Agreement and Plan of Merger and conditioned upon the Terms of Approval set forth in the December 11, 1996, Stipulation filed by the Joint Applicants, Commission Staff and Public Counsel. A copy of the Stipulation is attached to this Complaint as Appendix A and incorporated herein by this reference.

11. The Terms of Approval of the merger include a Rate Plan agreed to by the parties. Stipulation Section III.A. The Rate Plan was designed to achieve two primary objectives for the merged company and its customers. First, the Rate Plan was designed to provide PSE and its management an opportunity to achieve several major areas of merger savings, both direct and indirect, identified by the joint applicants. Second, the plan was intended to provide a period of rate certainty for all core customers of PSE. Stipulation, Section III.A., p. 4.

12. The Rate Plan authorized a series of electric rate increases for PSE customers over the rate plan period. For residential and commercial customers, the stipulated increases were one and one half percent per year for the term of the Rate Plan. Stipulation, Section III.A.3.b, p. 6. These increases were larger than those originally proposed by Puget with its initial merger request.

13. The Rate Plan provided that “[a]t the expiration of the current Residential Exchange contract on June 30, 2001, the current credit under Schedule 94 shall be transferred to general rates.” Section III.A.3.d, (Stipulation, p. 7). This provision was designed to permanently reduce rates to reflect the achievement of merger benefits, best practices, and power stretch savings at the end of the rate predictability period.

14. The Stipulation provision referenced in the preceding paragraph had no relation to and was not intended to govern the treatment of residential exchange benefits that might be

received by PSE after June 30, 2001. The residential exchange, and any benefits received by PSE customers subsequent to July 1, 2001, remains subject to applicable federal law, including the Pacific Northwest Electric Power Planning and Conservation Act. P.L. 96-501, Sec. 5(c); 16 U.S.C. § 839c(c).

15. The Merger Order and Stipulation provided that the company could file a general rate case at the end of the Rate Plan if it was unable to achieve a fair rate of return under the conditions established by the Merger Order and Stipulation. Stipulation, Section III.A.3.b., p. 6.

16. On June 13, 2001, in Docket No. UE-010815, the Commission issued an Order Approving Agreement and Granting Tariff Revisions on Less Than Statutory Notice (June 13 Order). The order approved an agreement between PSE and the Bonneville Power Administration (PSE-BPA Agreement) intended to implement the terms of the new Residential Exchange Program arising from BPA's 2000 rate case decisions and related settlement agreements.

17. The June 13 Order specifically acknowledged the following agreement between PSE, Commission Staff, and Public Counsel in connection with the approval of the PSE-BPA contract:

PSE, Staff and Public Counsel agree as follows: (i) an issue exists among them concerning the transfer of the current residential exchange credit (i.e., 1.085 cents/kWh) under Schedule 94 to general rates pursuant to Section III.A.3.d of the Stipulation that was approved and adopted in the Commission's Fourteenth Supplemental Order in Docket No. UE-960195, dated February 5, 1997 (the "Stipulation"); and (ii) nothing of procedure or substance in the instant docket shall predetermine, nor shall it prejudice any party as to, any issue of procedure or substance that may exist in any proceeding with respect to Section III.A.3.d of the Stipulation (including, but not limited to, the ability of a party to file a claim to

seek and obtain relief for noncompliance with Section III.A.3.d of the Stipulation that relates back to a date on or after July 1, 2001). (June 13 Order, ¶ 11)

18. The June 13 Order expressly provided that:

This Order does not predetermine, nor does it prejudice any party from arguing in any proceeding, whether or how the terms of the Commission's Fourteenth Supplemental Order in Docket No. UE-960195, dated February 5, 1997, have been fulfilled, or as of what effective date any relief, if warranted, should be granted. In that respect, the parties have agreed that any party may file a claim to seek and obtain such relief that relates back to a date as early as July 1, 2001.

(June 13 Order, ¶18)

19. As part of the June 13 Order, the Commission approved certain tariff changes requested by PSE, effective July 1, 2001. Specifically, in order to implement the PSE-BPA Agreement, PSE had filed revisions to Schedule 7 and other schedules and a new schedule 194. The revised and proposed schedules were intended to pass benefits arising under the PSE-BPA agreement to eligible customers as required by the Pacific Northwest Electric Power Planning and Conservation Act, P.L. 96-501, Sec. 5(c); 16 U.S.C. § 839c(c). (June 13 Order, ¶ 9). The June 13 Order concluded that PSE's proposed revisions to Schedule 7 and other schedules, and new Schedule 194, were appropriate mechanisms to implement the PSE-BPA agreement. (June 13 Order ¶ 15). These tariff changes did not implement or accomplish the transfer of the former residential exchange credit under Schedule 94 (i.e. 1.085 cents/kWh) to general rates as required by the merger Rate Plan, but simply passed through prospective benefits to be received by PSE, as required by federal law.

**V. FIRST CLAIM FOR RELIEF**  
**(PSE Violation of Conditions of Merger)**

20. Public Counsel realleges the allegations set forth in paragraphs 1 through 19 above, as if fully set forth herein.

21. PSE's actions set forth in this complaint are a violation of the terms and conditions of the Stipulation and of the conditions imposed by the Commission Merger Order approving the merger between Puget Sound Power & Light and Washington Natural Gas.

**VI. SECOND CLAIM FOR RELIEF**  
**(Unlawful Rate)**

22. Public Counsel realleges the allegations set forth in paragraphs 1 through 19 above, as if fully set forth herein.

23. As a result of the actions set forth in this complaint, namely, PSE's failure to comply with the requirement to transfer the former residential credit to general rates, the amount PSE charged to its customers for electric service rendered after July 1, 2001, was in excess of the lawful rate at the time the charge was made.

**VII. THIRD CLAIM FOR RELIEF**  
**(Unjust, Unreasonable, and Excessive Rate)**

24. Public Counsel realleges the allegations set forth in paragraphs 1 through 19 above, as if fully set forth herein.

25. As a result of the actions set forth in this complaint, namely, PSE's failure to comply with the requirement to transfer the former residential credit to general rates, the amount PSE charged to its customers for electric service rendered after July 1, 2001, was unjust, unreasonable, excessive, and otherwise in violation of the provisions of law.



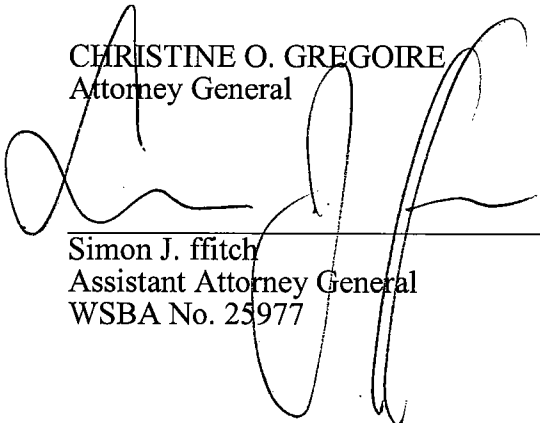
### VIII. PRAYER FOR RELIEF

WHEREFORE, complainant Public Counsel respectfully requests that the Commission issue an order:

1. Finding that PSE is in violation of the Merger Order and Rate Plan by virtue of its failure to transfer the prior residential exchange credit to general rates on July 1, 2001.
2. Determining that, as a result of the violation of the Merger Order and Rate Plan alleged in this complaint, PSE has charged an amount in excess of the lawful rate that would have been in effect absent the violation.
3. Finding that the rates charged for electric service by PSE effective July 1, 2001, are unjust, unreasonable, and excessive, and are otherwise in violation of the provisions of law.
4. Fixing the lawful rates to be charged PSE customers for electric service rendered effective July 1, 2001, and thereafter until changed by subsequent order of the Commission after a rate proceeding.
5. Adopting such other and further relief as the Commission may deem necessary.

DATED this 17<sup>th</sup> day of October, 2001.

CHRISTINE O. GREGOIRE  
Attorney General



Simon J. Ffitch  
Assistant Attorney General  
WSBA No. 25977

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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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STATE OF WASHINGTON  
OFFICE OF THE ATTORNEY GENERAL  
TACOMA, WASHINGTON

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 ("WECO") 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 WECO  
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 4. Authorizing the adoption by PSE of all tariff schedules and service contracts of  
2 WNG on file with the Commission and in effect at the time of the merger for service within all  
3 territories served prior to the merger by WNG;

4 5. Authorizing the transfer to PSE of all certificates of public convenience and  
5 necessity of WNG;

6 6. Directing that upon the merger, PSE shall succeed to all of the rights and  
7 responsibilities of Washington Natural Gas Company under the public utility laws of  
8 Washington and the orders of the Commission;

9 7. Approving the implementation of a proposed rate plan;

10 8. Approving the requested accounting treatment for regulatory and ratemaking  
11 purposes for certain regulatory assets;

12 9. Approving a proposed method for allocating costs between electric and gas  
13 operations and for accounting for intra-company transfers of natural gas;

14 10. Establishing a Customer Service Quality Program;

15 11. Providing, by means of an accounting order, PSE permission to amortize the  
16 transition and transaction costs associated with the merger over the rate plan period for  
17 regulatory and ratemaking purposes; and

18 12. Granting such other permission and authority as may appear proper.

19 **II. APPROVAL RECOMMENDATION**

20 The Commission must determine if the merger is consistent with the public interest.  
21 The Parties agree that the transactions proposed in Section I, if conditioned on the Terms of  
22 Approval set forth in Section III of this Stipulation, are consistent with the public interest and  
23 meet the requirements of the applicable Washington statutes. The Parties therefore

5  
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.

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

3. **Electric Rates**

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

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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.

6  
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

U2

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 Satisfaction<sup>1</sup>
- 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

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

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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

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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.



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**IV. EFFECT OF THE STIPULATION**

1. **Binding on Parties.** The Parties agree to support this Stipulation as a settlement of all unresolved issues in these proceedings. The Parties understand that this Stipulation is not binding on the Commission in ruling on the Application.

2. **Integrated Terms of Settlement.** The Parties have negotiated this Stipulation as an integrated document. Accordingly, the Parties recommend that the Commission adopt this Stipulation in its entirety.

3. **Procedure.** The Parties shall cooperate in submitting this Stipulation promptly to the Commission for acceptance. The Parties shall request a hearing to present the Stipulation and each Party shall make available a witness in support of the Stipulation, at which time other parties would have an opportunity to cross-examine such witnesses. If the Commission rejects all or any material portion of this Stipulation, or adds additional conditions, each Party reserves the right, upon written notice to the Commission and all parties to this proceeding within 15 days of the date of the Commission's Order, to withdraw from the Stipulation. If any Party exercises its right of withdrawal, all Parties will support a joint motion to reinstate the remaining elements of the procedural schedule, including a reasonable period for filing of final briefs.

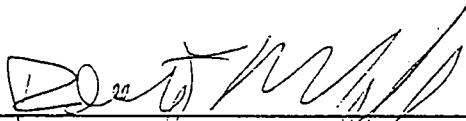
4. **No Precedent.** The Parties enter into this Stipulation to avoid further expense, inconvenience, uncertainty and delay. By executing this Stipulation, no Party shall be deemed to have accepted or consented to the facts, principles, methods or theories employed in arriving at the Stipulation, nor shall any Party be deemed to have agreed that such a Stipulation is appropriate for resolving issues in any other proceeding.

5. **Execution.** This Stipulation may be executed by the Parties in several counterparts and as executed shall constitute one agreement.

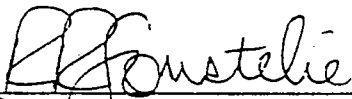
1           6.     **Necessary Actions.** Each Party shall take all actions necessary and  
2 appropriate to enable it to carry out this Stipulation.

3           DATED this 11<sup>th</sup> day of December, 1996.  
4

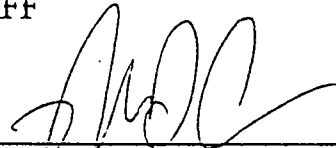
PUBLIC COUNSEL SECTION, OFFICE  
OF THE ATTORNEY GENERAL

By:   
Its: Attorney

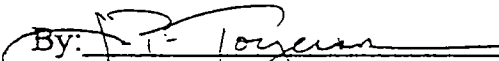
PUGET SOUND POWER & LIGHT  
COMPANY

By:   
Its: President and CEO

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION  
STAFF

By:   
Its: Counsel

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)

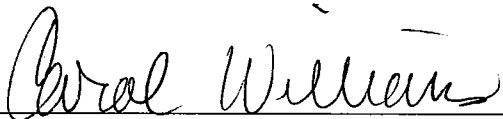
Year	Schedule 7	Schedule 24	Schedule 25	Schedule 26	Schedule 31	Lighting	Schedule 49
1997	-3.24%	-4.19%	-4.53%	-4.97%	-4.51%	-1.90%	-6.35%
1998	1.50%	1.00%	1.00%	1.00%	1.50%	1.00%	1.50%
1999	1.50%	1.00%	1.00%	1.00%	1.50%	1.00%	1.50%
2000	1.50%	1.00%	1.00%	1.00%	1.50%	1.00%	1.50%
2001	1.50%	0.00%	0.00%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

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of Public Counsel's Complaint (Violation of Commission Order Approving Merger of Puget Sound Power & Light and Washington Natural Gas) was sent to each of the parties, via:

- First class mail, postage prepaid
- E-mail
- Facsimile transmission on October 18, 2001
- UPS Two-Day Air, freight prepaid
- Federal Express, freight prepaid

DATED: October 17, 2001.

  
\_\_\_\_\_  
CAROL WILLIAMS

**SERVICE LIST**

**PSE**

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**WUTC STAFF:**

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