

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-050870

SETTLEMENT AGREEMENT

I. INTRODUCTION

1 This Settlement Agreement is entered into in order to compromise and settle all
issues in this proceeding. It is a "full settlement" pursuant to WAC 480-07-730(1).

II. PARTIES

2 This Settlement Agreement is entered into by: Puget Sound Energy, Inc. ("PSE" or
"the Company"); the Staff of the Washington Utilities and Transportation Commission
("Staff"); the Public Counsel Section of the Attorney General's Office ("Public Counsel");
and the Industrial Customers of Northwest Utilities ("ICNU") (collectively referred to
hereinafter as the "Parties").

III. BACKGROUND

3 On June 7, 2005, PSE filed revisions to its Power Cost Rate, Schedule 95, including
a new Schedule 95A – Production Tax Credit Tracker, to reflect increases in the Company's
overall normalized power supply costs. The filing was a "power cost only rate case"
("PCORC") under PSE's Power Cost Adjustment ("PCA") Mechanism, which was approved

by the Commission in its Twelfth Supplemental Order in Docket Nos. UE-011570 and UG-011571 (consolidated).

4 PSE proposed in its PCORC filing to increase electric rates by \$55,571,666 (net of the Production Tax Credit Tracker proposed as Schedule 95A), an average of 3.65%, in order to recover additional power costs that the Company projected it would incur to provide electric service to its customers during the PCORC rate year: December 1, 2005 through November 30, 2006. PSE submitted prefiled testimony and exhibits in support of its tariff filing.

5 The Commission suspended the filing on June 15, 2005. A prehearing conference was held in the proceeding on June 22, 2005, at which the Commission granted ICNU's petition to intervene. Staff, Public Counsel and ICNU conducted discovery on the Company's prefiled direct testimony and tariff filing.

6 On August 22, 2005, the Company supplemented its answers to several discovery requests regarding the manner in which it projected power costs during the rate year. The Company's supplemental discovery responses purported to support an increase in its projected rate year power costs of \$22.8 million from the power costs projected in its June 7, 2005 filing due to increases in wholesale market natural gas prices since the time the Company prepared its original filing.

7 For purposes of comparison, the Company stated that its three-month average gas price forecast method as of July 20, 2005, produced an updated average price at the Sumas delivery hub of \$7.03/MMBtu for this proceeding's rate year, compared to the average price at Sumas of \$6.54/MMBtu used in PSE's original June 7, 2005 filing, which was based on the average of the three months ending April 29, 2005.

8 The Parties undertook settlement discussions for purposes of resolving or narrowing the contested issues in this proceeding. The Parties have reached agreement on all issues raised in this proceeding and now wish to present their agreement for the Commission's consideration.¹ The Parties therefore adopt the following Settlement Agreement, which is entered into by the Parties voluntarily to resolve matters in dispute among them regarding the Company's PCORC filing in the interests of expediting the orderly disposition of this proceeding. The Settlement Agreement is being filed with the Commission as a "Full Settlement" pursuant to WAC 480-07-730(1).

9 The Parties understand that this Settlement Agreement is subject to Commission approval, and hereby respectfully request that the Commission issue an order approving this Settlement Agreement. This Settlement Agreement calls for new rate Schedules 95 and 95A to go into effect on November 1, 2005. Given this timing, the Parties believe that the Commission could consider this matter on the first day of the currently scheduled hearings in this matter (October 5, 2005) in time to issue an order that would permit implementation of the Settlement Agreement on a timely basis. However, the Parties request that the Commission conduct a hearing on this Settlement Agreement on an earlier date, if the Commission's schedule permits.

IV. AGREEMENT

A. Revenue Requirement:

10 The Parties agree to accept PSE's additional revenue requirement, as originally filed, of \$55,571,666 (net of the Production Tax Credit Tracker proposed as Schedule 95A).

¹ Commission Staff and PSE still dispute certain aspects of weather normalization methodology. Such dispute does not affect their overall agreement in this proceeding. They will

B. Rate Spread and Rate Design:

11 The rate spread and rate design for the increase shall be as set forth in the PCA Mechanism approved by the Commission in its Twelfth Supplemental Order in Docket Nos. UE-011570 and UG-011571 (consolidated).

C. Effective Date:

12 As its first compliance filing in this proceeding, PSE shall refile Schedules 95 and 95A. The only change to be made to these Schedules from the version filed on June 7, 2005, will be a new effective date of November 1, 2005.

D. Hopkins Ridge Wind Facility Timing and True-Up:

13 The Parties agreed to the effective date of November 1, 2005, set forth above based on the understanding that PSE's new Hopkins Ridge wind generating facility ("Hopkins Ridge") will likely be placed in service by that date or shortly thereafter. In its PCA Period 4 accounting (for the July 1, 2005, through June 30, 2006 PCA period), PSE will add the fixed costs and ratebase associated with Hopkins Ridge only as of the date that Hopkins Ridge is placed into service. In the interim, PSE will replace the projected Hopkins Ridge fixed and variable costs with variable costs associated with obtaining any replacement power.

14 PSE will also true up its projected costs for Hopkins Ridge to actuals in its PCA Period 4 accounting. Attachment A to this Settlement Agreement at page 3 shows the line items in PSE's power cost rate related to Hopkins Ridge and the lines that will be adjusted to true up for actuals. The Company will bear the burden in its annual PCA true up filing for

continue to attempt to resolve their dispute in a pending collaborative addressing that subject matter.

PCA Period 4 of showing the prudence of any costs for Hopkins Ridge in excess of the \$199,767,000 cost projection set forth in the Company's original filing in this proceeding.

E. Prudence of New Resource Acquisitions:

15 Except as set forth above with respect to potential excess Hopkins Ridge costs, the Parties agree that the Company's acquisitions of new resources and activities undertaken to manage its electric portfolio described in its original filing in this proceeding were prudent, specifically:

Acquisition of the Hopkins Ridge wind generating facility;
Execution of the Arizona Public Service 2-year Power Purchase Agreement;

Relicensing of the Snoqualmie Falls hydroelectric project including the expenditure of costs related to obtaining the new license;

Execution of new contracts with Grant County PUD for the Priest Rapids and Wanapum hydroelectric projects in 2001 and the execution of the amendment to such contracts in 2005;

Execution of the gas supply cessation settlement agreement with CanWest regarding termination of the CanWest gas supply contract for the Encogen facility, including the level of settlement payments, as well as the acquisition of the two fixed price natural gas contracts for 5,000 MMBtu/day each from November 2005 through June 2008 to replace the terminated CanWest agreement; and

Renewal of PSE's contract with PowerEx to supply electric service to Point Roberts through September 2007.

F. Amendments to the PCA Mechanism:

16 The Parties agree that the PCA Mechanism will be amended as follows:

17 The annual PCA periods under the PCA Mechanism will change from the current July 1 through June 30 period to a calendar year period, beginning January 1, 2007. Annual PCA true up filings will be due by the end of each March for the prior PCA calendar year.

18 The March 2007 PCA true up filing will be for the six-month period from July 1, 2006 through December 31, 2006. During the six-month period from July 1, 2006 through December 31, 2006, the sharing bands under the PCA Mechanism will be cut in half. For example, rather than a first sharing band in which the Company is at risk of absorbing the first \$20 million in excess power costs, there will be a first sharing band in which the Company is at risk of absorbing only the first \$10 million in excess power costs.

19 Notice of these agreed changes to the PCA Mechanism will be provided by PSE to all parties to its 2001/02 general rate case, Docket Nos. UE-011570 and UG-011571, by sending a copy of this Settlement Agreement to the service list for that case, along with a cover letter that alerts these parties to the agreed changes to the PCA Mechanism. The Parties ask the Commission to reopen Docket Nos. UE-011570 and UG-011571 only for the limited purpose of amending the Commission's Twelfth Supplemental Order, pursuant to RCW 80.04.210, in order to approve these agreed changes to the PCA Mechanism.

G. Update of the Power Cost Baseline Rate on July 1, 2006:

20 As its second compliance filing in this proceeding, PSE shall file a revised Schedule 95 by May 15, 2006, reflecting a new Power Cost Baseline Rate with an effective date of July 1, 2006. This filing shall satisfy the Company's obligation to reset its power cost baseline effective July 1, 2006, as set forth in the Order No. 06 in Docket Nos. UG-040640 et al. at Paragraph 100.

21 The July 1, 2006 update will be based on an update of PSE's projected power costs for the period July 1, 2006 through December 31, 2006, that is based on: (i) a run of the AURORA model that was used for PSE's June 7, 2005 PCORC filing, except that the run will include December 2006 and certain updated inputs, and (ii) an updating of power costs

not in AURORA, all as detailed in Attachment A to this Settlement Agreement. The updated inputs used in the AURORA model run will include use of the three-month average natural gas price method approved in Order No. 06 in Docket Nos. UG-040640 et al. for the three months ended April 30, 2006.

- 22 The Parties agree to support Commission approval of PSE's July 1, 2006 Power Cost Baseline Rate update without suspension; *provided that* Staff and the other Parties may conduct an expedited examination of PSE's proposed revised tariff sheets so that the updated rate becomes effective July 1, 2006. PSE may submit substitute tariff sheets prior to July 1, 2006 to reflect any changes resulting from such examination. PSE will cooperate with Staff and other Parties in their examination.

H. Further Updating of the Power Cost Baseline Rate

- 23 PSE further agrees to file a general rate case by mid-February 2006 so that a new Power Cost Baseline Rate will be effective on January 1, 2007.

I. Miscellaneous Provisions

- 24 a. The Parties agree to support the terms and conditions of this Settlement Agreement as a settlement of all contested issues in the above-captioned proceeding. The Parties understand that this Settlement Agreement is subject to Commission approval.
- b. This Settlement Agreement represents an integrated resolution of the matters at issue in this case. Accordingly, the Parties recommend that the Commission adopt this Settlement Agreement in its entirety.
- c. The Parties will cooperate in submitting this Settlement Agreement promptly to the Commission for approval, and will cooperate in developing supporting materials as required in WAC 480-07-740(2)(a). The Parties agree to support the Settlement Agreement

throughout this proceeding, provide witnesses to sponsor such Settlement Agreement at a Commission hearing, and recommend that the Commission issue an order adopting the Settlement Agreement in its entirety.

d. In the event the Commission rejects the Settlement Agreement, the provision of WAC 480-07-750(2) shall apply. In the event the Commission accepts the Settlement Agreement upon conditions not proposed herein, or approves resolution of PSE's PCORC filing through provisions which are different than recommended in this Settlement Agreement, each Party reserves the right, upon written notice to the Commission and all parties to this proceeding within five (5) days of the Commission's order, to state its rejection of the conditions. In such event, the Parties immediately will request that hearings be held on the appropriateness of the conditions. The Parties agree to cooperate in development of a schedule that concludes the proceeding on the earliest possible date.

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

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

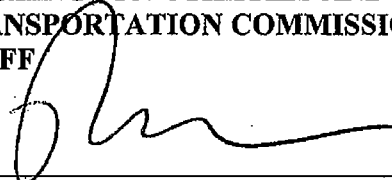
g. In support of this Settlement Agreement, the Parties further stipulate that the testimony and exhibits that were prefiled by PSE on June 7, 2005, should be admitted into evidence in the record of this proceeding.

DATED: August 29, 2005

PUGET SOUND ENERGY, INC.

By _____
Kimberly Harris
Vice President Regulatory and Government
Affairs

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
STAFF**

By 
Robert Cedarbaum
Assistant Attorney General

**PUBLIC COUNSEL SECTION, OFFICE
OF THE ATTORNEY GENERAL OF
THE STATE OF WASHINGTON**

By _____
Robert W. Cromwell, Jr.
Assistant Attorney General
Public Counsel Section Chief

**INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES**

By _____
Bradley Van Cleve
Attorney for ICNU

g. In support of this Settlement Agreement, the Parties further stipulate that the testimony and exhibits that were prefiled by PSE on June 7, 2005, should be admitted into evidence in the record of this proceeding.

DATED: August 29, 2005

PUGET SOUND ENERGY, INC.

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
STAFF**

By *Kimberly Harris*
Kimberly Harris
Vice President Regulatory and Government
Affairs

By _____
Robert Cedarbaum
Assistant Attorney General

**PUBLIC COUNSEL SECTION, OFFICE
OF THE ATTORNEY GENERAL OF
THE STATE OF WASHINGTON**

**INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES**

By _____
Robert W. Cromwell, Jr.
Assistant Attorney General
Public Counsel Section Chief

By _____
Bradley Van Cleve
Attorney for ICNU

g. In support of this Settlement Agreement, the Parties further stipulate that the testimony and exhibits that were prefiled by PSE on June 7, 2005, should be admitted into evidence in the record of this proceeding.

DATED: August 29, 2005

PUGET SOUND ENERGY, INC.

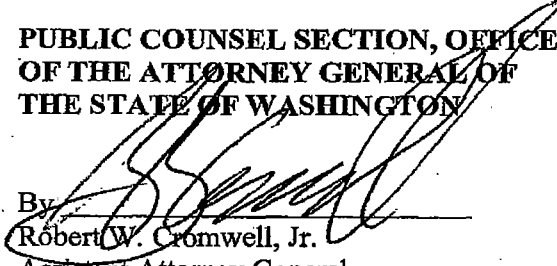
**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
STAFF**

By _____
Kimberly Harris
Vice President Regulatory and Government
Affairs

By _____
Robert Cedarbaum
Assistant Attorney General

**PUBLIC COUNSEL SECTION, OFFICE
OF THE ATTORNEY GENERAL OF
THE STATE OF WASHINGTON**

**INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES**

By 
Robert W. Cromwell, Jr.
Assistant Attorney General
Public Counsel Section Chief

By _____
Bradley Van Cleve
Attorney for ICNU

g. In support of this Settlement Agreement, the Parties further stipulate that the testimony and exhibits that were prefiled by PSE on June 7, 2005, should be admitted into evidence in the record of this proceeding.

DATED: August 29, 2005

PUGET SOUND ENERGY, INC.

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
STAFF**

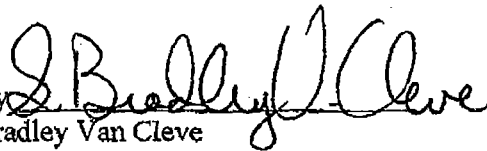
By _____
Kimberly Harris
Vice President Regulatory and Government
Affairs

By _____
Robert Cedarbaum
Assistant Attorney General

**PUBLIC COUNSEL SECTION, OFFICE
OF THE ATTORNEY GENERAL OF
THE STATE OF WASHINGTON**

**INDUSTRIAL CUSTOMERS OF
NORTHWEST UTILITIES**

By _____
Robert W. Cromwell, Jr.
Assistant Attorney General
Public Counsel Section Chief

By 
Bradley Van Cleve
Attorney for ICNU

ATTACHMENT A

**ILLUSTRATION OF THE UPDATE TO PSE'S POWER COSTS FOR
THE JULY 1, 2006 UPDATED POWER COST BASELINE RATE**

**Puget Sound Energy
2005 PCORC Settlement
Interim Power Cost Update for July - December 2006**

**Docket UE-050870
Attachment A
Page 2 of 3**

PSE will update the six-month rate period, July - Dec 2006 for:
Variable power costs for the items noted below

The following 2005 PCORC assumptions will not be updated for the six-month rate period:
Production O&M
Load

<u>Line No.</u>	<u>Description</u>	<u>UE-050870 Related Workpaper Pages (JMR)</u>
1	AURORA Input: Maintenance Schedule	018 - 020
2	AURORA Input: Colstrip Variable Fuel Price	018 - 020
3	AURORA Input: Hydro Project Generation (Regulation run)	018 - 020
4	AURORA Input: Energy Cost (contract cost per MWh)	022 - 024
5	AURORA Input: Forward Gas Prices (3-mo avg as of April 30, 2006 per 2004 GRC approved methodology)	028-029
6	Not In Models: MidC 2006 Updated Budgets	113 - 122
7	Not In Models: Updated Priest Rapids Transmission costs	114
8	Not In Models as impacted by change in AURORA inputs	
9	including MTM changes related to hedged contracts	see below
10		
11	<u>Workpapers Impacted by Above Updates:</u>	
12	Various Power Cost Summaries & Outputs	004 - 014
13	Regulatory Disallowances	016
14	Colstrip Maintenance Schedule	043
15	Colstrip Fuel Cost calculation & support	045 - 060
16	Encogen Fixed Fuel Costs & Mark to Market	066 & 068
17	Freddy Fixed Gas Transportation & Mark to Market	091 - 100
18	MidC Hydro Project 50-year Avg Data	112
19	North Wasco Contract Rate	132
20	Koma Kulshan Contract Rate	136
21	March Point Contract Rate	138 - 139
22	Spokane MSW Contract Rate	145
23	Sumas Contract Rate	147
24	WNP 3 Contract Rate	151
25	Fixed Price Power Contracts Mark to Market	156 - 158
26	Tenaska Mark to Market	159 - 164
27	Wheeling / Transmission - Update for Priest Rapids	181 - 182

**Puget Sound Energy
2005 Power Cost Only Rate Case**

Docket UE-050870
Attachment A
Page 3 of 3
(REVISED 8/31/2005)

HOPKINS RIDGE WIND PROJECT ONLY
(Does not include impact of Production Tax Credits)

Exhibit A-1 Power Cost Rate		AS FILED	
		Adjusted	
		12 months ended	
		March 31, 2005	Fixed or
Row		Total	Variable
	Delivered Load (kWh's)		
	Percent of Total		
3	Regulatory Assets (Variable)	\$ 9,098,964	V
4	Transmission Rate Base (Fixed)	-	F
5	Production Rate Base (Fixed) (Note 3) **	176,643,479	F
		\$ 185,742,443	
6			
7	Net of tax rate of return	7.01%	
8			
9			
10	Regulatory Asset Recovery **	\$ 981,288	V
11	Fixed Asset Recovery Other	0	F
12	Fixed Asset Recovery-Prod Factored **	19,050,320	F
13	501-Steam Fuel		V
14	555-Purchased power		V
14a	Rate Disallowances for March Point 2 and Tenaska		V
15	557-Other Power Exp		F
	557-Other Power Expense Adjustments	126,092	F
16	547-Fuel		V
17	565-Wheeling (Note 1)	1,498,859	V
18	Variable Transmission Income		V
19	Hydro and Other Pwr.	4,390,548	F
	Hydro and Other Pwr. Adjustment		F
20	447-Sales to Others **		V
21	456-Subaccounts 00016 & 00018		V
22	Transmission Exp - 500KV		F
23	Depreciation/Amortization -Production **	9,447,472	F
24	Depreciation-Transmission		F
24a	Amortization - Regulatory Assets	1,735,311	V
25	Property Taxes-Production	1,105,432	F
26	Property Taxes-Transmission		F
28	Subtotal & Baseline Rate	38,335,321	

Amounts enclosed in box will not be adjusted if in Fixed (F) category

(Note 1) - A revision was made to this line item on 8/31/2005 to remove the tax affect on the interest portion of the reduction to wheeling for the BPA credit on the transmission prepayment. An offsetting adjustment was made to 547-Fuel in order to maintain the revenue requirement at the as-filed level.